



# Universal Corporation (UWV)

Updated November 20<sup>th</sup>, 2024 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$54	<b>5 Year CAGR Estimate:</b>	8.2%	<b>Market Cap:</b>	\$1.3B
<b>Fair Value Price:</b>	\$59	<b>5 Year Growth Estimate:</b>	1.5%	<b>Ex-Dividend Date:</b>	01/13/25
<b>% Fair Value:</b>	92%	<b>5 Year Valuation Multiple Estimate:</b>	1.7%	<b>Dividend Payment Date:</b>	02/03/25
<b>Dividend Yield:</b>	6.0%	<b>5 Year Price Target</b>	\$63	<b>Years Of Dividend Growth:</b>	54
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	Hold

## Overview & Current Events

Universal Corporation is the world's largest leaf tobacco exporter and importer. The company is the wholesale purchaser and processor of tobacco that operates between farms and the companies that manufacture cigarettes, pipe tobacco, and cigars. Universal Corporation was founded in 1886 and is headquartered in Richmond, Virginia. With 54 years of dividend increases, Universal Corporation is a Dividend King.

Universal Corporation reported its second quarter earnings results on November 7. The company generated revenues of \$710 million during the quarter, which was more than the revenues that Universal Corporation generated during the previous period. Revenues were positively impacted by product mix changes, while larger and better-yielding crops also had a positive impact on the company's top-line. Additionally, Universal Corporation sold carryover crops during the period, which added to the company's revenue performance.

Universal's adjusted earnings-per-share totaled \$1.10 during the quarter, which was way better than the results seen in the previous quarter, when Universal only generated a very minor profit. The company has not provided guidance for the current fiscal year, but comments indicate that demand is healthy. Analysts are forecasting a small profit decline for the current fiscal year, but profits will remain at an above-average level according to the analyst community.

## Growth on a Per-Share Basis

Year <sup>1</sup>	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$4.06	\$3.92	\$3.97	\$3.96	\$4.45	\$3.49	\$4.25	\$3.79	\$3.77	\$5.08	<b>\$4.90</b>	<b>\$5.28</b>
<b>DPS</b>	\$2.06	\$2.10	\$2.12	\$2.16	\$3.00	\$3.04	\$3.08	\$3.12	\$3.16	\$3.20	<b>\$3.24</b>	<b>\$3.41</b>
<b>Shares<sup>2</sup></b>	22.7	25.3	24.9	25.1	25.1	24.8	24.7	24.7	24.8	24.7	<b>24.5</b>	<b>24.0</b>

Universal Corporation's earnings-per-share during fiscal 2023 were around 25% higher than the earnings-per-share that Universal generated during fiscal 2014, around one decade earlier. There were some ups and downs in Universal's earnings-per-share over that time frame, with a minor upward trend in place. Depending on factors such as weather, which impacts crops, there can be year-over-year declines from time to time. Overall, Universal grew its earnings-per-share by just around 2% per year over the last decade, which isn't very compelling.

As the leader in a declining industry, we do not expect the company to deliver strong business growth in the future, with some price increases over time being one of the few levers Universal can pull in the long run. The company's earnings-per-share could still rise over the next couple of years, however. Universal Corporation's shares trade at a moderate valuation based on the earnings and cash flows that the company generates, and Universal Corporation also does not need to invest large amounts of money into its business, as the industry is not experiencing any meaningful growth. This gives Universal Corporation the ability to utilize a substantial amount of its free cash flows for share repurchases. Through a declining share count, Universal Corporation could generate some earnings-per-share tailwinds during the coming years. We believe that an annual earnings-per-share growth rate in the low-single-digits is achievable for this tobacco corporation, with buybacks likely playing a major role.

<sup>1</sup> Note: Universal Corporation's fiscal year ends on March 31. Example: Fiscal 2022 ended on March 31, 2022.

<sup>2</sup> 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.



