Service Corporation International (SCI)

Updated August 13th, 2024 by Felix Martinez

Key Metrics

Current Price:	$74	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$10.7 B
Fair Value Price:	$71	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	09/13/2024
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Dividend Payment Date:**	09/30/2024
Dividend Yield:	1.6%	**5 Year Price Target**	$91	**Years Of Dividend Growth:**	14
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 $10.7 billion and total revenue of $4.1 billion in 2023. The company currently has thirteen consecutive years of dividend growth.

On May 1st, 2024, the company reported its first quarter financial results. The company experienced a revenue increase of $20.6 million compared to the same quarter in 2023. However, earnings per share (EPS) decreased to $0.81 from $0.86, and adjusted EPS also declined to $0.79 from $0.83. Despite the dip in EPS, SCI's net cash provided by operating activities showed significant growth, reaching $196.9 million, an increase from $144.1 million in the previous year.

CEO Tom Ryan highlighted the mixed performance of the quarter. While revenue growth was driven by the cemetery segment, the company faced challenges due to an unexpected decline in the number of funeral services performed, which affected overall profitability. Nevertheless, SCI generated strong cash flow that met expectations, allowing the company to reinvest in its operations and return capital to shareholders through dividends and share repurchases. Ryan emphasized that SCI's long-term growth strategy remains on track, leveraging the company's scale and capital allocation to enhance shareholder value.

Looking ahead, SCI maintained its full-year guidance but acknowledged that adjusted earnings per share might fall on the lower end of the projected range of $3.50 to $3.80 due to the reduced number of funeral services. The company remains confident in its operating cash flow outlook, reiterating its guidance range of $900 million to $960 million, excluding special items.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.11	$1.18	$1.29	$1.55	$1.79	$1.90	$2.91	$4.57	$3.80	$3.47	***$3.57***	***$4.56***
DPS	$0.34	$0.44	$0.51	$0.58	$0.68	$0.72	$0.78	$0.88	$1.02	$1.12	***$1.20***	***$1.61***
Shares[1]	214.0	204.0	196.0	192.0	187.0	186.0	179.0	170.0	160.0	150.0	***150.0***	***150.0***

Earnings have been growing significantly over the past ten years. For example, earnings have had a CAGR of 13.5% over the past ten years. Over the past five years, the company's earnings growth was 13.4%. 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 13.1% for 2023. However, because of the fast growth in 2021, we expect the company to grow earnings at a CAGR of 5% for the next five years.

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[1] Share count is in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.3	22.1	22.0	24.1	22.2	24.3	16.9	15.5	18.2	19.7	***20.8***	***20.0***
Avg. Yld.	1.5%	1.7%	1.8%	1.6%	1.7%	1.6%	1.6%	1.2%	1.5%	1.6%	***1.6%***	***1.8%***

The company looks fairly valued 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 20.8x. Thus, it is over its ten-year average. The current dividend yield of 1.6% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	30.6%	37.3%	39.5%	37.4%	38.0%	37.9%	26.8%	19.3%	26.8%	32.3%	***34%***	***35%***

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.

