



Aon plc (AON)

Updated September 5th, 2018 by Nick McCullum

Key Metrics

Current Price: \$148	5 Year CAGR Estimate: 9.4%	Volatility Percentile: 2.8%
Fair Value Price: \$135	5 Year Growth Estimate: 10.0%	Momentum Percentile: 38.1%
% Fair Value: 110%	5 Year Valuation Multiple Estimate: -1.7%	Valuation Percentile: 43.0%
Dividend Yield: 1.1%	5 Year Price Target \$218	Total Return Percentile: 59.0%

Overview & Current Events

Aon is a professional services firm headquartered in London, United Kingdom. The company provides a variety of services including consulting, risk management, and health plan management. Aon has approximately 500 offices worldwide that serve about 120 countries through a workforce that numbers nearly 70,000. Domestic investors can initiate an ownership stake in Aon through American Depository Receipts that trade with a market capitalization of \$36 billion on the New York Stock Exchange under the ticker AON.

In late July, Aon reported (7/19/18) financial results for the second quarter of fiscal 2018. On an adjusted basis, the company generated 10% revenue growth (which includes 5% organic growth) and 31% growth in adjusted earnings-per-share. The company shared its positive financial performance with shareholders through an 11% increase to its quarterly cash dividend payment. Aon's strong performance was driven by revenue growth, the beneficial impact of several bolt-on acquisitions, share repurchases Aon bought back approximately \$400 million of stock in the quarter), and meaningful margin expansion (operating margin increased by 130 basis points year-on-year). Despite the company's strong performance in the quarter, Aon shares actually fell 2% on the first trading day following the earnings release.

Earlier this year, Aon announced (5/15/18) the appointment of two Co-Presidents. The individuals in question are Eric Anderson and Michael O'Conner, who had previously been the Chief Executive Officers of Aon Benfield (the company's reinsurance division) and Aon Risk Solutions, respectively. The two Co-Presidents now report to company-wide CEO Greg Case, whose contract was recently extended by the Board of Directors until April 2023.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.06	\$2.19	\$2.46	\$2.86	\$2.99	\$3.53	\$4.66	\$4.88	\$5.16	\$6.52	\$7.97	\$12.85
DPS	\$0.60	\$0.60	\$0.60	\$0.60	\$0.62	\$0.68	\$0.92	\$1.15	\$1.29	\$1.41	\$1.55	\$3.15
Shares	271.8	266.3	332.3	324.8	310.9	300.7	280.0	269.8	262.0	247.6	245.0	200.0

Aon's long-term earnings-per-share growth trend has been extremely impressive. Between 2008 and 2017, the company compounded its adjusted earnings-per-share at a rate of 13.7% per year. Looking ahead, we believe that company's growth is likely to continue to be quite strong, albeit a bit slower than its historical pace. More specifically, we are forecasting 10% annualized earnings growth over full economic cycles.

Our earnings-per-share estimate for next year comes from guidance provided by the company itself. With the release of its second quarter financial results, Aon's management team stated that it is "on track to deliver our near-term target of exceeding \$7.97 in adjusted earnings-per-share for the full year of 2018." For the sake of conservatism, our 2018 earnings-per-share estimate is exactly \$7.97. Applying a 10% annualized growth rate to this 2018 estimate allows us to calculate a 2023 earnings-per-share estimate of approximately \$12.85.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	21.5	17.9	16.3	16.9	16.8	19.2	18.6	19.8	20.4	20.1	18.5	17.0
Avg. Yld.	1.4%	1.5%	1.5%	1.2%	1.2%	1.0%	1.1%	1.2%	1.2%	1.1%	1.1%	1.4%

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.

Aon has traded at an average price-to-earnings ratio of 18.8 over the last decade. We believe that this number is a bit higher than warranted given the expensive earnings multiple exhibited by the company between 2013 and 2017. Instead, we believe that fair value for Aon lies somewhere around 17 times earnings. The company is trading for a price-to-earnings ratio of 18.5 using our 2018 earnings-per-share estimate. If Aon's current valuation contracts to a price-to-earnings ratio of 17 over the next 5 years, this will reduce its annualized returns by 1.7% per year during this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

