

A Little-Known Stock

Probably few members of the Forum are familiar with Dover Corporation (DOV). That's unfortunate. Last August DOV raised its dividend 15%, marking its 56th consecutive year of uninterrupted dividend increases. And, it has achieved this record while maintaining a low payout ratio. For 2012, DOV is project to pay out only about 25% of earnings in the form of cash dividends. A low payout ratio helps make dividends more sustainable and provides retained earnings for internal growth.

Dover is an industrial manufacturing conglomerate that makes everything from hydraulic lifts to refrigeration systems to components for cell phones and hearing aids. It operates through more than 40 separate subsidiaries. Rather than concentrating its investments in any one sector, it spreads its exposure among many markets and product niches. It focuses on product innovation and enduring customer relationships. In recent years, DOV has been gradually shifting its portfolio towards businesses that are less capital intensive and have higher profit margins. It has a long successful history of growth by acquisition.

Dover currently trades in the mid-60s, up from a 52-week low in the mid-40s. Based on an anticipated 2012 earnings per share of \$4.90, that equates to a price-to-earnings ratio of 13. At the current quote, its dividend yield is 2.0%. *Value Line* and *Standard & Poor's* project that both earnings and cash flow will grow at low double-digit rates for the foreseeable future, giving it a PEG ratio (price-to-earnings/earnings growth rate) of 1.0. Return on shareholder equity is 16% and S&P gives it a credit rating of single-A.

The stock currently trades below *Morningstar's* Fair Value estimate and below S&P's 12-month price target. It appears to be fairly priced, but not cheap by recent historic measure. It may be a better candidate to watch than to chase. But it is an interesting stock to consider at the right price.

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