Oil-Dri Corporation of America (ODC)

Updated March 11th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$40	**5 Year CAGR Estimate:**	10.3%	**Market Cap:**	$0.27 B
Fair Value Price:	$42	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	05/12/2023
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Dividend Payment Date:**	05/27/2023
Dividend Yield:	2.8%	**5 Year Price Target:**	$59	**Years Of Dividend Growth:**	9
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Oil-Dri Corporation of America designs, produces, and markets sorbent products made from clay. Its absorbent goods include cat litter, floor products, animal toxin control agents, and agriculture chemical carriers. During the fiscal year 2022, the company employed 869 employees. The firm is divided into two business segments: Retail and Wholesale Products Group and Business to Business Products Group. Cat's Pride, Agsorb, Jonny Cat, Verge, Amlan, Ultra-Clear, and Pure-Flo are the brands under which the company's products are sold. The company serves several markets, including Pet Care, Fluids Purification, Industrial & Automotive, Animal Health & Nutrition, Agriculture & Horticulture, and Sports.

On March 9th, 2023, Oil-Dri Corporation of America announced its Q2 of fiscal year 2023 result, posting revenues of $101.7 million, up 16.6% from $87.2 million in Q2 2022. The non-GAAP EPS for the quarter was reported at $0.85. However, excluding the non-recurring items of Landfill Modification Loss, the company achieved a GAAP EPS of $0.56, a 100% increase compared to Q2 2023.

The company surpassed the $100 million revenue mark in a single quarter. Second quarter sales reached an all-time record for combined net sales of $101.7 million, up 17% over the same period the previous year. This increase was caused by pricing decisions made to increase profitability across a number of key products.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$2.07	$1.17	$1.59	$1.87	$1.47	$1.11	$1.67	$2.46	$1.54	$0.80	***$1.56***	***$2.19***
DPS	$0.73	$0.77	$0.81	$0.85	$0.89	$0.93	$0.97	$1.01	$1.05	$1.09	***$1.12***	***$1.36***
Shares	6.9	7.0	7.0	7.1	7.2	7.2	7.3	7.3	7.2	7.1	***6.7***	***6.6***

Oil-Dri is a leader in developing and marketing sorbent products. The company's stock has outperformed the market in 2023 as it is up 18.7% YTD compared with the S&P500, which is up 0.9%. The robust nature of the company's performance in a challenging macro-environment can be attributed to its products' quality and customer base. The company has diversified sources of revenue with a large customer base, and no customer accounts for more than 10% of the total sales in the Business to Business Products Group.

On the retail side, Walmart is the company's largest customer, accounting for 16% of the company's sales in the fiscal year 2022. ODC has successfully passed on the cost pressures to customers, but there is still a way to go until they reach pre-pandemic levels. Therefore, we maintain our forecast as the company is well-positioned to keep posting solid results and forecasting a 7.0% growth in EPS through 2028. In addition, the company will be able to grow its dividends at a healthy pace in the future and will have assumed a dividend growth rate of 4.0% for the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	10.7	26.7	19.6	16.1	24.6	36.3	22.1	13.2	22.5	43.3	***25.7***	***27.0***
Avg. Yld.	2.3%	2.5%	2.7%	2.4%	2.2%	2.5%	3.0%	2.9%	3.0%	3.7%	***2.8%***	***2.3%***

Oil-Dri Corporation of America is currently trading at a forward P/E of 25.7, substantially lower than the company's five-year average P/E of 27.5. We believe there is a potential for multiple re-rating given the company's prospect for growth as the company continues to restore margins to pre-pandemic levels. We have assumed a P/E of 27.0 to value the company in 2028, in line with the company's 5-year average P/E, suggesting a target price of $59, and an upside potential of 47%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

