Autoliv, Inc. (ALV)

Updated September 10th, 2018 by Josh Arnold

Key Metrics

Current Price:	$85	**5 Year CAGR Estimate:**	19.3%	**Volatility Percentile:**	71.6%
Fair Value Price:	$130	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	48.7%
% Fair Value:	66%	**5 Year Valuation Multiple Estimate:**	8.4%	**Valuation Percentile:**	98.2%
Dividend Yield:	2.9%	**5 Year Price Target**	$189	**Total Return Percentile:**	96.6%

Overview & Current Events

Autoliv is a global manufacturer of airbags, seatbelts and steering wheels for automobile manufacturers all over the globe. The company is the industry leader in a critical and growing segment of the automobile manufacturing process. It was founded in 1953 and since then, has grown to nearly 70,000 employees, $9 billion in annual revenue and a $7.5 billion market capitalization. Autoliv is listed in both New York and Stockholm, and is headquartered in the latter city.

Autoliv reported second quarter earnings on 6/27/18 and results were somewhat mixed. Revenue was up nicely, rising 11.5% in total on organic sales growth of 7.3%. All product and geographic segments produced sales increases in Q2, but particular strength was seen in the Seatbelts segment as well as the Asia and America regions. Gross margins were docked 100bps to 19.9% but SG&A costs leveraged down 80bps, meaning operating margins fell 50bps to 10.4%. This weakness in margins should be impermanent, however, as management sees full-year operating margins in excess of 11%. In addition, the company recently completed its spinoff of Veoneer, the former electronics unit of Autoliv. The safety-focused Autoliv looks poised for significant growth and after posting $2.22 in earnings-per-share in Q2, we see $7.80 for the entire year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.96	$1.25	$6.39	$6.65	$5.08	$5.07	$5.06	$5.17	$6.42	$4.87	***$7.80***	***$11.45***
DPS	$1.42	$0.00	$1.05	$1.78	$1.89	$2.00	$2.12	$2.22	$2.30	$2.38	***$2.48***	***$3.00***
Shares	70	85	89	89	96	94	89	88	88	87	***87***	***85***

Autoliv's earnings-per-share have been somewhat volatile in the past decade, but the overall trajectory has been higher. The company struggled during the Great Recession given its exposure to the automobile market, which of course declined significantly as a result of the economic downturn. However, the recovery was swift and strong, and Autoliv has produced better than $5 of EPS each year since. We are forecasting 8% annual growth moving forward.

The company will achieve this growth mostly via organic gains as production levels for light vehicles around the world remains strong. Autoliv's customer base is vast and diversified, thus bringing an added measure of safety to the company's revenue streams. With global auto production still near its peaks, Autoliv stands to gain significantly. In addition, Autoliv recently launched a slate of new products and those costs have crimped margins temporarily; management assured investors those relatively weak margins are temporary and will thus bring another tailwind to earnings-per-share growth in the future. There is concern about tariffs and their impact on Autoliv's business given that automobiles and their components are a typical target for tariffs, but for now, fundamentals remain strong.

We see the dividend rising at a relatively slow rate over time as Autoliv generally has not made boosting the payout a priority. However, we do see it rising to $3 per share in the coming years from the current $2.48.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	13.9	23.0	8.9	9.9	12.0	15.6	19.6	22.2	17.1	23.1	***11.0***	***16.5***
Avg. Yld.	3.5%	0.0%	1.9%	2.7%	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	***2.9%***	***1.6%***

Autoliv's price-to-earnings ratio has moved down significantly in recent months after the stock fell well off of its highs, including the Veoneer spinoff. Shares now trade for just 11 times this year's earnings and under 10 times estimates for next year, both of which compare extremely favorably to our estimate of fair value at 16.5 times earnings. Therefore, we see a very strong 8.4% tailwind to total returns moving forward from a higher valuation. The dividend yield should decline over time as the share price outpaces growth in the payout, which would put the yield at more normalized levels. Note that Sweden imposes a 30% tax on dividends to foreign investors (15% in the US thanks to a treaty with Sweden), so the net yield is slightly lower than 2.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	17.4%	16.6%	22.2%	21.0%	19.9%	19.4%	19.6%	20.1%	20.4%	20.7%	***20.0%***	***21.0%***
Debt/A	58%	53%	48%	45%	43%	43%	54%	54%	52%	51%	***50%***	***50%***
Int. Cov.	5.4	1.1	16.9	15.6	18.5	26.4	12.5	11.9	15.0	10.6	***15.0***	***20.0***
Payout	54%	14%	10%	25%	37%	39%	42%	43%	36%	49%	***32%***	***26%***
Std. Dev.	55%	68%	30%	34%	32%	16%	19%	24%	28%	23%	***20%***	***18%***

