Johnson Controls International PLC (JCI)

Updated May 3rd, 2018 by Jonathan Weber

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	10.9%	**Quality Percentile:**	N/A
Fair Value Price:	$41	**5 Year Growth Estimate:**	4.9%	**Momentum Percentile:**	N/A
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.0%	**Total Return Percentile:**	N/A
Dividend Yield:	3.0%	**5 Year Price Target**	$51	**Valuation Percentile:**	

Overview & Current Events

Johnson Controls is an industrial company that operates in the following two industries: Buildings (cooling, heating, ventilation, security) and Energy (storage solutions, batteries). Johnson Control is headquartered in Ireland (after its merger with Tyco in 2016), is currently valued at $33 billion and was originally founded in 1885.

Johnson Controls' most recent quarterly results were announced on May 1st. The company reported earnings-per-share (EPS) of $0.53 and revenues of $7.5 billion (up 6% year over year and up 3% year over year, respectively). The company also raised its guidance for the current year. Revenue growth is expected at 3% to 5% and EPS are forecasted in a range of $2.75 to $2.85.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.33	$0.47	$2.00	$2.42	$2.54	$2.66	$3.19	$3.42	$3.98	$2.60	***$2.80***	***$3.55***
DPS	$0.52	$0.52	$0.55	$0.64	$0.72	$0.76	$0.88	$1.04	$1.16	$1.00	***$1.04***	***$1.36***

Johnson Controls' EPS growth was strong from 2010 through 2016, as EPS grew by more than 6% annually. Profits peaked in 2016, though, and were substantially lower in 2017 (and will likely remain lower for the foreseeable future). This is due to the impact of the merger with Tyco. The merger relocated Johnson Controls to Ireland for tax purposes. Tax legislation changes in the US mean that the benefit of that move has evaporated, though, and Johnson Controls was left with the integration costs of the merger. Johnson Controls has also made changes to its portfolio, spinning off its automotive business and selling its workplace business. The Johnson Controls of today looks very different from the Johnson Controls of 5 years ago due to the Tyco merger and automotive business [trading as Adient (ADNT)] spinoff.

In the near future Johnson Controls' profits should rise considerably, thanks to strong demand for its products primarily in the Building Solutions segment. Building activity has picked up in all the markets Johnson Controls addresses. During the last quarter orders for the building business rose by 7% organically. More orders now will result in higher revenues down in the near future.

Another factor that should be a positive for Johnson Controls' profitability going forward are the synergies of the merger with Tyco. It takes a couple of years to achieve the cost savings such a takeover allows for. Going forward integration costs should decline and cost savings will likely be achieved.

Johnson Controls has stated that it is looking at strategic possibilities regarding its Power Solutions business, a sale of the unit (and using the funds to expand its building business) or another takeover thus are possible in the near future.

Johnson Controls' dividend grew by 7.5% annually since 2008, but the dividend growth rate hasn't been very consistent as there was no dividend increase during the financial crisis and the recent automotive business spin-off resulted in a slight drop in Johnson Control's dividend.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.8	40.0	14.5	15.4	11.9	12.7	15.0	13.9	10.5	16.2	***12.5***	***14.5***
Avg. Yld.	1.5%	2.8%	1.9%	1.7%	2.4%	2.2%	1.8%	2.2%	2.8%	2.4%	***3.0%***	***2.7%***

Johnson Controls has usually traded at relatively inexpensive valuations (during the financial crisis its valuation exploded due to profits being cut by 80%), right now shares are trading at 12.5 times this year's earnings. The median P/E ratio of 15 leaves some valuation expansion potential going forward.

Johnson Controls' dividend yield of 3.0% is at the high end of the historic range, which adds a nice boost to the company's total returns going forward. The major reason for the dividend yield being so high is the price decline Johnson Controls' shares have experienced during 2017 and 2018.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	22.0%	14.5%	20.2%	20.5%	18.7%	19.4%	19.2%	15.2%	9.0%	17.9%	***19.0%***	***21.0%***
Debt/A	61.2%	61.0%	59.9%	61.3%	61.9%	59.7%	64.0%	63.9%	60.0%	58.4%	***57.0%***	***54.0%***
Int. Cov.	6.1	-	9.9	9.5	6.7	8.2	8.9	4.4	4.7	6.1	***6.3***	***6.7***
Payout	22.3%	111%	27.0%	26.4%	28.3%	28.6%	27.6%	30.4%	29.1%	46.3%	***37.1%***	***36.1%***
Std. Dev.	48.5%	33.2%	19.3%	26.5%	19.4%	13.3%	15.4%	15.2%	21.7%	19.1%	***21.0%***	***22.0%***

Johnson Controls' gross profits to assets ratio has been solid through 2015, especially for an industrial company that has to maintain significant assets (factories, inventories, etc.). The takeover of Tyco (which increased Johnson Controls' assets substantially; the company has $20 billion of goodwill on its balance sheet) lowered the ratio significantly.

Debt to assets has been declining in recent years, a trend that is likely to continue as Johnson Controls pays down debt (which is opportune in a rising rates environment). Interest coverage is adequate for this cyclical business as well. Thanks to a relatively low dividend payout ratio the company's dividend looks very safe.

Johnson Controls is one of the key players in the markets it addresses, especially in the buildings segment, where it provides products and services for heating, ventilation, cooling, and security systems. Johnson Controls is unlikely to lose market share as its sales network and expertise are hard to replicate for new entrants. The building industry overall is relatively cyclical though, which is why Johnson Controls' profits declined by 80% during the financial crisis.

Final Thoughts & Recommendation

Johnson Controls' merger with Tyco doesn't look too great in retrospect (especially as the tax advantage of moving to Ireland has been negated by tax reform), but due to a low valuation and a relatively high dividend yield Johnson Controls still should provide compelling total returns going forward. The industries Johnson Controls addresses are cyclical and tied to the global economy though, which means Johnson Controls' stock price is likely to plunge during a recession.

Total Return Breakdown by Year