# Lindsay Corporation (LNN)

*Updated February 5th, 2024 by Ian Bezek*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $129 | **5 Year CAGR Estimate:** | 10.6% | **Market Cap:** | $1.4 B |
| **Fair Value Price:** | $154 | **5 Year Growth Estimate:** | 6.0% | **Ex-Dividend Date:** | 02/14/24 |
| **% Fair Value:** | 84% | **5 Year Valuation Multiple Estimate:** | 3.6% | **Dividend Payment Date:** | 02/29/24 |
| **Dividend Yield:** | 1.1% | **5 Year Price Target** | $206 | **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. Growth has tapered off since then, but the business is performing acceptably.

On January 4th, 2024, Lindsay reported Q1 2024 results for the period ending November 30th, 2023. The business saw diluted earnings-per-share of $1.36, which topped analyst estimates but slid from $1.65 for the same period last year. Revenues declined 8% year-over-year to $161 million. The revenue decline was due to a drop in irrigation demand as the company was up against a very strong comparable quarter from last year when grain prices were far higher. While the North American market held up, other geographies, such as Brazil, saw significant declines in year-over-year activity.

The company's profit margins did not slip too much, however, despite the decline in revenues. This speaks to strong cost controls and capable management decisions in the current economic landscape. Lindsay faces considerable geopolitical risks given its historical sales to Russia, Ukraine, and the Middle East. The slide in commodity prices lately and weakening global economy add further risk. That said, Lindsay has maintained strong operations despite the cloudy macroeconomic backdrop, and as such, we expect earnings to fall only slightly in 2024.

## Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $4.00 | $2.22 | $2.63 | $2.17 | $2.94 | $1.45 | $3.56 | $3.88 | $5.94 | $6.54 | ***$6.40*** | ***$8.56*** |
| **DPS** | $0.92 | $1.09 | $1.13 | $1.17 | $1.21 | $1.24 | $1.26 | $1.30 | $1.34 | $1.37 | ***$1.40*** | ***$1.70*** |
| **Shares** | 12 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | ***11*** | ***11*** |

Over the last decade, Lindsay has seen earnings-per-share grow at an average annualized rate of 5.9%. It's important to note that earnings fell sharply in the mid-2010s before posting a robust recovery since then. To that point, earnings per share have soared 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. Lindsay managed to top 2022's record results, with 2023 posting another year of growth. The winning streak may finally come to an end in 2024, as mounting geopolitical and economic headwinds are weighing on Lindsay's outlook. However, the market appears to be overly worried about the near-term outlook, as we don't see a large earnings decline around the corner.

Over the past five years, dividend payments have grown at 2.5% annually, and over the past 10 years, dividends have grown at 4.5% annually. The company announced its latest dividend increase on July 7th, 2023, giving investors a 2.9% increase. This boosted the quarterly dividend from 34 cents to 35 cents per share.

*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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## Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 20.6 | 36.9 | 26.9 | 37.6 | 31.3 | --- | 26.7 | 37.1 | 24.5 | 22.0 | ***20.2*** | ***24.0*** |
| **Avg. Yld.** | 1.1% | 1.3% | 1.6% | 1.4% | 1.3% | 1.4% | 1.3% | 0.9% | 0.8% | 1.0% | ***1.1%*** | ***0.8%*** |

Over the last decade, Lindsay has averaged a P/E ratio of 29.3, and over the past five years, Lindsay has averaged a P/E ratio of 27.6. We expect the P/E to rebound from the current 20.2 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 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 23% | 49% | 43% | 54% | 41% | 86% | 35% | 34% | 23% | 21% | ***22%*** | ***20%*** |

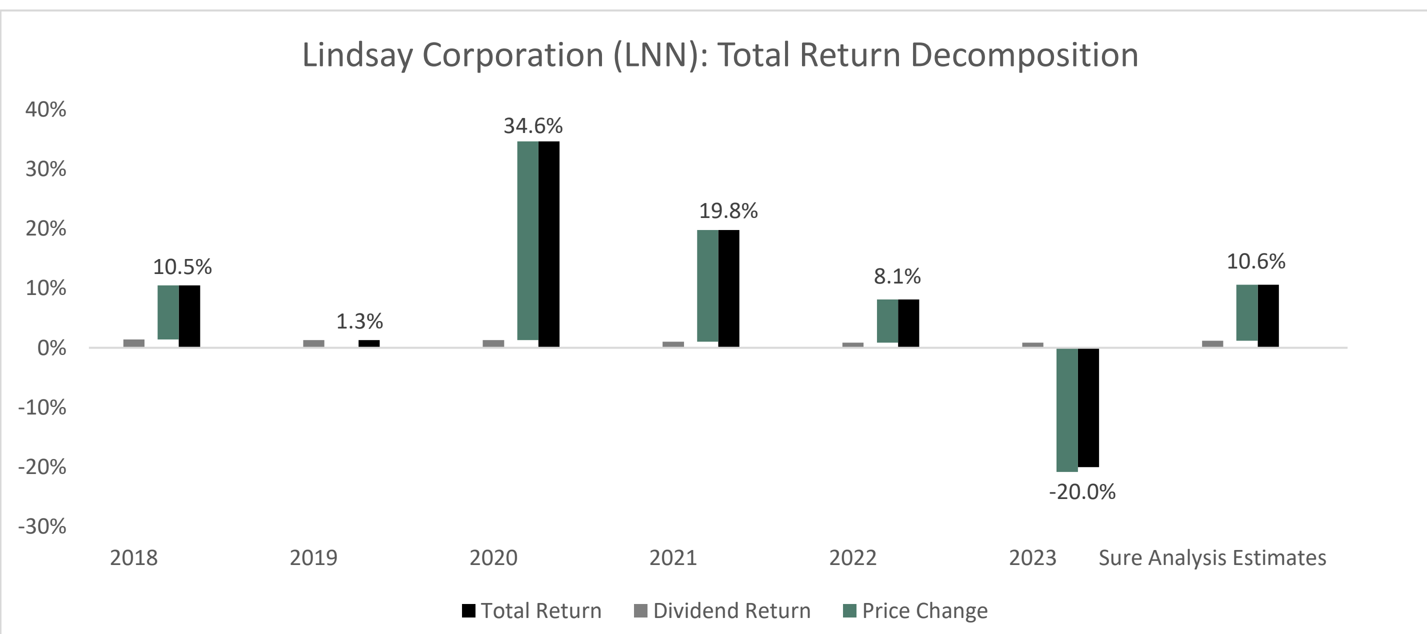
Lindsay has averaged a payout ratio of 41% over the past 10 years. It is far below that today. We project that the dividend will be safe since the low payout ratio signifies that the dividend is well-covered from earnings. Furthermore, there is room for more rapid dividend growth if management so chooses.

