Simpson Manufacturing Co., Inc. (SSD)

Updated October 22nd, 2024, by Kody Kester

Key Metrics

Current Price:	$177	**5 Year CAGR Estimate:**	11.3%	**Market Cap:**	$7.5B
Fair Value Price:	$183	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date[1]:**	01/02/25
% Fair Value:	96%	**5 Year Valuation Multiple Estimate:**	0.8%	**Dividend Payment Date:**	01/24/25
Dividend Yield:	0.6%	**5 Year Price Target**	$295	**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 October 21st, SSD released its financial results for the third quarter ended September 30th. The company's net sales increased by 1.2% year-over-year to $587.2 million during the quarter. That topline growth was driven by greater sales in Europe via new customer wins and product applications. North American volumes were relatively flat in the quarter. A product mix that drove a higher average sales price per pound for the quarter was offset by a customer mix that resulted in greater volume discounts being applied. SSD's diluted EPS fell by 9.1% over the year-ago period to $2.21 during the quarter. That fell short of the analyst consensus by $0.19 in the quarter. Greater operating expenses led to a 290-basis point contraction in the consolidated operating margin to 21.3% for 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	***$7.55***	***$12.16***
DPS	$0.53	$0.60	$0.68	$0.78	$0.86	$0.90	$0.92	$0.96	$1.02	$1.06	***$1.12***	***$1.42***
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***

Since 2014, SSD has compounded its diluted EPS at a high rate. This won't be as easy to do in the coming years with a bigger earnings base. However, we still see a realistic path to 10% annual diluted EPS growth over the next several years. SSD's product launch schedule for dozens of new products each year (50-plus were developed in 2023) is one catalyst. Facility expansions geared toward increasing production capacity are another. Bolt-on acquisitions are a third catalyst.

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[1] Estimate

[2] 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	***23.4***	***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 past 10 years, SSD's valuation multiple has varied from the low double-digits to the high 20s. Throughout that time, the average P/E ratio has been just above 24. Moving forward, we still believe this is a reasonable expectation for fair value. That's because SSD's growth prospects appear to be holding up beyond the negative impact of high interest rates and devastating hurricanes this year. Versus the current P/E ratio of 23.4, there is a modest margin of safety priced into the stock's shares.

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%	***15%***	***12%***

SSD has established itself as an industry leader thanks to a few differentiating factors: Product availability with available 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 allowed SSD to grow its diluted EPS for 11 straight years.

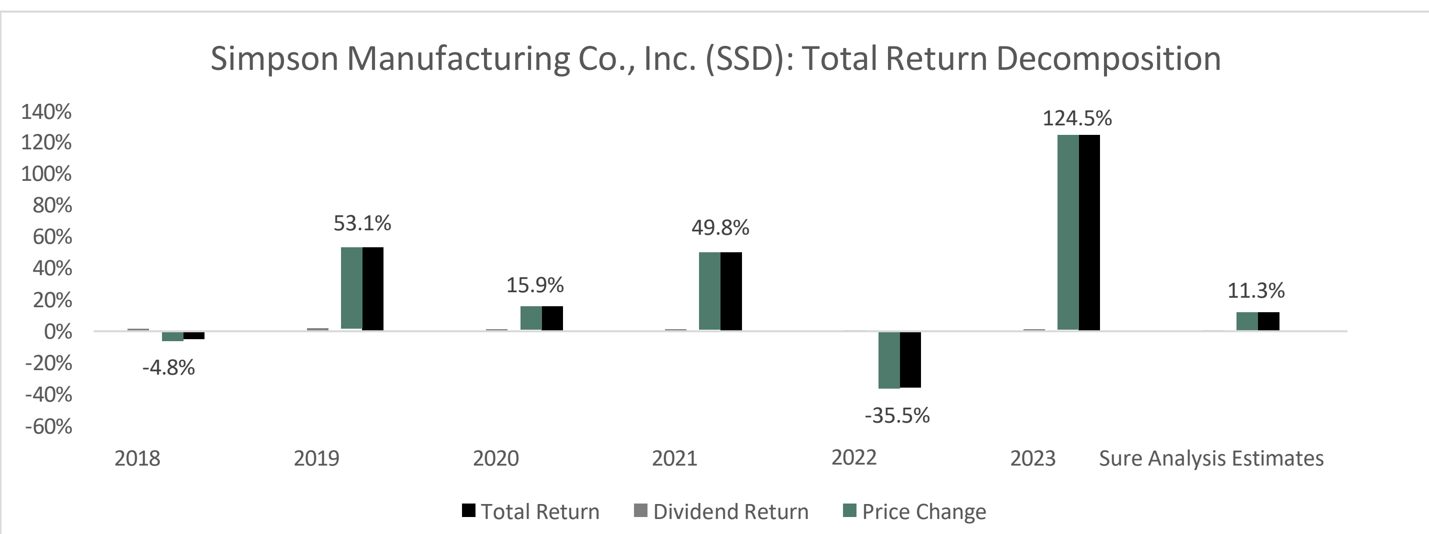
The company's financial health is also enviable. Through the first nine months of 2024, it posted $4.1 million in interest income. Generating net interest income in this high-rate environment is a testament to SSD's overall financial health.

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

Final Thoughts & Recommendation

SSD's 0.6% dividend yield, 10.0% annual diluted EPS growth forecast, and 0.8% annual valuation multiple expansion prospects could deliver 11.3% annual total returns through 2029. That's why we're maintaining our buy rating now.

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.