



Universal Corporation (UWV)

Updated June 5th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	10.9%	Market Cap:	\$1.2B
Fair Value Price:	\$58	5 Year Growth Estimate:	1.5%	Ex-Dividend Date:	07/08/24
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.2%	Dividend Payment Date:	08/05/24
Dividend Yield:	6.9%	5 Year Price Target	\$62	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	A	Rating:	Buy

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 fourth quarter earnings results at the end of May. The company generated revenues of \$770 million during the quarter, which was 11% more than the revenues that Universal Corporation generated during the previous year's period. Revenues were positively impacted by product mix changes, and growth was weaker than during the previous quarter. Universal's gross margin was up compared to the previous year's period. This tailwind helped the company in growing its profits meaningfully compared to the previous year's period.

Universal's adjusted earnings-per-share totaled \$1.79 during the quarter. The company has not provided guidance for the current fiscal year, but comments indicate that demand is healthy. Analysts are currently forecasting a small profit decline for the current fiscal year, but profits will remain at an above-average level according to the analyst community. Universal increased its dividend by 1% in early 2024.

Growth on a Per-Share Basis

Year ¹	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.06	\$3.92	\$3.97	\$3.96	\$4.45	\$3.49	\$4.25	\$3.79	\$3.77	\$5.08	\$4.80	\$5.17
DPS	\$2.06	\$2.10	\$2.12	\$2.16	\$3.00	\$3.04	\$3.08	\$3.12	\$3.16	\$3.20	\$3.24	\$3.41
Shares²	22.7	25.3	24.9	25.1	25.1	24.8	24.7	24.7	24.8	24.7	24.5	24.0

Universal Corporation's earnings-per-share during fiscal 2020 were lower than the earnings-per-share that Universal generated during fiscal 2010, a full decade earlier. There were some movements in Universal's earnings-per-share during the last couple of years, but without a clear direction. Earnings grew in some years and declined in other years, to essentially offset each other. Overall Universal Corporation's results during the last decade were not convincing, as the company's track record in terms of earnings growth is weak.

As the leader in a declining industry, we do not expect the company to deliver strong business growth in the future. 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. 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 be able to deliver some earnings-per-share growth during the coming years. We believe that an annual earnings-per-share growth rate in the low-single-digits is possible for this tobacco corporation, largely due to the possibility of buybacks, even though its overall business will continue to trend down in the long run.

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

² 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	Now	2029
Avg. P/E	12.5	14.3	16.3	16.0	13.0	12.6	13.9	15.3	14.1	10.0	9.8	12.0
Avg. Yld.	4.2%	4.0%	3.5%	3.4%	5.2%	6.9%	5.2%	5.4%	6.0%	6.3%	6.9%	5.5%

Universal Corporation traded at very low valuations during and following the last financial crisis, but shares became more expensive since then. Today, shares trade at close to 10 times fiscal 2024's expected net profits, as analysts are forecasting solid earnings this year. This is below our fair value earnings multiple. Shares have upside potential towards our fair value target and offer a sizeable dividend yield today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	50.7%	53.6%	54.8%	49.7%	67.4%	87.1%	72.5%	82.3%	83.8%	63.0%	67.5%	65.8%

