Simpson Manufacturing Co., Inc. (SSD)

Published August 31st, 2024, by Kody Kester

Key Metrics

Current Price:	$183	**5 Year CAGR Estimate:**	11.9%	**Market Cap:**	$7.7B
Fair Value Price:	$195	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	10/03/24
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date:**	10/24/24
Dividend Yield:	0.6%	**5 Year Price Target**	$315	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Buy

Overview & Current Events

Founded in 1956, Simpson Manufacturing Co., Inc. is a major designer and manufacturer of wood construction products and concrete construction products via the eponymous Simpson Strong-Tie brand. The former product category includes truss plates and fastening systems. The latter category consists of adhesives, specialty chemicals, and mechanical anchors. These products are sold around the world to residential construction customers, commercial construction customers, and the remodeling and do-it-yourself markets.

Additionally, SSD provides engineering/design services and software solutions to support the use of its products.

The company is geographically organized into the following three reporting segments:

1. North America: This segment consists of the company's operations in the United States and Canada. More than three-quarters of total net sales are derived from this segment.
2. Europe: Included in this segment are SSD's operations in various European Union countries, such as Germany, France, and Italy. Non-EU nations consist of the United Kingdom and Norway. This makes up another 20%-plus of the company's total net sales.
3. Asia/Pacific: The Asia/Pacific segment sells its products and services in China, Taiwan, Vietnam, New Zealand, and Australia. The remaining <1% of net sales is derived in these markets.

On July 22nd, SSD shared its financial results for the second quarter ended June 30. The Pleasanton, California-based company posted $597 million in net sales during the quarter. This was a 0.1% decrease over the year-ago period. Flat to lower sales volumes in the North American and Asia/Pacific segments were mostly offset by sales volume growth in the Europe segment. SSD's diluted EPS decreased by 8.7% year-over-year to $2.31 in the quarter. This came in $0.17 below the analyst consensus for the quarter. Higher personnel costs from a greater employee headcount resulted in a 220-basis point contraction in consolidated operating margin to 22.1% during the quarter. That is why diluted EPS decreased at a faster rate than net sales in the quarter.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.29	$1.38	$1.86	$1.98	$2.78	$2.98	$4.27	$6.12	$7.76	$8.26	***$8.04***	***$12.95***
DPS	$0.53	$0.60	$0.68	$0.78	$0.86	$0.90	$0.92	$0.96	$1.02	$1.06	***$1.12***	***$1.43***
Shares[1]	49.0	48.2	47.4	46.5	45.0	44.2	43.3	43.2	42.6	42.3	***42.2***	***40.3***

In the past decade, SSD has compounded its diluted EPS by roughly 19% annually. This would be more difficult to do off its much bigger earnings base now. Still, we see a realistic path to low double-digit annual diluted EPS growth over the next several years. This is because the company tends to develop between 15 and 35 new products each year (50-plus were developed in 2023). Aside from new product launches, another avenue of growth is facility expansions to increase production capacity. Finally, bolt-on acquisitions are another growth lever.

[1] Share count is in millions.

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	26.6	24.7	23.5	29.0	19.4	27.2	21.9	22.7	11.4	24.0	***22.8***	***24.3***
Avg. Yld.	1.5%	1.8%	1.6%	1.4%	1.6%	1.1%	1.0%	0.7%	1.2%	0.5%	***0.6%***	***0.5%***

In the last 10 years, SSD's valuation multiple has ranged from as low as the low double-digits to the upper 20s. Throughout that time, the average P/E ratio has been around 24. Moving forward, we think this remains a reasonable expectation for fair value. That's because SSD's growth prospects appear to be largely intact. Relative to the current P/E ratio of 22.8, this could present a somewhat interesting entry point.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	41%	43%	37%	39%	31%	30%	22%	16%	13%	13%	***14%***	***11%***

SSD has established itself as an industry leader thanks to a few differentiating factors: Product availability with delivery in 24 to 48 hours. Comprehensive customer support for engineers, contractors, and building officials. Not to mention that SSD has substantial product testing means through its cutting-edge test lab. These variables provide customers with convenience and the utmost confidence in the company's products. This has enabled SSD to grow its diluted EPS for 11 consecutive years.