# Universal Corporation (UUV)

Updated November 20<sup>th</sup>, 2024 by Jonathan Weber

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	12.5	14.3	16.3	16.0	13.0	12.6	13.9	15.3	14.1	10.0	<b>11.0</b>	<b>12.0</b>
Avg. Yld.	4.2%	4.0%	3.5%	3.4%	5.2%	6.9%	5.2%	5.4%	6.0%	6.3%	<b>6.0%</b>	<b>5.4%</b>

Universal Corporation traded at very low valuations during and following the Great Recession, but shares have become more expensive since then. Today, shares trade at 11 times fiscal 2024's expected net profits, using the analyst consensus estimate. This is below our fair value earnings multiple. Shares have some upside potential towards our fair value target and offer a sizeable dividend yield today.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	50.7%	53.6%	54.8%	49.7%	67.4%	87.1%	72.5%	82.3%	83.8%	63.0%	<b>66.1%</b>	<b>64.5%</b>

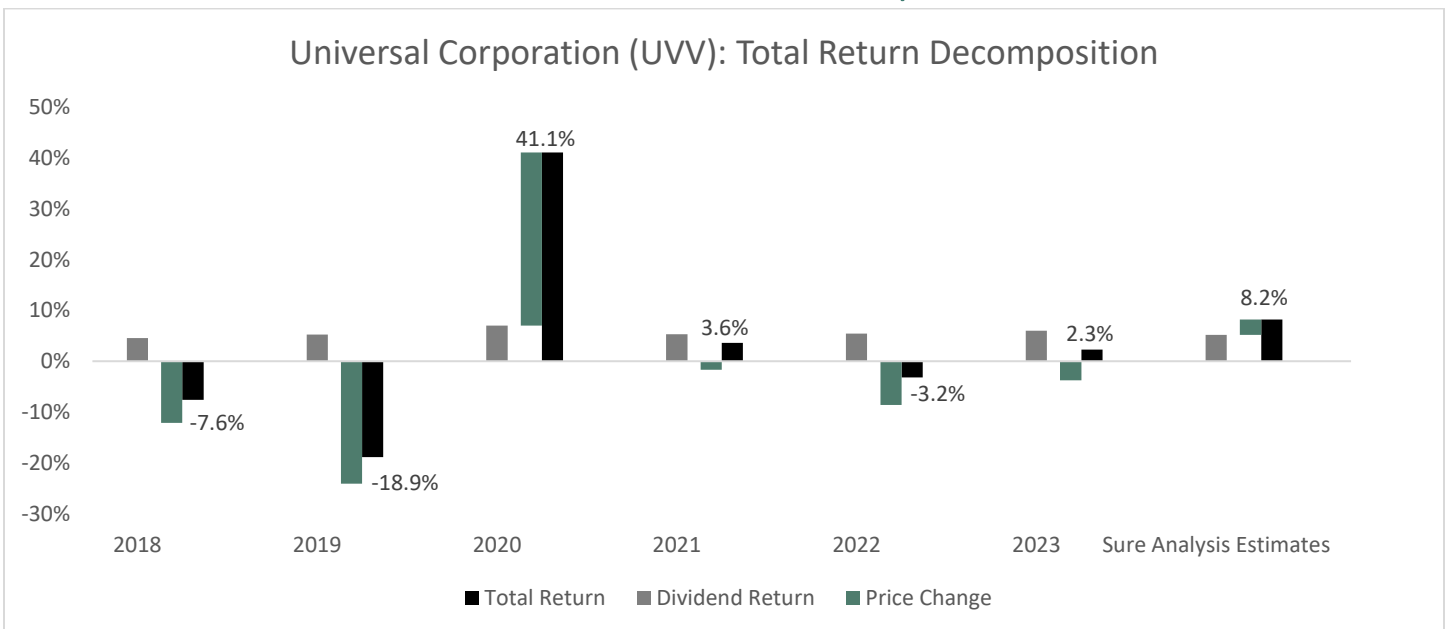
Universal Corporation's dividend payout ratio experienced considerable swings both up and down over the last decade. The dividend increase in 2018, which was the result of management's strategic review and which lifted Universal Corporation's dividend by more than 30%, has made the dividend payout ratio jump to a significantly higher level, although the dividend payout ratio has declined back to the 60s in the recent past. We believe that the dividend is reasonably safe right here, and dividend growth, at a slow pace, will likely continue.

