Hamilton Beach Brands Holding Company (HBB)

Updated December 5th, 2024, by Josh Arnold

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	2.2%	**Market Cap:**	$275 M
Fair Value Price:	$19	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	12/02/24
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.3%	**Dividend Payment Date:**	12/13/24
Dividend Yield:	2.3%	**5 Year Price Target**	$20	**Years Of Dividend Growth:**	7
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

Hamilton Beach Brands is a small cap appliance maker based in Virginia. Founded in 1904, it's grown it's portfolio to include a variety of small kitchen appliances, including food processors, coffee makers, air fryers, blenders, and more. It sells under several brands, including its flagship Hamilton Beach and Hamilton Beach Professional brands, Proctor Silex, Wolf Gourmet, CHI, Bartesian, and TrueAir. Hamiton Beach distributes its products through mass merchandisers, e-commerce retailers, national department store chains, drug stores, and more. The company has a seven-year streak of dividend increases, and has a market cap of just $275 million.

Hamilton Beach posted third quarter earnings on October 30th, 2024, and results were slightly better than the prior year. Revenue was $156.7 million, which was up 2% year-over-year. The gain in the top line was primarily attributed to favorable product mix and higher volume. The company's acquisition of HealthBeacon, which was completed in February, added $1.2 million in new revenue.

Gross profit was $43.9 million, or 28% of total revenue. These were higher from $40.1 million, or 26.1% of revenue, respectively, a year ago. The 190 basis point improvement in gross profit margin was due to favorable product selling mix, and lower input costs.

SG&A costs were $33.3 million, up from $25.6 million, driven by M&A costs, as well as higher employee-related expenses. As a percentage of revenue, SG&A was up some 500 basis points, although much of the increase was due to non-recurring costs. As a result, operating profit was off from $14.4 million last year to $10.6 million in this year's third quarter.

We initiate 2024 with adjusted earnings-per-share guidance of $1.70 with one quarter to go.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	$1.44	$1.91	$1.32	$1.68	$1.10	$1.76	$1.53	$1.81	$1.80	***$1.70***	***$1.79***
DPS	---	---	---	$0.09	$0.34	$0.36	$0.37	$0.40	$0.42	$0.44	***$0.46***	***$0.56***
Shares[1]	---	13.7	13.7	13.7	13.8	13.7	13.9	13.9	13.9	13.9	***14.1***	***14.5***

Hamilton Beach's history of earnings growth is spotty at best. The company sells largely consumer discretionary products; things that are intended to make consumers' life easier, but are not strictly necessary. As such, it is subject to periods of earnings weakness, especially during recessions. Despite the fact that earnings have barely budged over the past decade, Hamilton Beach has remained solidly profitable throughout.

We see just 1% earnings-per-share growth annually moving forward as we see modest sales growth potentially partially offset by stagnant-to-lower profit margins. The upside in earnings growth for the company in the past decade has been modest, while downturns are much harsher. Unless the company's organic revenue growth rate improves materially, we see little upside to earnings estimates for the foreseeable future.

[1] Share count in millions

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The dividend has been raised every year since inception in 2017, so the growth record there is good. We see growth in the dividend given the low payout ratio, amounting to 4% annually from here.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	14.1	12.9	11.9	9.9	13.1	7.8	13.8	***11.8***	***11.0***
Avg. Yld.	---	---	---	0.5%	2.6%	2.5%	2.1%	2.2%	1.8%	1.7%	***2.3%***	***2.8%***

Hamilton Beach's price-to-earnings ratio has been pretty stable most years, with the exception of 2022 when bumper earnings drove the P/E ratio lower. Although the stock's average forward price-to-earnings ratio is near 12, we assess fair value at 11 given the weak outlook for earnings growth. Should that forecasted growth pick up, we'd reassess, but years of stagnant earnings means we believe investors are unlikely to pay elevated multiples.

The yield is market-beating at 2.3%, but it's hardly a pure income stock. We see the yield potentially rising to 2.8% over time from the current 2.3% as growth in the dividend may outpace that of earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	7%	20%	33%	21%	26%	23%	24%	***27%***	***31%***

The payout ratio is quite low, coming in at 27% for this year. We do see it rising modestly with our forecasted dividend growth, to 31% of earnings by 2029. That's still very safe, and we see no reason that Hamilton Beach won't continue to raise its dividend for many years to come.