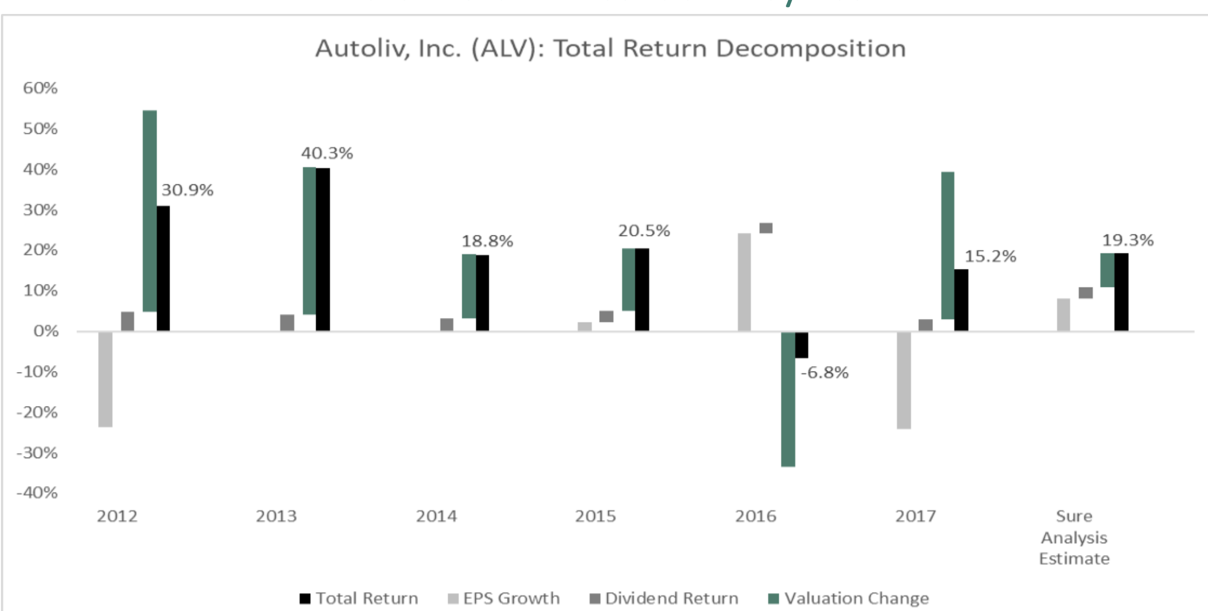
Autoliv's quality metrics haven't moved much in recent years with the exception of margins, which have moved in the right direction. We see continued growth in margins, albeit relatively small growth, as its new products become part of the comparable base and as the company's efficiency efforts bear fruit. Its debt is very manageable and the dividend is less than one-third of earnings, so there are certainly no financing concerns.

Autoliv's competitive advantage is in its strong market share and the fact that it counts every major global automaker among its customers. It will undoubtedly suffer during the next recession, but current conditions in the auto market suggest that is still relatively far off in the distance.

Final Thoughts & Recommendation

Overall, Autoliv looks like a very strong stock. The company has a favorable industry outlook, its slate of new products should see higher margins in the near future and it is trading for a cheap valuation. We see Autoliv producing 19.3% annual returns moving forward, consisting of the current 2.9% yield, 8% earnings-per-share growth and an 8.4% tailwind from a higher valuation. Autoliv is appropriate for just about any kind of investor and we rate it a strong buy as a result.

Total Return Breakdown by Year



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