Universal Corporation is active in an industry that has seen its peak. This means that its growth outlook on a company-wide basis is not positive. On the other hand, this means that there is no need for large investments, which results in relatively high free cash generation. The company does not have to worry about competition from new market entrants.

## Final Thoughts & Recommendation

Universal Corporation does not have a convincing long-term growth track record, but thanks to share repurchases, the company could generate some earnings-per-share growth in the long run. Shareholders get an above-average dividend yield at current prices. Universal earns a hold recommendation today, since shares promise solid but not great total returns at current prices while shares also trade slightly below fair value.

## Total Return Breakdown by Year



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.



# Universal Corporation (UUV)

Updated November 20<sup>th</sup>, 2024 by Jonathan Weber

## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	2,272	2,120	2,071	2,034	2,227	1,910	1,983	2,104	2,570	2,749
<b>Gross Profit</b>	410	407	395	372	407	357	386	409	458	536
<b>Gross Margin</b>	18.1%	19.2%	19.1%	18.3%	18.3%	18.7%	19.5%	19.4%	17.8%	19.5%
<b>SG&amp;A Exp.</b>	250	227	212	201	225	223	220	241	277	311
<b>D&amp;A Exp.</b>	35	37	36	35	37	38	45	53	57	58
<b>Operating Profit</b>	160	181	183	171	181	134	166	168	181	226
<b>Operating Margin</b>	7.0%	8.5%	8.8%	8.4%	8.1%	7.0%	8.4%	8.0%	7.0%	8.2%
<b>Net Profit</b>	115	109	106	106	104	72	87	87	124	120
<b>Net Margin</b>	5.0%	5.1%	5.1%	5.2%	4.7%	3.8%	4.4%	4.1%	4.8%	4.4%
<b>Free Cash Flow</b>	169	139	215	47	126	(24)	154	(8)	(65)	(141)
<b>Income Tax</b>	38	54	57	51	41	35	29	39	12	31

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets</b>	2,188	2,231	2,123	2,169	2,133	2,121	2,342	2,586	2,639	2,937
<b>Cash &amp; Equivalents</b>	249	319	284	234	298	107	197	82	65	56
<b>Accounts Receivable</b>	436	431	442	379	399	352	368	390	402	525
<b>Inventories</b>	699	698	634	749	699	807	787	1,017	1,037	1,264
<b>Goodwill &amp; Int. Ass.</b>	99	99	99	99	98	145	245	307	294	283
<b>Total Liabilities</b>	791	778	797	783	753	832	993	1,202	1,202	1,458
<b>Accounts Payable</b>	140	121	154	164	146	140	139	168	83	109
<b>Long-Term Debt</b>	430	435	428	415	423	447	619	701	812	1,035
<b>Shareholder's Equity</b>	1,151	1,203	1,286	1,342	1,337	1,247	1,307	1,341	1,397	1,437
<b>LTD/E Ratio</b>	0.32	0.31	0.33	0.31	0.32	0.36	0.47	0.52	0.58	0.72

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	5.1%	4.9%	4.9%	4.9%	4.8%	3.4%	3.9%	3.5%	4.7%	4.3%
<b>Return on Equity</b>	8.2%	7.6%	7.6%	7.8%	7.5%	5.4%	6.6%	6.3%	8.8%	8.2%
<b>ROIC</b>	6.3%	5.9%	5.8%	5.9%	5.8%	4.1%	4.7%	4.3%	5.7%	5.0%
<b>Shares Out.</b>	22.7	25.3	24.9	25.1	25.1	24.8	24.7	24.7	24.8	24.7
<b>Revenue/Share</b>	80.50	76.20	87.14	79.74	87.92	76.08	80.01	84.40	103.02	109.76
<b>FCF/Share</b>	5.99	5.01	9.03	1.85	4.96	(0.97)	6.22	(0.33)	(2.62)	(5.62)

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.