Oil-Dri Corporation of America (ODC)

Updated July 10th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$60	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$402.0 M
Fair Value Price:	$54	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	08/09/2024
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	08/23/2024
Dividend Yield:	2.1%	**5 Year Price Target:**	$76	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Oil-Dri Corporation (ODC) 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 June 6th, 2024, Oil-Dri Corporation of America announced its results for Q3 of fiscal year 2024, posting non-GAAP EPS of $1.07 and revenues of $106.7 million, which were up 1.2% year-over-year. This marks the 12th consecutive quarter of year-over-year sales growth.

The growth was driven by higher selling prices and a richer product mix, although partly offset by lower volumes. This gross profit increased to $30.1 million, up 10%, and gross margins expanded from 26% to 28%. An elevated level of SG&A expenses—reflecting higher compensation, advertising, and transaction costs related to the Ultra Pet acquisition—hit operating income, which fell by 28% to $10.4 million. Oil-Dri has already begun leveraging its strong industry relationships to drive distribution at key retailers, setting the stage for future growth and further market penetration. The integration of Ultra Pet is expected to continue through the fourth quarter of fiscal 2024, with additional related expenses anticipated during this period. Even with this, consolidated net income before taxes increased modestly to $10.1 million, and cash plus cash equivalents of $46.8 million reflected rolling good health fueled by higher earnings and strategic financing.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.17	$1.59	$1.87	$1.47	$1.11	$1.67	$2.46	$1.54	$0.80	$4.13	***$2.00***	***$2.81***
DPS	$0.77	$0.81	$0.85	$0.89	$0.93	$0.97	$1.01	$1.05	$1.09	$1.13	***$1.24***	***$1.51***
Shares[1]	7.0	7.0	7.1	7.2	7.2	7.3	7.3	7.2	7.1	8.7	***6.7***	***6.7***

Oil-Dri is a leader in developing and marketing sorbent products. 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.

Comparing this year to last, the domestic cost of goods sold per ton increased by 11% due to higher freight and non-fuel manufacturing costs, which include large labor, repair, and asset replacement expenditures. 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 2029. In addition, the company will be able to grow its dividends at a healthy pace in the future, and we have assumed a dividend growth rate of 4.0% for the next five years.

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[1] In millions of shares

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	Now	2029
Avg. P/E	19.0	19.6	16.7	20.5	32.5	24.1	15.0	21.1	43.2	8.4	***30.0***	***27.0***
Avg. Yld.	2.5%	2.7%	2.4%	2.2%	2.5%	3.0%	2.9%	3.0%	3.7%	2.2%	***2.1%***	***2.0%***

Oil-Dri Corporation of America is trading at a forward P/E of 30.0, significantly higher than the company's five-year average P/E of 22.4. Thus, we expect the multiple to contract, and we have used a P/E of 27.0 as our fair value target for the stock in 2029, suggesting a target price of $76.

Safety, Quality, Competitive Advantage, & Recession Resiliency

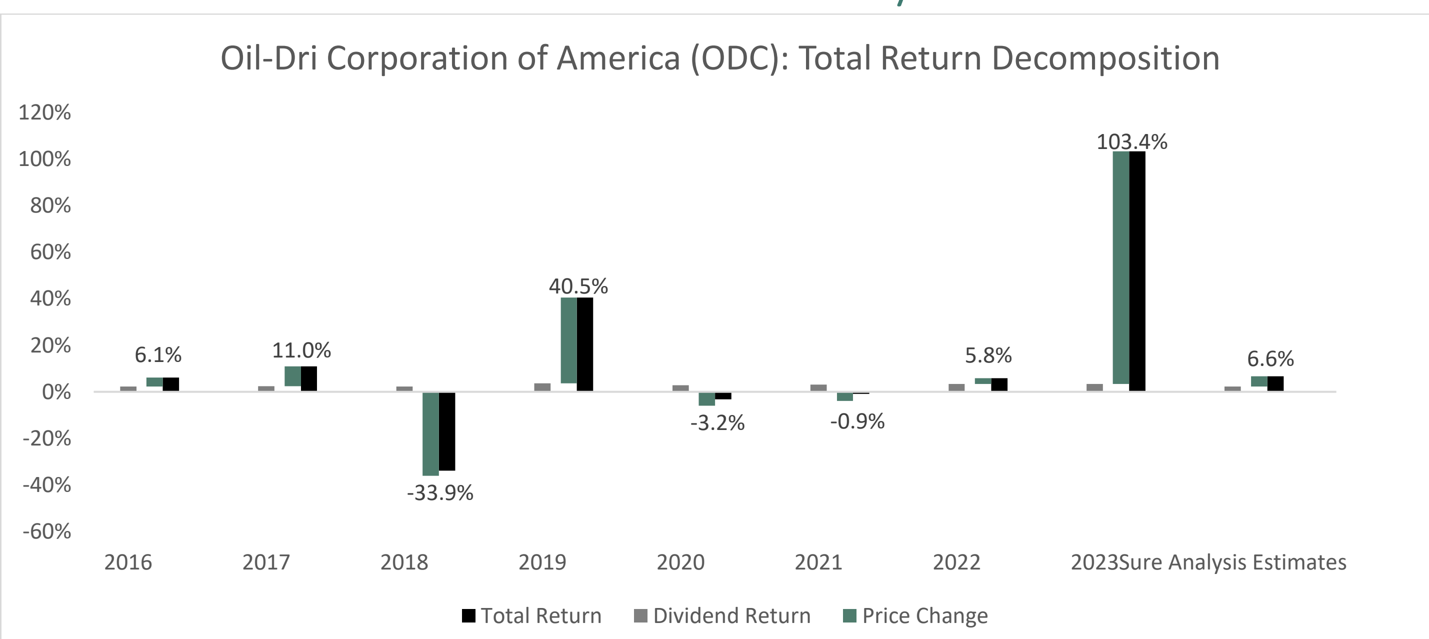
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	66%	51%	45%	61%	84%	58%	41%	68%	136%	27%	***62%***	***54%***

