Johnson Controls International PLC (JCI)

Updated July 31st, 2018 by Jonathan Weber

Key Metrics

Current Price:	$36	**5 Year CAGR Estimate:**	10.2%	**Volatility Percentile:**	49.8%
Fair Value Price:	$40	**5 Year Growth Estimate:**	4.9%	**Momentum Percentile:**	20.9%
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.4%	**Valuation Percentile:**	77.6%
Dividend Yield:	2.9%	**5 Year Price Target**	$51	**Total Return Percentile:**	62.8%

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. The company is currently valued at $34 billion and was originally founded in 1885.

Johnson Controls' most recent quarterly results were announced on July 31. The company reported earnings per share of $0.81 for its fiscal third quarter, an increase of 14% year over year. The company recorded revenues of $8.1 billion, 6% more than in the previous year's third quarter.

Johnson Controls' plan to sell its power solutions business is advancing. There are four companies that are suitors for the business unit. The unit is assumed to be sold for roughly $12 billion at some point in the foreseeable future.

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 solid from 2010 through 2016, as EPS grew by more than 6% annually. Profits peaked in 2016, though, and were substantially lower in 2017. 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. The Johnson Controls of today looks very different from the Johnson Controls of 5 years ago due to the Tyco merger and automotive business spinoff, which is now publicly-traded as Adient (ADNT).

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.

A sale of the power solutions business will allow Johnson Controls to grow its buildings segment at an even faster pace, either through organic investments or buy taking over another company in this segment.

Johnson Controls' dividend grew by 7.5% annually since 2008, but the dividend growth rate hasn't been very consistent over the last couple of years.

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	***12.9***	***14.5***
Avg. Yld.	1.5%	2.8%	1.9%	1.7%	2.4%	2.2%	1.8%	2.2%	2.8%	2.4%	***2.9%***	***2.7%***

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Shares of Johnson Controls are trading at a relatively inexpensive valuation of ~13 right now. There is some upside potential for shares towards a fair PE multiple of 14-15.

Johnson Controls' dividend yield of 2.9% is at the top of the historic range, but since dividend growth has been a bit inconsistent Johnson Controls nevertheless is not an overly strong dividend growth stock.

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 operate significant assets (factories, inventories, etc.). The takeover of Tyco lowered the ratio significantly.

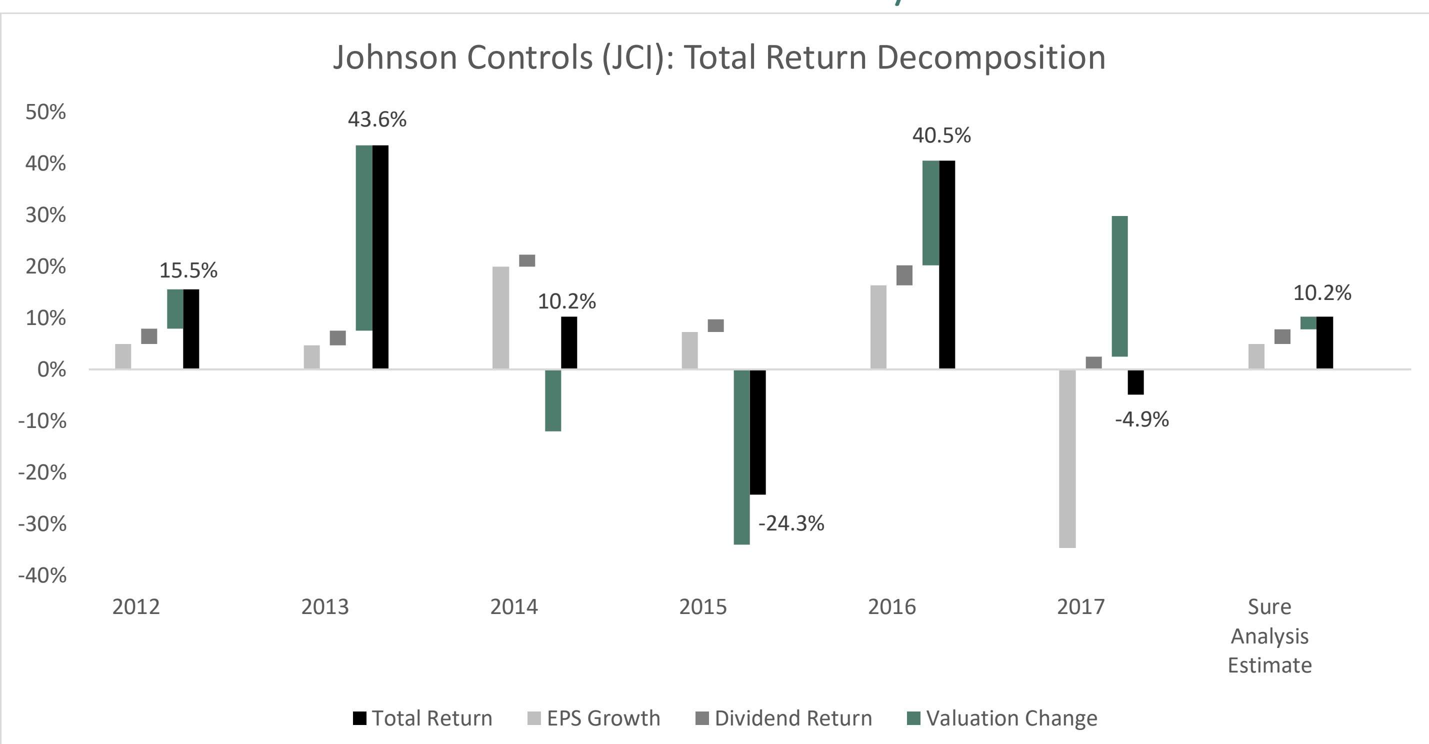
Debt to assets has been declining in recent years, a trend that is likely to continue as Johnson Controls pays down debt, which is opportune in a rising rates environment. Interest coverage is adequate for this cyclical business as well. Thanks to a relatively low dividend payout ratio the company's 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' decision to merge with Tyco wasn't the best one in hindsight, but the company is well positioned in attractive markets. Johnson Controls should deliver solid total returns through mid-single digits earnings growth, multiple expansion and dividend payments. Shares look like a potential buy at current prices.

Total Return Breakdown by Year



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