Rockwell Automation (ROK)

Updated June 6th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$178	**5 Year CAGR Estimate:**	3.9%	**Quality Percentile:**	N/A
Fair Value Price:	$141	**5 Year Growth Estimate:**	6.3%	**Momentum Percentile:**	N/A
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Total Return Percentile:**	N/A
Dividend Yield:	2.1%	**5 Year Price Target**	$192	**Valuation Percentile:**	

Overview & Current Events

Rockwell Automation is an industrial company that is active in the industrial automation and information segments. Its business units include Architecture & Software as well as Control Products & Solutions. The company was founded in 1928, is headquartered in Milwaukee, WI, and is currently trading with a market capitalization of $22 billion.

Rockwell Automation's most recent quarterly results were announced on April 25th. The company reported earnings per share of $1.89, up 22% year over year, and revenues of $1.7 billion, a 6.5% increase over the prior year's quarter. Rockwell Automation expects to earn $7.70 to $8.00 during fiscal 2018 (which ends at the end of September 2018).

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.90	$1.82	$3.05	$4.79	$5.13	$5.36	$5.91	$6.09	$5.56	$6.35	***$7.85***	***$10.65***
DPS	$1.16	$1.16	$1.22	$1.48	$1.75	$1.98	$2.32	$2.60	$2.90	$3.04	***$3.68***	***$5.15***

Between 2007 and 2017 Rockwell Automation grew its earnings per share by 6.0% annually, a middling result.

Rockwell Automation's strong earnings growth during the first half of fiscal 2018 was due to fundamental improvements. Higher sales, margin increases and a slightly lower share count explain how the company was able to grow its profits per share by 22% during the most recent quarter.

Rockwell Automation's sales performance is looking good across its business units as well as across the geographic markets the company targets. Control Products & Solutions was the slightly better performing franchise year to date, due to a combination of strong organic sales growth and a positive forex impact.

Rockwell Automation sees tailwinds going forward from its China business (where orders have grown by double digits recently) as well as from other emerging markets such as Brazil and Mexico in Latin America. Rockwell Automation's customers include oil and gas companies, which are likely to increase spending with oil prices at multi-year highs.

Margin expansion has been a key factor in recent earnings growth. Rockwell Automation should be able to continue to expand its margins through better economics of scale and fixed cost digression.

Rockwell Automation's dividend has grown by a bit above 11% annually since 2008, even though there was no dividend raise in 2009. Going forward dividend growth will likely slow down a bit and be more in line with the EPS growth rate.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.5	17.0	16.9	15.8	14.3	16.2	19.9	18.7	19.7	23.6	***22.7***	***18.0***
Avg. Yld.	2.1%	3.7%	2.4%	1.9%	2.4%	2.3%	2.0%	2.3%	2.7%	2.0%	***2.1%***	***2.4%***

Rockwell Automation trades at a relatively high P/E ratio of 22.7 right now, which is well above the long term average and well above the long term median valuation. This means that multiple compression will likely be a headwind for the company's total returns over the coming years.

The company increased its dividend substantially recently, but due to the rise in its share price its dividend yield is still only slightly higher than that of the broad market, and lower than it was throughout most of the last couple of years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	51.0%	36.5%	40.8%	45.2%	44.8%	44.0%	44.2%	42.2%	34.9%	36.6%	***38.0%***	***39.0%***
Debt/A	63.2%	69.4%	69.2%	66.9%	67.1%	55.8%	57.3%	64.8%	72.0%	62.8%	***62.0%***	***60.0%***
Int. Cov.	12.9	5.5	10.9	17.3	19.6	20.4	24.0	22.5	17.3	19.7	***20.0***	***22.0***
Payout	29.7%	63.7%	40.0%	30.9%	34.1%	36.9%	39.3%	42.7%	52.2%	47.9%	***46.9%***	***48.4%***
Std. Dev.	51.2%	57.2%	27.9%	44.6%	24.9%	17.6%	18.9%	20.0%	20.9%	13.5%	***19.0%***	***18.0%***

Rockwell Automation's gross profits to assets ratio is quite strong, even though it has declined over the last decade. The decline was caused by an increased asset base. A sizeable amount of the increased asset base was due to cash levels rising; the company currently holds more cash than long-term debt. This is good news, as it explains why Rockwell Automation's interest coverage is so strong (the cash holdings are earning interest, which partially offsets the interest expenses of the company's long-term debt). The company's debt to assets ratio is relatively high, but primarily due to non-interest bearing liabilities. Short and long-term debt make up just 23% of all liabilities, the rest being other items such as accounts payable.

Rockwell Automation has seen its profitability decline substantially through the last financial crisis. EPS dropped by more than 50% from 2008 to 2009. The company remained profitable though and wasn't forced to cut its dividend, despite the fact that the financial crisis was an especially harsh recession. During a more benign economic downturn Rockwell Automation would be less impacted.

Rockwell Automation is well positioned internationally. It produces roughly half of its sales outside of the US. Rockwell Automation's strong position in the higher-growth emerging markets allows for compelling revenue growth opportunities.

Final Thoughts & Recommendation

Rockwell Automation is a fundamentally strong industrial company that has a decent growth outlook. But, shares currently look a lot more expensive than what would be a fair valuation. This high valuation will be a headwind for total returns going forward, which is why Rockwell Automation will likely only provide a mid-single digits annual return through the next five years, which makes it ill-suited to buy at the current price.

Total Return Breakdown by Year