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 66.2%. The company also actively repurchases its shares from the market and spent $11.8 million in share purchases during 2022, but this declined to $1.1 million in 2023. Moreover, Oil-Dri has increased its dividends at a CAGR of 3.6% during the fiscal year 2019 to 2024 period and has increased its dividends to shareholders for the last 10 years.

Final Thoughts & Recommendation

Oil-Dri 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 could cause an expansion in the stock's valuation. The global market for cat litter has expanded in recent years, and 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. Following the strong bull run of the stock in 2023, we maintain our hold rating, premised upon the 6.6% annualized total returns for the medium-term, stemming from the forecasted earnings-per-share growth of 7.0%, 2.1% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	266	261	262	262	266	277	283	305	349	413
Gross Profit	60	60	77	74	72	66	69	65	63	103
Gross Margin	22.4%	23.0%	29.4%	28.1%	27.0%	23.7%	24.3%	21.4%	17.9%	24.9%
SG&A Exp.	47	45	62	58	56	55	57	52	52	62
D&A Exp.	10	12	12	13	13	13	14	14	13	16
Operating Profit	12	15	15	15	16	10	25	13	10	41
Op. Margin	4.7%	5.8%	5.9%	5.8%	6.0%	3.8%	8.8%	4.3%	3.0%	9.9%
Net Profit	8	11	14	11	8	13	19	11	6	30
Net Margin	3.1%	4.3%	5.2%	4.1%	3.1%	4.6%	6.7%	3.6%	1.6%	7.3%
Free Cash Flow	(2)	11	14	12	(4)	12	28	(5)	(13)	25
Income Tax	3	3	1	4	7	2	4	2	0	5

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	186	190	205	213	195	205	236	228	250	286
Cash & Equivalents	16	20	19	9	13	22	41	25	16	32
Acc. Receivable	31	31	30	33	34	35	35	41	52	59
Inventories	24	21	23	23	23	24	24	24	36	43
Goodwill & Int.	17	16	14	13	13	12	12	11	5	5
Total Liabilities	82	80	89	87	63	70	88	68	99	109
Accounts Payable	7	7	7	10	7	8	13	9	13	17
Long-Term Debt	22	19	15	12	9	6	10	9	33	32
Total Equity	104	111	116	126	132	136	148	160	151	177
LTD/E Ratio	0.21	0.17	0.13	0.10	0.07	0.05	0.07	0.06	0.22	0.18

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.5%	6.0%	6.9%	5.2%	4.0%	6.3%	8.6%	4.8%	2.4%	11.0%
Return on Equity	8.1%	10.6%	12.0%	8.9%	6.4%	9.4%	13.3%	7.2%	3.7%	18.0%
ROIC	6.5%	8.9%	10.5%	8.0%	5.9%	8.9%	12.6%	6.8%	3.2%	15.1%
Shares Out.	7.0	7.0	7.1	7.2	7.2	7.3	7.3	7.2	7.1	8.7
Revenue/Share	38.02	37.15	36.98	36.65	36.83	38.21	53.99	42.24	49.37	47.24
FCF/Share	(0.32)	1.58	2.04	1.70	(0.62)	1.62	5.28	(0.72)	(1.84)	2.91

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