Lindsay Corporation (LNN)

Updated July 17th, 2023 by Ian Bezek

Key Metrics

Current Price:	$127	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$1.4 B
Fair Value Price:	$148	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	08/16/23
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date:**	08/31/23
Dividend Yield:	1.1%	**5 Year Price Target**	$198	**Years Of Dividend Growth:**	21
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Lindsay Corporation provides water management and road infrastructure services in the United States and internationally. The business's irrigation segment provides irrigation solutions for farmers and contributed 86% of sales in fiscal year 2022, and the infrastructure segment helps with road and bridge repairs and contributed the other 14%. The conflict in Ukraine has caused a disruption in agricultural activity in that region, leading farmers to plant more intensively in North America. Both irrigation and infrastructure benefit from government support payments. Last year's Infrastructure Investments and Jobs Act (IIJA) marks the largest federal investment into infrastructure projects in more than a decade and should boost Lindsay's infrastructure business. Lindsay enjoyed a record-breaking 2022 as both business segments flourished, however, 2023 has seen mixed results.

On June 29th, 2023, Lindsay reported Q3 2023 results for the period ending May 31st, 2023. The business saw diluted earnings-per-share of $1.53, falling short of analyst estimates and sliding from $2.28 for the same period last year. Revenues declined 23% year-over-year to $165 million. The revenue decline was due to a sharp drop in irrigation demand as the company was up against a very strong comparable quarter from last year when grain prices were far higher.

The magnitude of the revenue decline was concerning and suggests that the fall in crop prices seen recently is having a tangible effect on irrigation demand. Lindsay has also historically been involved in both the Ukrainian and Russian markets; as such, the ongoing conflict there is disrupting sales channels in those markets. Overall, this quarter was significantly weaker than expected. However, we believe that industry demand remains reasonably strong, and that Lindsay can grow earnings at least a couple of percent for full year 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$5.47	$4.00	$2.22	$2.63	$2.17	$2.94	$1.45	$3.56	$3.88	$5.94	***$6.15***	***$8.23***
DPS	$0.48	$0.92	$1.09	$1.13	$1.17	$1.21	$1.24	$1.26	$1.30	$1.34	***$1.40***	***$1.70***
Shares	13	12	11	11	11	11	11	11	11	11	***11***	***11***

Over the past nine years, Lindsay has seen earnings-per-share grow at an average annualized rate of 0.9%. At first glance, that seems unattractive. However, it's important to note that earnings fell sharply in the mid-2010s before posting a robust recovery since then. To that point, earnings have grown 15.9% per year over the past five years. This speaks to the cyclicality in demand for agriculture-related products. Regardless, the trend is currently in Lindsay's favor. In 2023, we expect Lindsay to deliver $6.15 in earnings-per-share, making for another year of increasing results for the company. While this past quarter's numbers were discouraging, the overall trend remains favorable and the infrastructure side of the business is performing particularly well.

Over the past 5 years, dividend payments have grown at 3.0% annually, and over the past 9 years, dividends have grown at 12.1% annually. The company just announced its latest dividend increase on July 7th, giving investors a 2.9% increase. This boosted the quarterly dividend from 34 cents to 35 cents per share.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	14.5	20.6	36.9	26.9	37.6	31.3	---	26.7	37.1	24.5	***20.7***	***24.0***
Avg. Yld.	0.6%	1.1%	1.3%	1.6%	1.4%	1.3%	1.4%	1.3%	0.9%	0.8%	***1.1%***	***0.9%***

Over the past 9 years, Lindsay has averaged a P/E ratio of 28.5, and over the past 5 years, Lindsay has averaged a P/E ratio of 29.9. We expect the P/E to rebound from the current 20.7 to around 24. Today, the stock offers a modest 1.1% dividend yield, which may be low for investors who prioritize dividend income. But investors might consider the company for its exposure to favorable trends in the agriculture and infrastructure sectors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	9%	23%	49%	43%	54%	41%	86%	35%	34%	23%	***23%***	***21%***