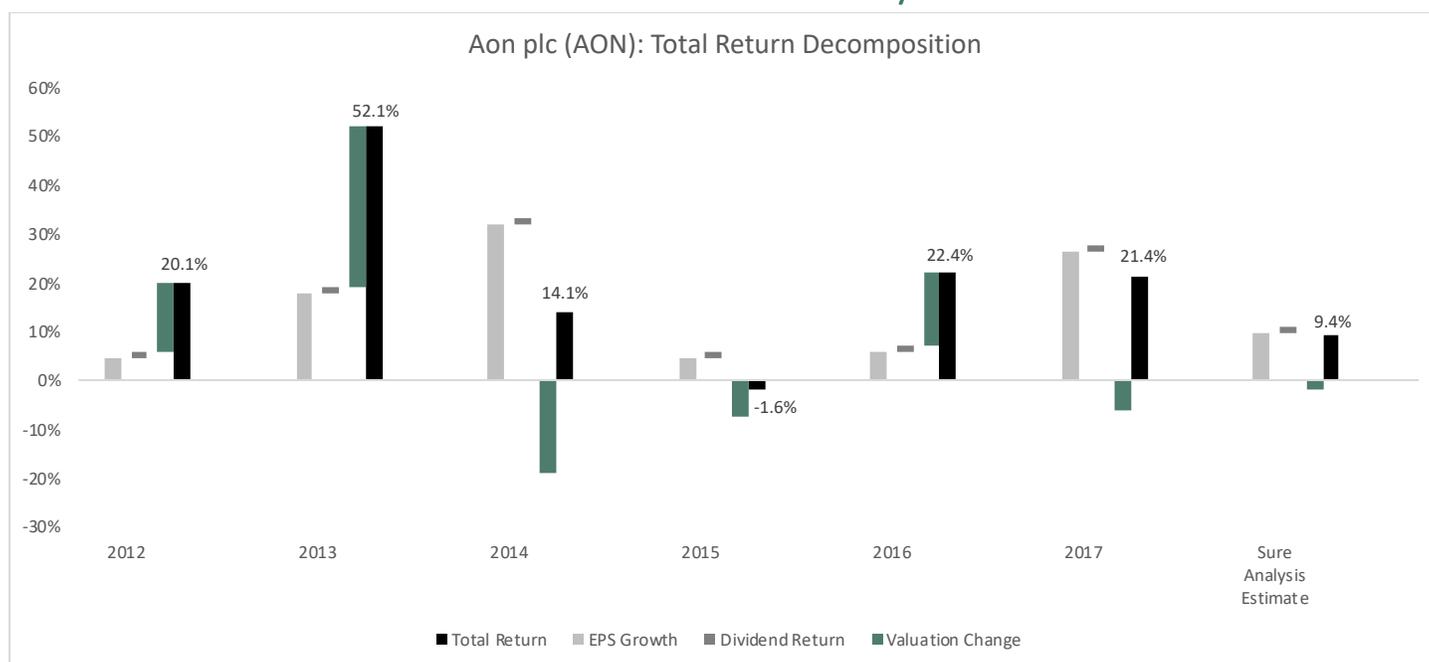
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Debt/A	76.4%	76.3%	71.3%	72.5%	74.4%	72.9%	77.7%	77.5%	79.2%	82.2%	80.0%	75.0%
Int. Cov.	31.4	10.1	7.4	7.2	7.4	8.7	8.2	6.6	6.2	3.8	5.0	6.0
Payout	29.1%	27.4%	24.4%	21.0%	20.7%	19.3%	19.7%	23.6%	25.0%	21.6%	19.4%	24.5%
Std. Dev.	30.1%	20.8%	17.8%	25.8%	14.7%	13.8%	18.6%	14.6%	13.8%	12.5%	15.0%	15.0%

Aon's quality metrics has remained remarkably consistent over time. The company does not report gross profits (which explains the omission of our typical gross profits-to-assets ratio), but its debt-to-assets, interest coverage, and payout ratio have exhibited little volatility over the last decade. At the security level, we note that Aon's stock price volatility is much lower than one might expect from a company whose revenue is derived almost entirely from financial businesses. In 2008 – the depth of the 2007-2009 financial crisis – Aon's stock price standard deviation barely exceeded the 30% level.

Final Thoughts & Recommendation

Aon's historical growth has been very impressive and points to a well-managed business that operates at the edge of the financial services industry. With that said, its valuation is slightly above our perception of fair value. While Aon's expected total returns sit nicely in the high single-digit range, the company fails to earn a buy recommendation from Sure Dividend at current prices. We instead recommend that prospective investors wait until the company's price-to-earnings ratio falls to around 17 or below.

Total Return Breakdown by Year



[Click here to rate and review this report. Your feedback is important to us.](#)

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.