Rockwell Automation (ROK)

Updated July 27th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$184	**5 Year CAGR Estimate:**	3.5%	**Volatility Percentile:**	38.8%
Fair Value Price:	$144	**5 Year Growth Estimate:**	6.3%	**Momentum Percentile:**	60.3%
% Fair Value:	128%	**5 Year Valuation Multiple Estimate:**	-4.8%	**Valuation Percentile:**	19.8%
Dividend Yield:	2.0%	**5 Year Price Target**	$195	**Total Return Percentile:**	18.6%

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 $23 billion.

On July 25, Rockwell Automation reported compelling Q3 results. The company earned $2.16 during the quarter, an increase of 23% year over year. Revenues grew by 6%, reaching $1.7 billion, driven primarily by strong growth in the Architecture & Software segment, which saw sales rise 9%. Rockwell Automation also raised its earnings per share guidance to $7.90-$8.10 for fiscal 2018.

In June, Rockwell Automation and PTC Inc. announced a strategic partnership. Rockwell will invest $1 billion into PTC. The two companies aim to align their smart factory technologies to bring more attractive products to their customers.

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	***$8.00***	***$10.86***
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 three quarters 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 23% 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.

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	***23.0***	***18.0***
Avg. Yld.	2.1%	3.7%	2.4%	1.9%	2.4%	2.3%	2.0%	2.3%	2.7%	2.0%	***2.0%***	***2.4%***

Rockwell Automation trades at 23 times this year's earnings right now, which is substantially more than the long-term median earnings multiple. The resulting multiple compression will most likely be a headwind going forward. Shares offer a dividend yield of 2.0% right now, which is relatively in line with what investors can get from the broad market.

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

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%	***46.0%***	***47.4%***
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 has a relatively strong balance sheet. The company currently holds more cash than long-term debt. This explains why Rockwell Automation's interest coverage is so strong, as the cash holdings are earning interest, which partially offsets the interest expenses on 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 consists of other operating liabilities such as accounts payable.

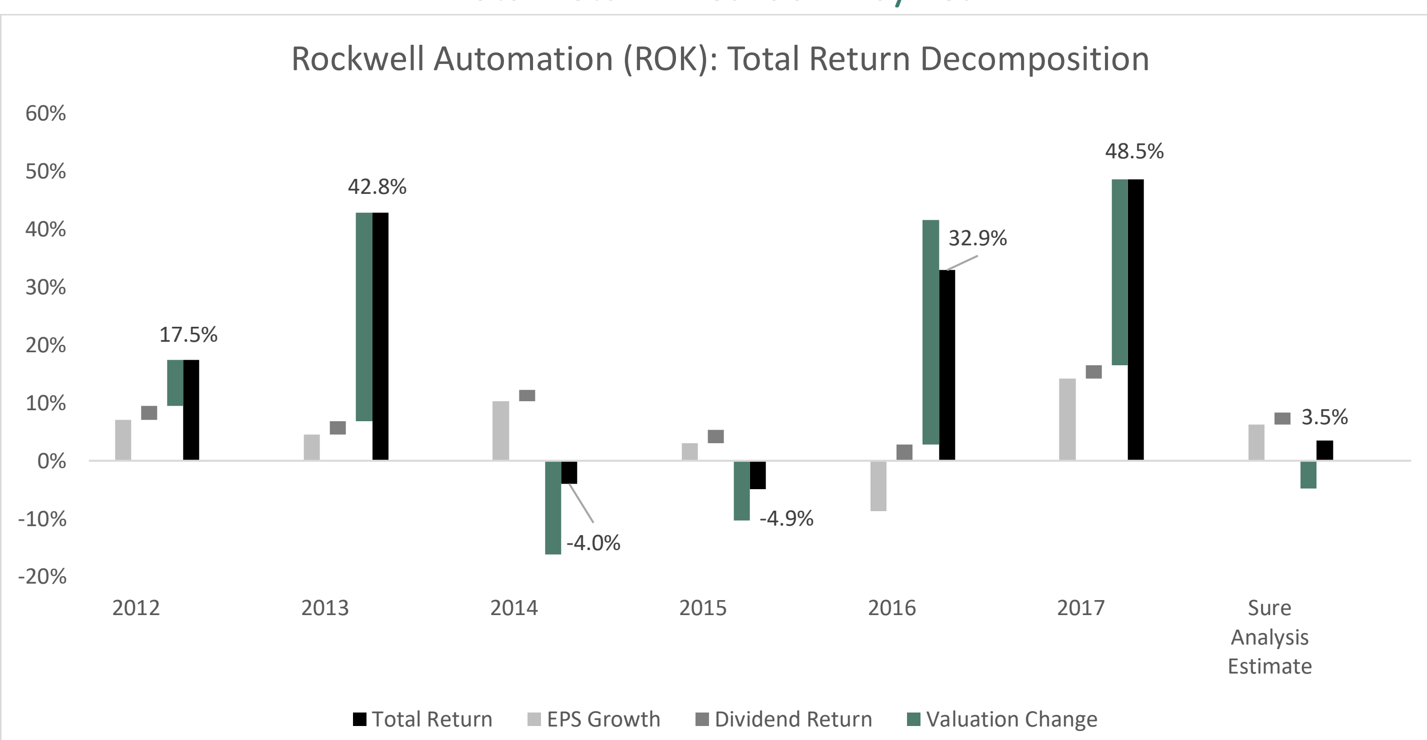
Rockwell Automation has seen its profitability decline substantially through the last financial crisis. EPS dropped by more than 50% from 2008 to 2009. The company remained profitable, though, and was not forced to cut its dividend, despite the fact that the financial crisis was an especially harsh recession. 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 has a solid growth outlook and is fundamentally strong. Shares trade well above what would be a fair valuation right now, though, which is why we do not see shares as a buy right here. Due to the headwinds from multiple compression over the coming years Rockwell Automation will likely only provide low-single digits total returns over the coming five years. Because of this, Rockwell Automation earns a sell recommendation at current prices.

Total Return Breakdown by Year



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