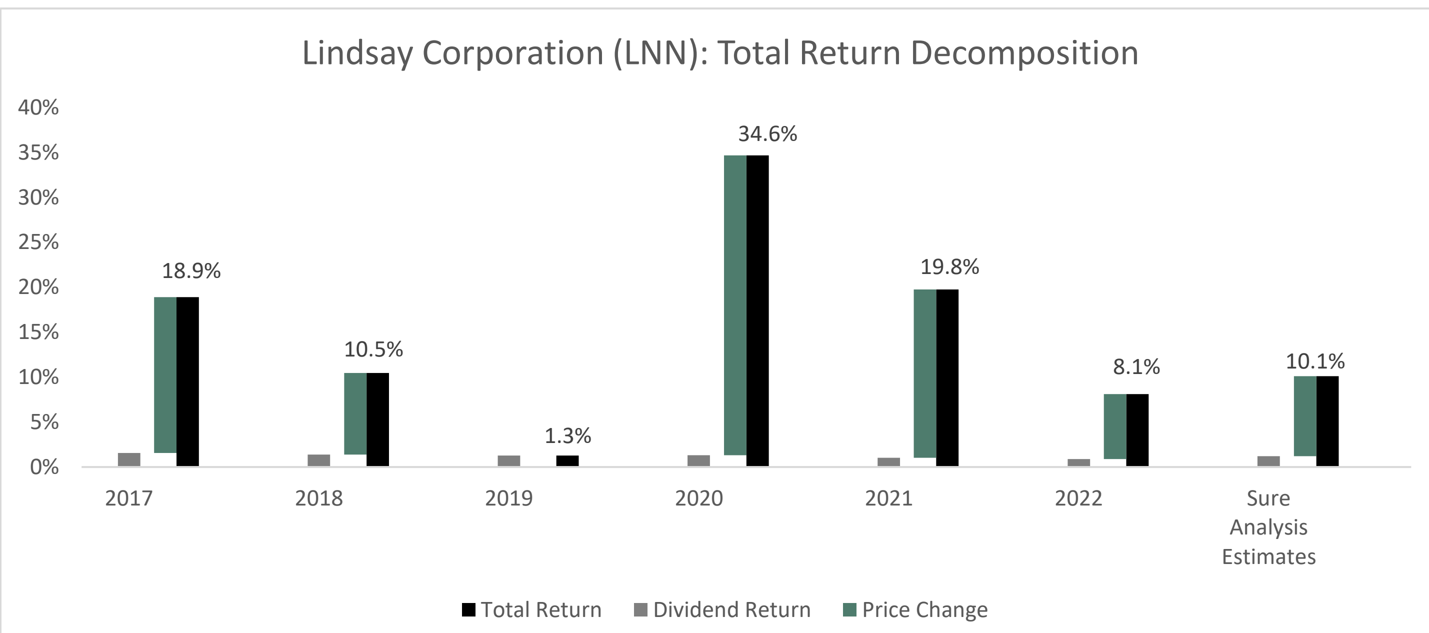
Lindsay has averaged a payout ratio of 40% over the past nine years. It is far below that today. We project that the dividend will be safe since the low payout ratio signifies that the dividend Is well-covered from earnings. Furthermore, there is room for more rapid dividend growth if management so chooses.

Even though the business is in a cyclical industry, Lindsay has a very safe balance sheet, with minimal net debt. In addition, the company has remained profitable even during down periods for crop prices which speaks to the firm's stability.

Final Thoughts & Recommendation

Lindsay Corporation offers investors an opportunity to invest in a business that will indirectly benefit from the rising tides of high agricultural prices for the irrigation side of the business and new government spending on infrastructure. Lindsay shares are down sharply year-to-date and stand out as a relative value. Our forward return outlook is for Lindsay to deliver 10.1% per year compounded. As such, Lindsay shares earn a buy rating today.

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	691	618	560	516	518	548	444	475	568	771
Gross Profit	195	171	156	149	145	151	115	153	150	199
Gross Margin	28.2%	27.7%	27.9%	28.8%	28.0%	27.7%	25.8%	32.1%	26.5%	25.8%
SG&A Exp.	76	82	93	98	87	96	95	84	83	89
D&A Exp.	13	15	16	17	17	17	14	19	19	20
Operating Profit	107	78	51	34	41	39	6	54	54	95
Op. Margin	15.5%	12.7%	9.0%	6.7%	7.8%	7.1%	1.4%	11.4%	9.5%	12.3%
Net Profit	71	52	26	20	23	20	2	39	43	65
Net Margin	10.2%	8.3%	4.7%	3.9%	4.5%	3.7%	0.5%	8.1%	7.5%	8.4%
Free Cash Flow	46	74	34	22	31	23	(19)	25	17	(13)
Income Tax	37	27	20	9	13	14	(0)	10	8	22

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	512	527	536	488	506	500	500	571	637	711
Cash & Equivalents	152	172	139	101	122	161	127	121	127	105
Acc. Receivable	120	94	74	81	74	69	76	85	94	138
Inventories	69	72	75	75	86	79	92	105	145	194
Goodwill & Int.	73	69	129	124	120	92	89	91	88	85
Total Liabilities	132	144	248	236	236	223	232	272	299	317
Accounts Payable	42	42	39	32	37	31	29	30	45	60
Long-Term Debt	---	--	117	117	117	116	116	116	116	116
Total Equity	381	383	289	252	270	277	268	299	338	393
LTD/E Ratio	---	---	0.41	0.47	0.43	0.42	0.43	0.39	0.34	0.29

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	15.2%	9.9%	4.9%	4.0%	4.7%	4.0%	0.4%	7.2%	7.1%	9.7%
Return on Equity	20.4%	13.5%	7.8%	7.5%	8.9%	7.4%	0.8%	13.6%	13.4%	17.9%
ROIC	20.3%	13.5%	6.7%	5.2%	6.1%	5.2%	0.6%	9.7%	9.8%	13.6%
Shares Out.	13	12	11	11	11	11	11	11	11	11
Revenue/Share	53.55	47.97	47.25	47.25	48.44	50.85	41.08	43.71	51.67	69.87
FCF/Share	3.59	5.75	2.87	1.98	2.86	2.12	(1.80)	2.26	1.59	(1.14)

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