Service Corporation International (SCI)

Updated November 21st, 2024 by Felix Martinez

Key Metrics

Current Price:	$86	**5 Year CAGR Estimate:**	2.4%	**Market Cap:**	$12.4 B
Fair Value Price:	$70	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	12/13/24
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.0%	**Dividend Payment Date:**	12/31/24
Dividend Yield:	1.4%	**5 Year Price Target**	$90	**Years Of Dividend Growth:**	14
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Sell

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 $12.4 billion and total revenue of $4.1 billion in 2023. The company currently has thirteen consecutive years of dividend growth.

On October 30th, 2024, the company reported its third quarter financial results. The company reported that Revenue rose by $12.1 million compared to the same period in 2023, with adjusted earnings per share (EPS) increasing slightly to $0.79 from $0.78. Operating cash flow excluding special items grew by 18%, reaching $269 million. SCI attributes these gains to its marketing agreement with a new preneed insurance provider and prudent cost management. Acquisition spending surged to $123 million, adding 10 funeral homes and 2 cemeteries, reflecting the company's focus on expanding its portfolio.

Tom Ryan, Chairman and CEO, highlighted the company's stable gross profits in funeral and cemetery services and emphasized its commitment to growth. Notable investments included $31 million in real estate for facility expansion and further integration of new assets into the SCI network. Ryan reaffirmed the company's goal of achieving the high end of its 8-12% long-term growth framework in 2025 by leveraging scale, optimizing operations, and enhancing shareholder value.

SCI's updated 2024 outlook projects strong fourth-quarter performance, with adjusted EPS anticipated between $1.00 and $1.10, representing growth of 8-18% year-over-year. Full-year EPS is forecasted at $3.47 to $3.57. Operating cash flow guidance was revised upwards to a range of $940 million to $960 million, supported by ongoing strength in preneed sales and deferred tax benefits. Maintenance capital expenditures remain at $325 million, with strategic investments focusing on cemetery development and digital enhancements to sustain future growth.

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	***$3.52***	***$4.49***
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 13.1%. 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

[1] Share count is in millions.

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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.

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	***24.5***	***20.0***
Avg. Yld.	1.5%	1.7%	1.8%	1.6%	1.7%	1.6%	1.6%	1.2%	1.5%	1.6%	***1.4%***	***1.8%***

The company looks overvalued 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 24.5x. Thus, it is over its ten-year average. The current dividend yield of 1.4% is under its ten-year average of 1.6%. Thus, the company looks overvalued 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%***	***36%***

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.

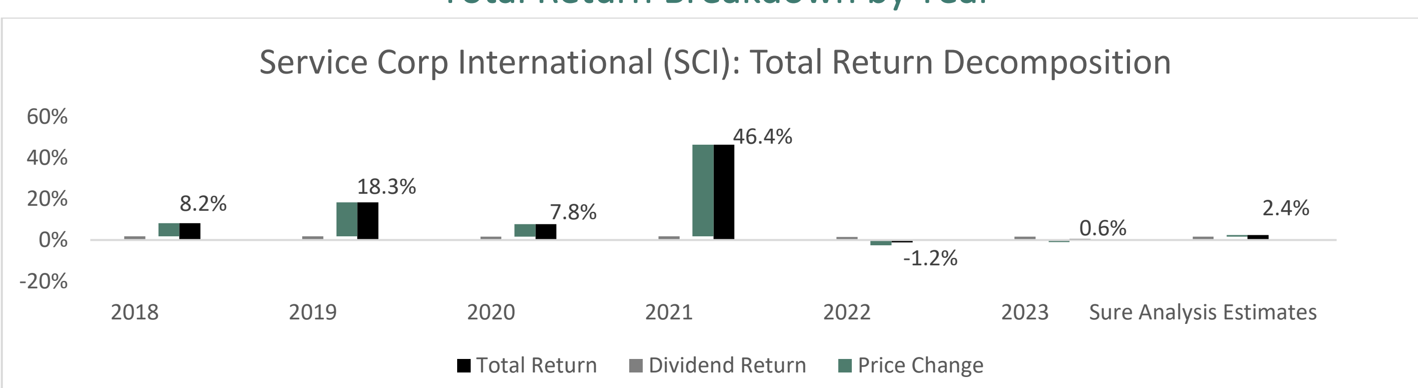
During the Great Recession, the company did well. Earnings were flat in 2008 and only decreased by (2)% in 2009. However, the company stock price did take a significant price decrease of (75.4)% in those years. During the COVID-19 pandemic, the company did very well. Earnings grew 53% in 2020 and 57% 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 2.9x, which is a little on the high side. However, interest coverage is satisfactory at 3.5x.

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 2.4% total return CAGR over the next five years. This will mostly come from earnings growth. Thus, we rate the stock as a sell 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.