Newell Brands Inc. – Group 3

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Justification:

Newell Brands Inc (NWL) is potentially an undervalued stock as it passes three of the screening criteria: (i) NWL's Price-to-Earnings is 5.5 (less than the 13.0 target); (ii) NWL's stock has declined 44% from $54.85 on June 16, 2017 to $37.50 on December 29, 2017; (iii) NWL has a Price-to-Book value of 1.1, less than the 1.2 target. Although NWL is currently not under-levered, has a current market capitalization of $15B which exceeds the target ($1.2B), and the company is not an obscure stock, it is still worth further investigation.

Industry Analysis:

NWL operates in a MEDIUM risk industry. NWL is engaged in the consumer goods industry, manufacturing and distributing a variety of durable goods. Operating margins and returns on assets are very stable in the industry, although intense competition raises the risk level above low. Many changes are taking place in the industry, including trends towards consolidation, increased presence in e-commerce sales and increased environmental regulation. NWL underperforms its direct competitors in this space, which implies there might be an opportunity to unlock added value.

Company Analysis:

NWL's recent performance has been below the industry average, with lower than average operating margin and return on assets. However, these metrics have been stable in recent years. As mentioned, stable operating results in an industry that provides staple goods to consumers, combined with intense competition from many large players, leads to the selection of a MEDIUM business risk. This leads to an optimal debt to value range of 30% - 49%. NWL's current target D/V is 44.5%, which is within the bounds of the optimal range. Therefore, the financial risk is MEDIUM. NWL's bond rating is therefore BBB with a corresponding Kd of 3.6%. Given medium financial risk, the ERP is 5.0%, resulting in Ks of 8.6%. Considering a 23% tax rate, WACC is calculated at 5.97%. First pass ROIC is 5.0%, and since ROIC < WACC, it is expected that EPV will be less than NAV.

Valuation:

NAV-based price per share is estimated as $35.60. This value is driven by NWL's high intangible asset value driven by brand strength and customer relations. EPV-based price per share is estimated as $28.21. EPV < NAV matches the first pass ROIC hypothesis. Second pass ROIC assessment yields 4.57% which is less than ROIC first pass and WACC. Therefore, this confirms the initial hypothesis that NAV will be greater than EPV.

Strategy Valuation Analysis:

Since NAV > EPV the value of catalyst is 7.39. This catalyst may be coming from management's inability to efficiently integrate Jarden, NWL's recent acquisition, or overcapacity in a market with low barriers to entry. Measures have been implemented to change management, therefore it is moderately likely this catalyst will be triggered. As a result, catalyst probability of 50% has been utilized to determine intrinsic value. From this, NWL's intrinsic value is $31.91. The Margin of Safety is ⅓ IV. Using a MoS allows an investment to be made with minimal downside risk.

Recommendation:

The entry price for NWL should be $21.27 per share, accounting for a reasonable safety margin. Since NWL is currently trading at $30.90 per share – close to its intrinsic value - it is recommended NWL is a "NO BUY." If management can more efficiently utilize assets, while growing core brands, this may cause the Intrinsic Value to increase. In this case, NWL should be re-examined as an investment opportunity.