Service Corporation International (SCI)

Updated May 20th, 2023 by Felix Martinez

Key Metrics

Current Price:	$66	**5 Year CAGR Estimate:**	9.1%	**Market Cap:**	$9.90 B
Fair Value Price:	$71	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	06/14/2023
% Fair Value:	93%	**5 Year Valuation Multiple Estimate:**	1.6%	**Dividend Payment Date:**	06/30/2023
Dividend Yield:	1.7%	**5 Year Price Target**	$95	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Service Corp International is a personal services company that provides funeral and cemetery services and products from its locations throughout the United States and Canada. The company segments its operations into funeral service and cemetery business functions. The company provides all professional services, facilities, vehicles, and merchandise related to funerals and cremations at its funeral service locations. Cemetery locations provide customers with cemetery property, memorial markers, and graveyard services. The company derives much of its revenue from its funeral locations, while the cemetery division also generates a meaningful amount of the company's total income. The company trades under the ticker symbol SCI with a market capitalization of $9.90 billion and total revenue of $4.12 billion in 2022. The company currently has twelve consecutive years of dividend growth.

On May 2nd, 2023, the company reported its first quarter financial results. Adjusted earnings per share have shown an impressive compounded annual growth rate of 19% compared to the first quarter of 2019, surpassing expectations of 8%-12%. The number of funeral services performed has exceeded projections, with a compounded annual growth rate of approximately 4% compared to the first quarter of 2019. Both cemetery and funeral preneed sales production have also experienced significant growth, achieving a compounded annual growth rate of 9% since the first quarter of 2019. the company reported GAAP earnings per share of $0.93 and net cash provided by operating activities of $220 million. Comparable funeral sales averaged a growth rate of 2.4%, while comparable preneed funeral sales production increased by $24 million, or 8.1%. However, diluted earnings per share declined from $1.34 in the first quarter of 2022 to $0.93 in the first quarter of 2023. This decrease of $0.41 can be attributed to an anticipated decline in gross profit due to reduced COVID-19 related activity compared to the previous year. Despite this decline, the impact was partially offset by factors such as fewer shares outstanding, a lower tax rate, and the mitigation of higher interest expense resulting from rising interest rates.

The company management team provided a 2023 outlook. They expect earnings to range from $3.45 to $3.75 per share. We will use $3.54 per share in our fair value and total expected return calculation.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.92	$1.11	$1.18	$1.29	$1.55	$1.79	$1.90	$2.91	$4.57	$3.80	***$3.54***	***$4.74***
DPS	$0.27	$0.34	$0.44	$0.51	$0.58	$0.68	$0.72	$0.78	$0.88	$1.02	***$1.08***	***$1.45***
Shares[1]	216.0	214.0	204.0	196.0	192.0	187.0	186.0	179.0	170.0	160.0	***160.0***	***160.0***

Earnings have been growing significantly over the past ten years. For example, earnings have had a CAGR of 17.1% over the past ten years. Over the past five years, the company's earnings growth has slowed down but is still at a very respectable levels of 14.7% over the past five years. However, earnings will decrease by (6.8)% for 2023 compared to 2022. Revenue growth has been 9.10% over the past three years. Net margin has also seen a rise in recent years. In 2020, the net margin was 14.7%, and now the net margin is 19.4% for 2021. However, because of the fast growth in 2021, we expect the company to grow earnings at a CAGR of 6% for the next five years.

[1] Share count is in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.7	20.3	22.1	22.0	24.1	22.2	24.3	16.9	15.5	18.2	***19.0***	***20.0***
Avg. Yld.	1.5%	1.5%	1.7%	1.8%	1.6%	1.7%	1.6%	1.6%	1.2%	1.5%	***1.6%***	***1.5%***

The company looks slightly undervalued at the current price point. Over the past ten years, the company has averaged a PE of 20.5x. We think that a PE of 20x is fair. At the current price, the company now sports a PE of 19x. Thus, it is under its ten-year average. The current dividend yield of 1.7% is in line with its ten-year average of 1.6%. Thus, the company looks fairly valued based on dividend yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29.3%	30.6%	37.3%	39.5%	37.4%	38.0%	37.9%	26.8%	19.3%	26.8%	***30%***	***30%***

Service Corporation International's competitive advantage is that it is the most prominent funeral home/cemetery operator in North America. This benefits the company because it can operate more efficiently. This also allows the company to take advantage of the funeral home/cemetery market. The top three companies have only 15% of the total market share in the funeral home/cemetery market. Thus, this leaves plenty of room for industry consolidation, which Service Corporation should be able to take advantage of.