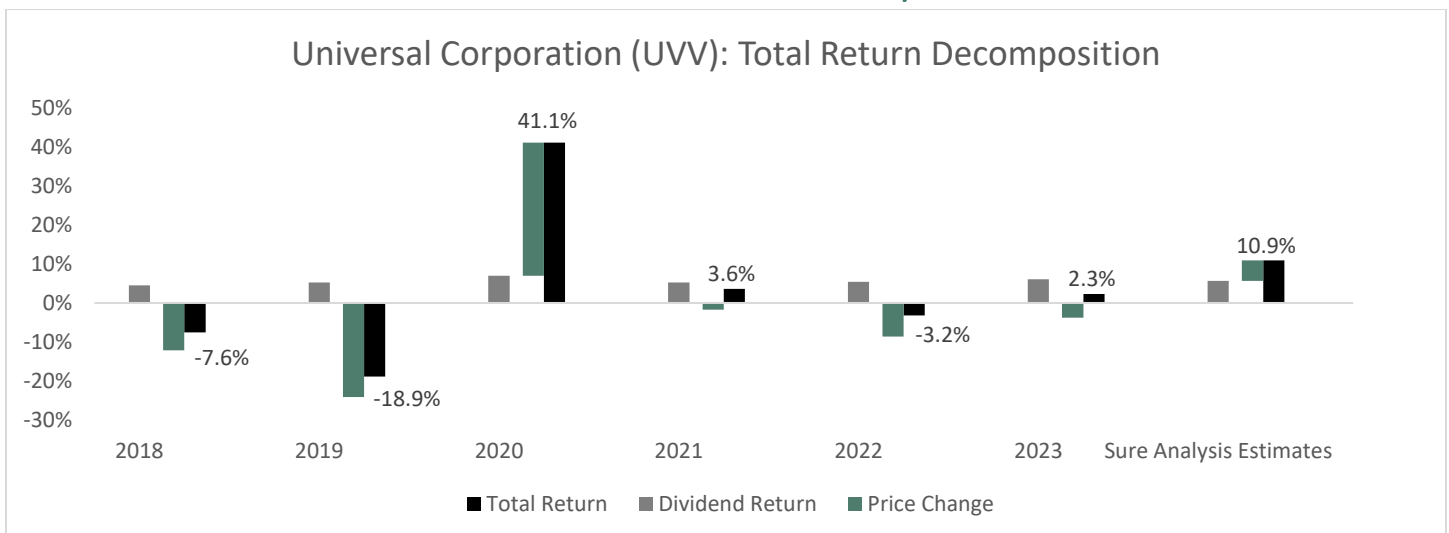
Universal Corporation has paid out roughly 50% of its net profits throughout much of the last decade, although there were significant swings both up and down during that time frame. The dividend increase in fiscal 2019, which was the result of management's strategic review and which lifted Universal Corporation's dividend by 36%, has made the dividend payout ratio jump to a significantly higher level. Coupled with an earnings decline in 2020, this has lifted Universal's dividend payout ratio to a pretty high level. Management seemingly wants to continue to pay its dividend despite the high payout ratio, as the company raised the payout slightly in 2020, 2021, and 2022.

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 at least some earnings-per-share growth in the long run. Shareholders get an above-average dividend yield at current prices. Universal earns a buy recommendation today, due to the fact that shares promise attractive total returns at current prices while shares also trade below fair value.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,188	2,231	2,123	2,169	2,133	2,121	2,342	2,586	2,639	2,937
Cash & Equivalents	249	319	284	234	298	107	197	82	65	56
Accounts Receivable	436	431	442	379	399	352	368	390	402	525
Inventories	699	698	634	749	699	807	787	1,017	1,037	1,264
Goodwill & Int. Ass.	99	99	99	99	98	145	245	307	294	283
Total Liabilities	791	778	797	783	753	832	993	1,202	1,202	1,458
Accounts Payable	140	121	154	164	146	140	139	168	83	109
Long-Term Debt	430	435	428	415	423	447	619	701	812	1,035
Shareholder's Equity	1,151	1,203	1,286	1,342	1,337	1,247	1,307	1,341	1,397	1,437
LTD/E Ratio	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
Return on Assets	5.1%	4.9%	4.9%	4.9%	4.8%	3.4%	3.9%	3.5%	4.7%	4.3%
Return on Equity	8.2%	7.6%	7.6%	7.8%	7.5%	5.4%	6.6%	6.3%	8.8%	8.2%
ROIC	6.3%	5.9%	5.8%	5.9%	5.8%	4.1%	4.7%	4.3%	5.7%	5.0%
Shares Out.	22.7	25.3	24.9	25.1	25.1	24.8	24.7	24.7	24.8	24.7
Revenue/Share	80.50	76.20	87.14	79.74	87.92	76.08	80.01	84.40	103.02	109.76
FCF/Share	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.

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