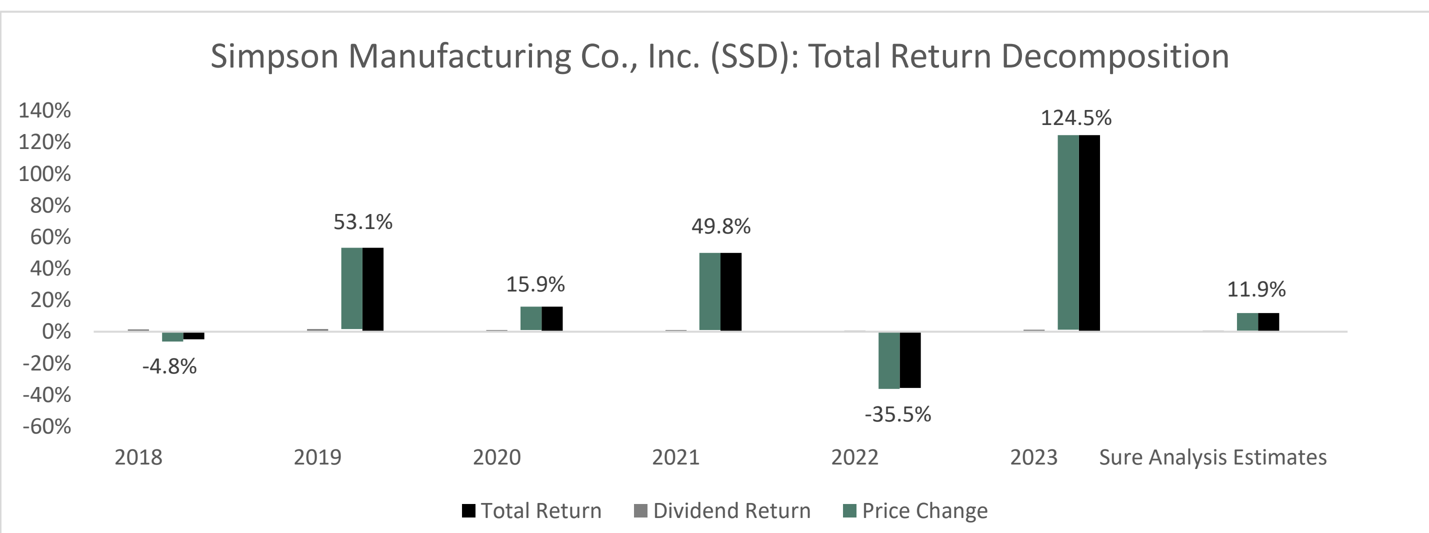
The company's financial health is also enviable. In the first six months of 2024, it posted $2.4 million in interest income. SSD is benefiting via a $93.3 million net long-term debt load being locked in at lower rates than what it is fetching from its cash and cash equivalents. This comes at a time when many businesses have been left reeling by elevated interest rates.

SSD's appeal doesn't end at its consistent EPS growth and robust balance sheet, either. The company's EPS payout ratio is poised to be in the low teens in 2024. This puts SSD in a position to extend its 11-year dividend growth streak for the foreseeable future with at least mid-single-digits annual payout growth.

Final Thoughts & Recommendation

SSD's 0.6% dividend yield, 10.0% annual diluted EPS growth forecast, and 1.3% annual valuation multiple upside potential could deliver 11.9% annual total returns through 2029. Thus, we're initiating coverage with a buy rating here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	752	794	861	977	1,079	1,137	1,268	1,573	2,116	2,214
Gross Profit	342	359	410	443	480	492	576	755	941	1,044
Gross Margin	45.5%	45.2%	47.6%	45.4%	44.5%	43.3%	45.5%	48.0%	44.5%	47.1%
SG&A Exp.	204	204	223	258	268	270	274	328	398	472
D&A Exp.	28	27	28	34	39	38	39	42	61	75
Operating Profit	99	109	140	138	169	175	252	367	475	480
Operating Margin	13.2%	13.7%	16.3%	14.1%	15.6%	15.4%	19.9%	23.4%	22.5%	21.7%
Net Profit	64	68	90	93	127	134	187	266	334	354
Net Margin	8.4%	8.5%	10.4%	9.5%	11.7%	11.8%	14.7%	16.9%	15.8%	16.0%
Free Cash Flow	44	84	57	61	131	168	170	102	333	338
Income Tax	36	41	49	52	45	44	63	92	114	123

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	973	961	980	1,038	1,022	1,095	1,233	1,484	2,504	2,705
Cash & Equivalents	260	259	227	169	160	230	275	301	301	430
Accounts Receivable	92	106	112	136	146	139	165	231	269	284
Inventories	217	196	232	253	276	252	284	444	557	552
Goodwill & Int. Ass.	156	152	147	166	155	157	163	160	859	868
Total Liabilities	110	111	114	153	166	203	252	300	1,091	1,025
Accounts Payable	23	21	28	32	34	33	48	57	98	108
Long-Term Debt	0	-	-	-	-	-	-	-	577	481
Shareholder's Equity	863	850	866	885	856	892	981	1,184	1,413	1,680
D/E Ratio	-	-	-	-	-	-	-	-	0.41	0.29

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.6%	7.0%	9.2%	9.2%	12.3%	12.7%	16.1%	19.6%	16.7%	13.6%
Return on Equity	7.5%	7.9%	10.5%	10.6%	14.6%	15.3%	20.0%	24.6%	25.7%	22.9%
ROIC	7.5%	7.9%	10.5%	10.6%	14.6%	15.3%	20.0%	24.6%	21.0%	17.1%
Shares Out.	49.0	48.2	47.4	46.5	45.0	44.2	43.3	43.2	42.6	42.3
Revenue/Share	15.29	16.15	17.82	20.45	23.18	25.30	28.92	36.14	49.16	51.68
FCF/Share	0.88	1.70	1.18	1.28	2.81	3.74	3.87	2.34	7.73	7.90

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