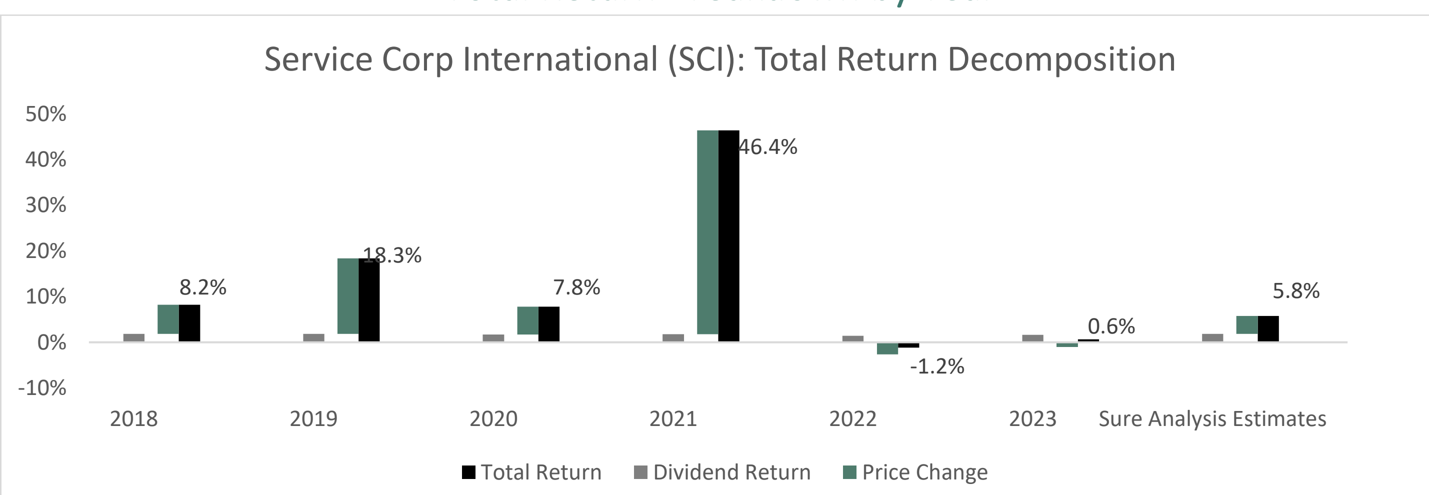
During the Great Recession, the company did well. Earnings were flat in 2008 and only decreased by (2)% in 2009. However, the company stock price did take a significant price decrease of (75.4)% in those years. During the COVID-19 pandemic, the company did very well. Earnings grew 53% in 2020 and 57% 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 3.1x, which is a little on the high side. However, interest coverage is satisfactory at 3.6x.

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 a 5.8% total return 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,994	2,986	3,031	3,095	3,190	3,231	3,512	4,143	4,109	4,100
Gross Profit	676	675	677	723	760	761	977	1,304	1,155	1,092
Gross Margin	22.6%	22.6%	22.3%	23.4%	23.8%	23.5%	27.8%	31.5%	28.1%	26.6%
SG&A Exp.	185	131	137	159	146	127	141	138	237	157
D&A Exp.	237	235	245	249	248	247	258	277	288	311
Operating Profit	491	544	540	564	615	634	836	1,166	917	934
Operating Margin	16.4%	18.2%	17.8%	18.2%	19.3%	19.6%	23.8%	28.1%	22.3%	22.8%
Net Profit	172	234	177	547	447	370	516	803	565	537
Net Margin	5.8%	7.8%	5.8%	17.7%	14.0%	11.4%	14.7%	19.4%	13.8%	13.1%
Free Cash Flow	173	321	296	289	366	389	582	617	456	507
Income Tax	226	135	149	(147)	(6)	95	146	242	190	171

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	11,924	11,676	12,038	12,865	12,693	13,677	14,515	15,691	15,066	16,360
Cash & Equivalents	177	135	195	330	199	186	231	269	192	222
Accounts Receivable	76	66	65	61	55	60	93	106	97	98
Inventories	30	28	26	25	25	25	24	26	32	34
Goodwill & Int. Ass.	2,205	2,166	2,167	2,180	2,298	2,295	2,321	2,387	2,427	2,462
Total Liabilities	10,546	10,487	10,943	11,455	11,051	11,854	12,763	13,782	13,393	14,810
Accounts Payable	137	140	156	174	173	174	186	204	178	203
Long-Term Debt	3,083	3,146	3,308	3,500	3,618	3,600	3,775	4,005	4,381	4,749
Shareholder's Equity	1,369	1,185	1,093	1,409	1,642	1,823	1,753	1,909	1,673	1,541
LTD/E Ratio	2.25	2.66	3.03	2.48	2.20	1.97	2.15	2.10	2.62	3.08

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.4%	2.0%	1.5%	4.4%	3.5%	2.8%	3.7%	5.3%	3.7%	3.4%
Return on Equity	12.2%	18.3%	15.5%	43.7%	29.3%	21.3%	28.9%	43.9%	31.6%	33.4%
ROIC	3.7%	5.3%	4.1%	11.7%	8.8%	6.9%	9.4%	14.0%	9.4%	8.7%
Shares Out.	214	204	196	192	187	186	179	170	160	152
Revenue/Share	13.98	14.61	15.46	16.10	17.06	17.41	19.62	24.36	25.66	26.91
FCF/Share	0.81	1.57	1.51	1.50	1.96	2.10	3.25	3.63	2.85	3.33

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