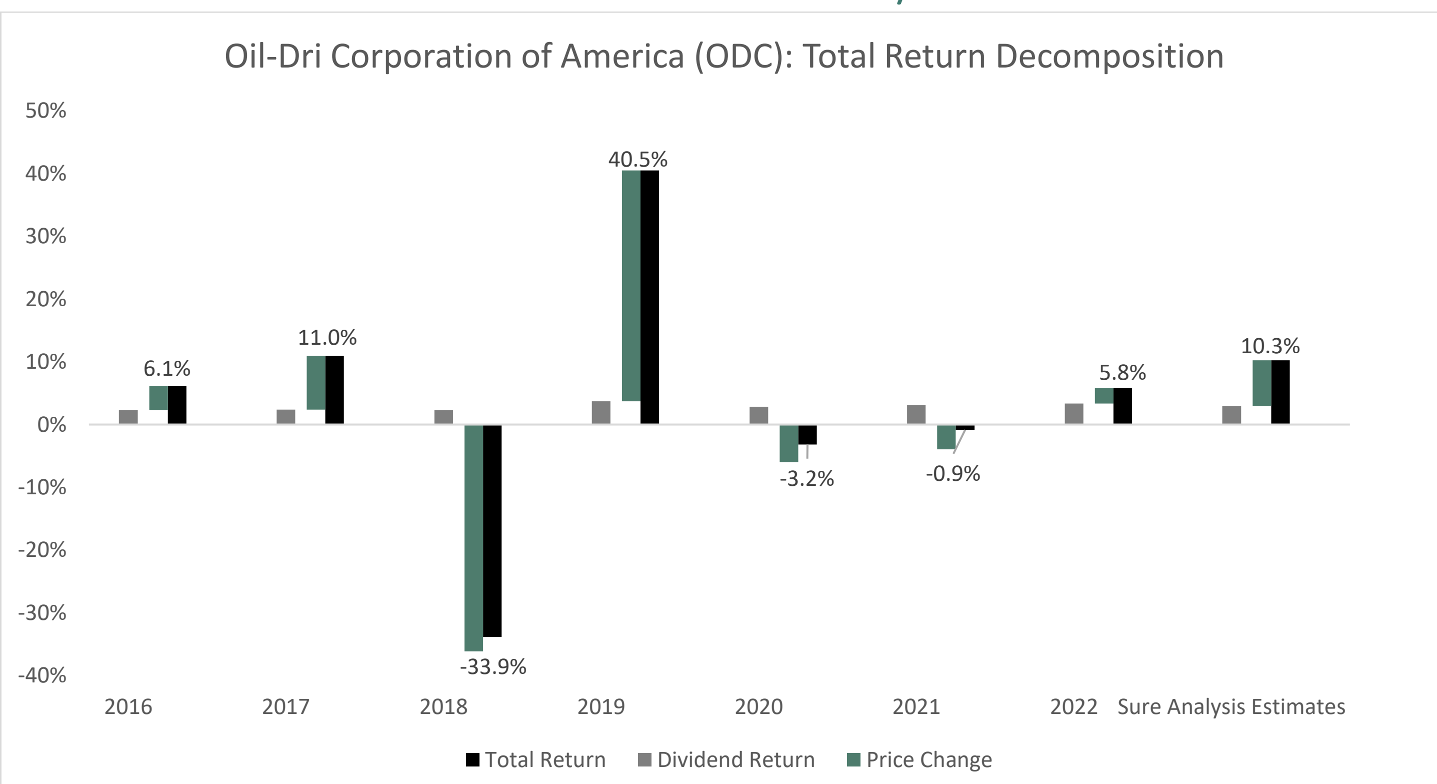
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	35%	66%	51%	45%	61%	84%	58%	41%	68%	136%	***72%***	***71%***

Oil-Dri has continued to invest in organic growth opportunities, including lightweight cat litter, animal health, and agricultural products, which has continued to drive demand for the company's products. The company is committed to providing returns to shareholders, and its five-year average payout ratio stands at 77.5%. The company also actively buybacks its shares from the market and spent $11.8 million in share purchases during 2022. Moreover, ODC has increased its dividends at a CAGR of 3.8% during the fiscal year 2018-2023 and has paid increased dividends to shareholders for the last nine years.

Final Thoughts & Recommendation

ODC has continued to post solid results despite the challenging macro-environment and is on its way to improving margins to pre-pandemic levels. The betterment in margins would cause a re-iteration in the company's multiple to ODC's long-term average P/E. The global market for cat litter has expanded in recent years. Given the substantial brand value of the company's products, we expect a healthy growth rate in the company's revenue in the coming years. We reaffirm our buy rating, premised upon the 10.3% annualized total returns for the medium-term, stemming from the forecasted earnings-per-share growth of 7.0%, 2.8% dividend yield, and a contribution from multiple expansion.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	251	266	261	262	262	266	277	283	305	349
Gross Profit	66	60	60	77	74	72	66	69	65	63
Gross Margin	26.5%	22.4%	23.0%	29.4%	28.1%	27.0%	23.7%	24.3%	21.4%	17.9%
SG&A Exp.	48	47	45	62	58	56	55	57	52	52
D&A Exp.	9	10	12	12	13	13	13	14	14	13
Operating Profit	19	12	15	15	15	16	10	25	13	10
Op. Margin	7.5%	4.7%	5.8%	5.9%	5.8%	6.0%	3.8%	8.8%	4.3%	3.0%
Net Profit	15	8	11	14	11	8	13	19	11	6
Net Margin	5.8%	3.1%	4.3%	5.2%	4.1%	3.1%	4.6%	6.7%	3.6%	1.6%
Free Cash Flow	14	(2)	11	14	12	(4)	12	28	(5)	(13)
Income Tax	3	3	3	1	4	7	2	4	2	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	184	186	190	205	213	195	205	236	228	250
Cash & Equivalents	24	16	20	19	9	13	22	41	25	16
Acc. Receivable	31	31	31	30	33	34	35	35	41	52
Inventories	21	24	21	23	23	23	24	24	24	36
Goodwill & Int.	6	17	16	14	13	13	12	12	11	5
Total Liabilities	81	82	80	89	87	63	70	88	68	99
Accounts Payable	6	7	7	7	10	7	8	13	9	13
Long-Term Debt	26	22	19	15	12	9	6	10	9	33
Total Equity	103	104	111	116	126	132	136	148	160	151
LTD/E Ratio	0.25	0.21	0.17	0.13	0.10	0.07	0.05	0.07	0.06	0.22

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.2%	4.5%	6.0%	6.9%	5.2%	4.0%	6.3%	8.6%	4.8%	2.4%
Return on Equity	15.5%	8.1%	10.6%	12.0%	8.9%	6.4%	9.4%	13.3%	7.2%	3.7%
ROIC	12.0%	6.5%	8.9%	10.5%	8.0%	5.9%	8.9%	12.6%	6.8%	3.2%
Shares Out.	6.9	7.0	7.0	7.1	7.2	7.2	7.3	7.3	7.2	7.1
Revenue/Share	36.17	38.02	37.15	36.98	36.65	36.83	38.21	53.99	42.24	49.37
FCF/Share	1.96	(0.32)	1.58	2.04	1.70	(0.62)	1.62	5.28	(0.72)	(1.84)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.