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 have rallied since our last update, but remain well below estimated fair value. Our forward return outlook is for Lindsay to deliver 10.6% per year compounded. As such, Lindsay shares earn a buy rating today.

## Total Return Breakdown by Year

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## Income Statement Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 618 | 560 | 516 | 518 | 548 | 444 | 475 | 568 | 771 | 674 |
| Gross Profit | 171 | 156 | 149 | 145 | 151 | 115 | 153 | 150 | 199 | 213 |
| Gross Margin | 27.7% | 27.9% | 28.8% | 28.0% | 27.7% | 25.8% | 32.1% | 26.5% | 25.8% | 31.6% |
| SG&A Exp. | 82 | 93 | 98 | 87 | 96 | 95 | 84 | 83 | 89 | 93 |
| D&A Exp. | 15 | 16 | 17 | 17 | 17 | 14 | 19 | 19 | 20 | 19 |
| Operating Profit | 78 | 51 | 34 | 41 | 39 | 6 | 54 | 54 | 95 | 102 |
| Op. Margin | 12.7% | 9.0% | 6.7% | 7.8% | 7.1% | 1.4% | 11.4% | 9.5% | 12.3% | 15.1% |
| Net Profit | 52 | 26 | 20 | 23 | 20 | 2 | 39 | 43 | 65 | 72 |
| Net Margin | 8.3% | 4.7% | 3.9% | 4.5% | 3.7% | 0.5% | 8.1% | 7.5% | 8.4% | 10.7% |
| Free Cash Flow | 74 | 34 | 22 | 31 | 23 | (19) | 25 | 17 | (13) | 101 |
| Income Tax | 27 | 20 | 9 | 13 | 14 | (0) | 10 | 8 | 22 | 28 |

## Balance Sheet Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 527 | 536 | 488 | 506 | 500 | 500 | 571 | 637 | 711 | 746 |
| Cash & Equivalents | 172 | 139 | 101 | 122 | 161 | 127 | 121 | 127 | 105 | 161 |
| Acc. Receivable | 94 | 74 | 81 | 74 | 69 | 76 | 85 | 94 | 138 | 145 |
| Inventories | 72 | 75 | 75 | 86 | 79 | 92 | 105 | 145 | 194 | 156 |
| Goodwill & Int. | 69 | 129 | 124 | 120 | 92 | 89 | 91 | 88 | 85 | 111 |
| Total Liabilities | 144 | 248 | 236 | 236 | 223 | 232 | 272 | 299 | 317 | 290 |
| Accounts Payable | 42 | 39 | 32 | 37 | 31 | 29 | 30 | 45 | 60 | 44 |
| Long-Term Debt | -- | 117 | 117 | 117 | 116 | 116 | 116 | 116 | 116 | 115 |
| Total Equity | 383 | 289 | 252 | 270 | 277 | 268 | 299 | 338 | 393 | 456 |
| LTD/E Ratio | --- | 0.41 | 0.47 | 0.43 | 0.42 | 0.43 | 0.39 | 0.34 | 0.29 | 0.25 |

## Profitability & Per Share Metrics

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 9.9% | 4.9% | 4.0% | 4.7% | 4.0% | 0.4% | 7.2% | 7.1% | 9.7% | 9.9% |
| Return on Equity | 13.5% | 7.8% | 7.5% | 8.9% | 7.4% | 0.8% | 13.6% | 13.4% | 17.9% | 17.1% |
| ROIC | 13.5% | 6.7% | 5.2% | 6.1% | 5.2% | 0.6% | 9.7% | 9.8% | 13.6% | 13.4% |
| Shares Out. | 12 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| Revenue/Share | 47.97 | 47.25 | 47.25 | 48.44 | 50.85 | 41.08 | 43.71 | 51.67 | 69.87 | 60.94 |
| FCF/Share | 5.75 | 2.87 | 1.98 | 2.86 | 2.12 | (1.80) | 2.26 | 1.59 | (1.14) | 9.12 |

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