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## Johnson Controls (JCI)

### Overview & Current Events

Johnson Controls manufactures car interiors and components, building control systems and power solutions, and battery systems. The company was founded in 1885 and has paid dividends since 1887. The company is undergoing extensive changes in 2016.

The company saw excellent adjusted EPS growth of 18% in its most recent quarter (4/21/16). The growth was primarily from favorable results from the Johnson Controls-Hitachi joint venture in the company's Building Efficiency segment.

### Competitive Advantage & Recession Performance

Johnson Controls' history and size give it a competitive advantage in the automotive manufacturing market. The company's global reach and large market share in China make it difficult for new entrants to compete with Johnson Controls.

Johnson Controls *is not recession resistant*. The company saw EPS plummet from \$2.33 per share to \$0.47 per share during the Great Recession. Johnson Controls serves the automobile and construction industries, both of which are highly sensitive to downturns in the global economy. The company's low payout ratio and commitment to steady or rising dividends helped the company to continue paying dividends through the Great Recession, when other automotive companies eliminated dividends.

### Growth Prospects, Valuation, & Catalyst

Johnson Controls is in flux. The company plans to spin off its automotive business in October of 2016. The spin-off will be named Adient. In addition, Johnson Controls is merging with Tyco in a tax inversion. The deal will be completed in October of 2016 and will relocate Johnson Controls to Ireland to benefit from lower tax rates. Johnson Controls shareholders will own 56% of the new company.

These two moves will refocus Johnson Controls as a diversified manufacturer of building solutions. Note that the company is currently seeing excellent growth in its business solutions segment. The company's greater focus and synergy opportunities should invigorate growth.

Johnson Controls is expecting ~15% growth in 2016. Over the long-run I expect EPS growth of between 7% and 9%, in line with historical averages. This growth combined with the company's 2.6% dividend yield gives investors expected returns of 9.6% to 11.6% a year.

The company's historical average P/E ratio is 14.1. Johnson Controls is currently trading for a P/E ratio of 12.3. Fair value is likely around \$51 per share.

### Key Statistics, Ratios, & Metrics

<b>Maximum Drawdown<sup>1</sup>:</b>	80%	<b>10 Year EPS Growth Rate:</b>	7.7%
<b>Dividend Yield:</b>	2.6%	<b>10 Year Dividend Growth Rate:</b>	12.2%
<b>Most Recent Dividend Increase:</b>	8.3%	<b>10 Year Historical Avg. P/E Ratio:</b>	14.1
<b>Estimated Fair Value<sup>2</sup>:</b>	\$51/share	<b>10 Year Annualized Total Return:</b>	6.3%
<b>Dividend History:</b>	38 years without a reduction		

<sup>1</sup> Since year 2000. Maximum drawdown occurred in March of 2009 during the worst of the Great Recession

<sup>2</sup> Currently trading for \$44.71 per share

### Johnson Controls Dividend Yield History