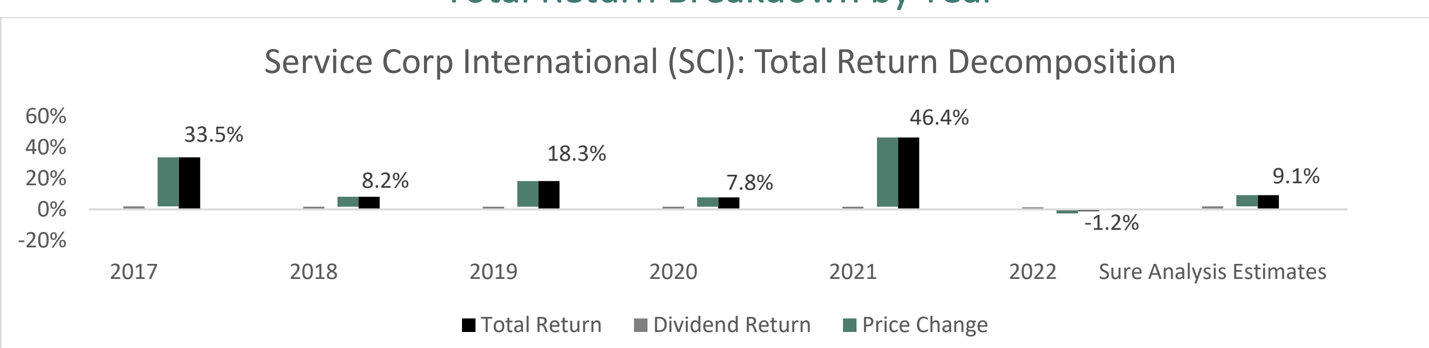
During the Great Recession, the company did well. Earnings were flat in 2008 and only decreased by (2)% in 2009. However, the company stock price did take a significant price decrease of (75.4)% in those years. During the COVID-19 pandemic, the company did very well. Earnings grew 53% in 2020 and 57% in 2021. Thus, the company is very resilient to a recession.

The company balance sheet looks well enough. The company has an S&P credit rating of BB+, which is not an investment grade. Also, the company currently has a debt-to-equity ratio of 2.7x, which is a little on the high side. However, interest coverage is satisfactory at 5.4x.

Final Thoughts & Recommendation

Service Corp International is a company that goes under the radar for most investors. The company is a solid business that should continue to do well over the long term. We expect the company to generate an 9.1% CAGR over the next five years. This will mostly come from earnings growth. Thus, we rate the stock as a hold at the current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,550	2,994	2,986	3,031	3,095	3,190	3,231	3,512	4,143	4,109
Gross Profit	549	676	675	677	723	760	761	977	1,304	1,155
Gross Margin	21.5%	22.6%	22.6%	22.3%	23.4%	23.8%	23.5%	27.8%	31.5%	28.1%
SG&A Exp.	155	185	131	137	159	146	127	141	138	237
D&A Exp.	192	237	235	245	249	248	247	258	277	288
Operating Profit	394	491	544	540	564	615	634	836	1,166	917
Operating Margin	15.4%	16.4%	18.2%	17.8%	18.2%	19.3%	19.6%	23.8%	28.1%	22.3%
Net Profit	147	172	234	177	547	447	370	516	803	565
Net Margin	5.8%	5.8%	7.8%	5.8%	17.7%	14.0%	11.4%	14.7%	19.4%	13.8%
Free Cash Flow	272	173	321	296	289	366	389	582	617	456
Income Tax	93	226	135	149	(147)	(6)	95	146	242	190

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	12,834	11,924	11,676	12,038	12,865	12,693	13,677	14,515	15,691	15,066
Cash & Equivalents	142	177	135	195	330	199	186	231	269	192
Accounts Receivable	81	76	66	65	61	55	60	93	106	97
Inventories	33	30	28	26	25	25	25	24	26	32
Goodwill & Int. Ass.	2,224	2,205	2,166	2,167	2,180	2,298	2,295	2,321	2,387	2,427
Total Liabilities	11,353	10,546	10,487	10,943	11,455	11,051	11,854	12,763	13,782	13,393
Accounts Payable	144	137	140	156	174	173	174	186	204	178
Long-Term Debt	3,307	3,083	3,146	3,308	3,500	3,618	3,600	3,775	4,005	4,381
Shareholder's Equity	1,470	1,369	1,185	1,093	1,409	1,642	1,823	1,753	1,909	1,673
LTD/E Ratio	2.25	2.25	2.66	3.03	2.48	2.20	1.97	2.15	2.10	2.62

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	1.3%	1.4%	2.0%	1.5%	4.4%	3.5%	2.8%	3.7%	5.3%	3.7%
Return on Equity	10.5%	12.2%	18.3%	15.5%	43.7%	29.3%	21.3%	28.9%	43.9%	31.6%
ROIC	3.6%	3.7%	5.3%	4.1%	11.7%	8.8%	6.9%	9.4%	14.0%	9.4%
Shares Out.	216	214	204	196	192	187	186	179	170	160
Revenue/Share	11.81	13.98	14.61	15.46	16.10	17.06	17.41	19.62	24.36	25.66
FCF/Share	1.26	0.81	1.57	1.51	1.50	1.96	2.10	3.25	3.63	2.85

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