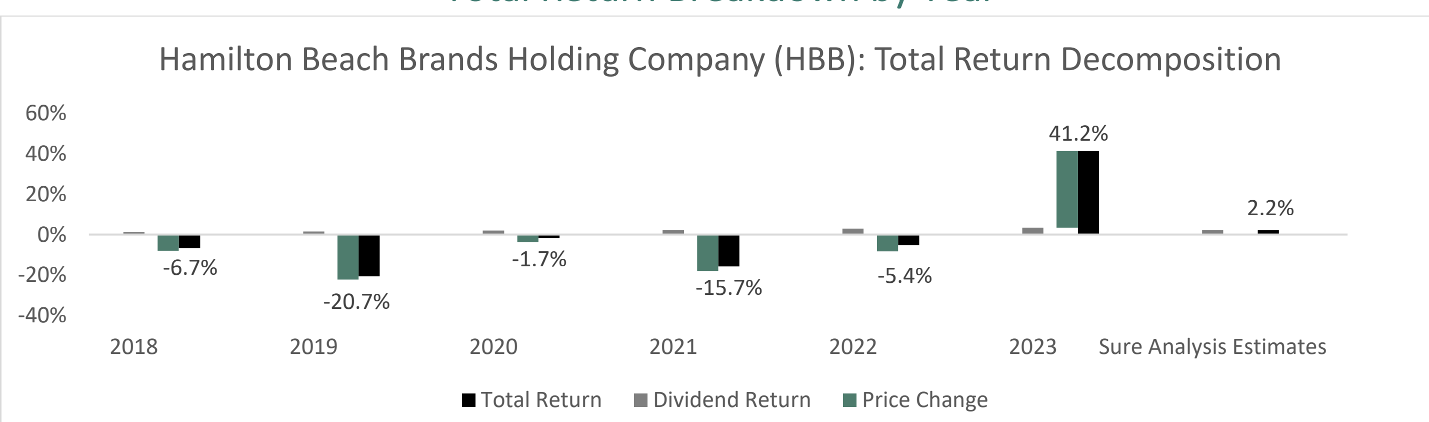
Net debt stood at $73 million as of the end of the third quarter, so it's quite manageable given the company's ~$60 million in free cash flow for the past 12 months. Debt servicing costs remain very low, so we have no concern about Hamilton Beach's balance sheet, or ability to pay off and/or refinance its current debt.

Recessions are likely to be unkind to the company's revenue and earnings, although it wasn't publicly-traded the last time we had a typical recession. The COVID recession was brief and caused by a short-lived shock to the economy, and Hamilton Beach was highly profitable throughout. We have doubts that would repeat in a consumer spending-led slowdown.

Final Thoughts & Recommendation

Hamilton Beach offers investors exposure to targeted consumer discretionary product lines, but we have some doubt about its ability to grow in the coming years. We see just 1% earnings-per-share growth and a 1.3% headwind from the valuation, offset by the 2.3% dividend yield. With just 2.2% forecasted annual total returns, we initiate the stock at a sell.

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.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	---	768	745	612	630	612	604	658	641	626
Gross Profit	---	191	194	136	139	129	139	137	129	144
Gross Margin	---	24.8%	26.0%	22.2%	22.1%	21.0%	23.0%	20.7%	20.1%	23.0%
SG&A Exp.	---	154	149	97	104	100	100	105	90	108
D&A Exp.	---	6	6	4	4	4	4	5	5	4
Operating Profit	---	36	43	38	34	27	37	32	39	35
Operating Margin	---	4.6%	5.8%	6.2%	5.3%	4.4%	6.2%	4.8%	6.1%	5.6%
Net Profit	---	20	26	16	18	(14)	46	21	25	25
Net Margin	---	2.6%	3.5%	2.6%	2.8%	-2.2%	7.7%	3.2%	3.9%	4.0%
Free Cash Flow	---	20	57	27	5	0	(37)	6	(6)	85
Income Tax	---	12	15	19	7	9	10	8	7	6

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	---	---	311	326	321	289	391	383	389	385
Cash & Equivalents	---	---	11	11	4	2	2	1	1	15
Accounts Receivable	---	---	104	114	98	108	145	120	115	135
Inventories	---	---	128	135	123	110	174	183	156	127
Goodwill & Int. Ass.	---	---	14	12	11	9	8	8	8	8
Total Liabilities	---	---	246	280	265	252	311	280	264	237
Accounts Payable	---	---	131	152	122	112	153	132	62	100
Long-Term Debt	---	---	39	51	47	58	98	97	111	50
Shareholder's Equity	---	---	65	46	57	36	80	102	125	147
LTD/E Ratio	---	---	0.59	1.11	0.82	1.61	1.23	0.95	0.89	0.34

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	---	---	5.0%	5.5%	-4.4%	13.6%	5.5%	6.6%	6.5%
Return on Equity	---	---	---	28.4%	34.3%	-29.0%	79.5%	23.4%	22.3%	18.6%
ROIC	---	---	---	15.7%	17.6%	-13.6%	33.9%	11.3%	11.6%	11.7%
Shares Out.	---	13.7	13.7	13.7	13.8	13.7	13.9	13.9	13.9	13.9
Revenue/Share	---	56.16	54.51	44.72	45.89	44.57	44.03	47.26	45.80	44.50
FCF/Share	---	1.49	4.14	1.99	0.34	0.00	(2.73)	0.43	(0.41)	6.06

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