Garmin Ltd. (GRMN)

Updated September 12th, 2018 by Bob Ciura

Key Metrics

Current Price:	$68	**5 Year CAGR Estimate:**	3.9%	**Volatility Percentile:**	65.5%
Fair Value Price:	$55	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	83.7%
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Valuation Percentile:**	25.0%
Dividend Yield:	3.1%	**5 Year Price Target**	$70	**Total Return Percentile:**	20.5%

Overview & Current Events

Garmin is a technology company based in Switzerland. It manufactures navigation, communication, and information devices and applications that are enabled by GPS. Its business segments are as follows: Auto, Aviation, Marine, Outdoor, and Fitness. The Auto segment offers auto navigation products for vehicles. The Aviation segment includes navigation, communications transmitters and receivers, multi-function displays, electronic flight instrumentation systems, automatic flight control systems, and traffic advisory systems. The Marine segment includes products for recreational boats. The Outdoor segment makes products for outdoor activities, while the Fitness segment makes products designed for activity tracking.

Garmin reported second-quarter financial results on August 1st. Total revenue increased 8% for the quarter, as fitness, marine, aviation and outdoor product sales collectively increased 17%, and now represent 80% of total revenue. These products helped offset a 19% sales decline for the company's automotive segment. Adjusted earnings-per-share increased 9% in the second quarter, due to revenue growth as well as a significant boost from tax reform.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$3.48	$3.50	$2.36	$2.67	$2.78	$2.73	$3.00	$2.49	$2.83	$2.94	***$3.05***	***$3.89***
DPS	$0.75	$0.75	$1.50	$2.00	$1.80	$1.80	$1.92	$2.04	$2.04	$2.04	***$2.12***	***$2.71***
Shares	200.4	200.3	194.4	194.7	195.6	195.2	191.8	189.7	188.6	188.2	***188.0***	***188.0***

Garmin has engineered a major turnaround, due to structural changes in the technology industry. Garmin rose to prominence due in large part to its automotive GPS devices. However, GPS devices for the automotive industry were rendered virtually obsolete with the advent of the smartphone. Consumers realized there was little need for an external GPS device for their cars when the mapping applications of most smartphones would suffice. As a result, Garmin has restructured itself around the aviation, marine, outdoor, and fitness markets, and has had success in those categories. We expect 5% annual earnings growth through 2023, while dividends are expected to grow at the same rate each year.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	12.1	7.4	13.6	12.6	15.1	14.6	18.1	17.4	15.7	18.0	***22.3***	***18.0***
Avg. Yld.	1.8%	2.9%	4.7%	5.9%	4.3%	4.5%	3.5%	4.7%	4.6%	3.9%	***3.1%***	***3.9%***

In the past 10 years, Garmin stock held an average price-to-earnings ratio of 14.5; on this basis, the stock looks significantly overvalued today. However, it is worth noting that the 10-year average includes a very low valuation multiple in 2009, at the depth of the Great Recession. We believe this year should be excluded, as the company will likely hold a higher valuation in most economic environments. We estimate a fair value price-to-earnings ratio of 18, which is in-line with high-quality technology companies. Still, shares of Garmin are presently overvalued. A contracting price-to-earnings ratio could reduce annual returns by 4.2% per year over the next five years.

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.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	52.9%	37.7%	33.8%	29.9%	29.8%	28.8%	34.2%	34.2%	37.1%	35.6%	***35.5%***	***35.5%***
Debt/A	24.1%	25.9%	23.5%	27.2%	26.7%	25.0%	27.5%	25.7%	24.5%	24.1%	***24.0%***	***24.0%***
Int. Cov.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	***N/A***	***N/A***
Payout	21.6%	21.4%	63.6%	74.9%	64.7%	65.9%	64.0%	81.9%	72.1%	69.4%	***69.5%***	***69.6%***
Std. Dev.	53.0%	53.0%	30.2%	17.5%	27.3%	24.1%	24.9%	17.1%	35.1%	14.3%	***14.5%***	***14.5%***

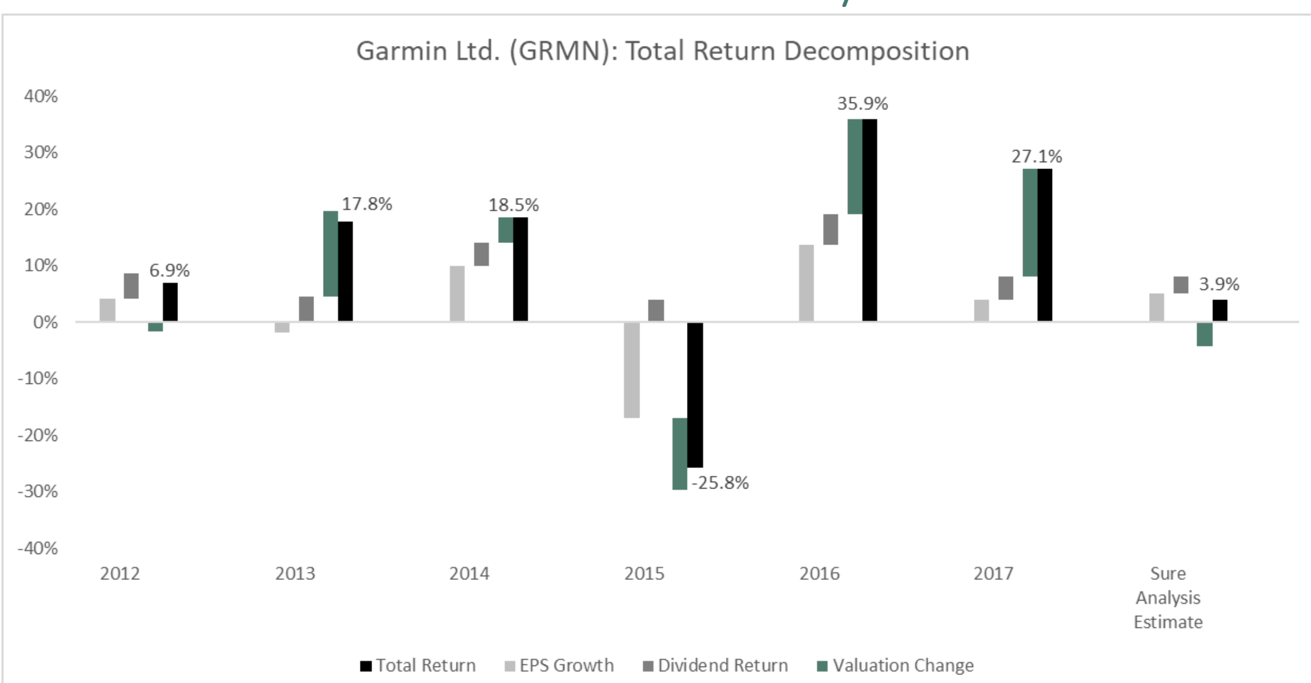
Garmin has strong marks in terms of safety and quality, due largely to its healthy financial condition. The company has a strong balance sheet, with no long-term debt. The lack of any interest-bearing debt means the interest coverage ratio cannot be computed. The dividend also appears secure, with a payout ratio under 70%.

However, Garmin does not possess many notable competitive advantages, which are hard to come by in the technology sector. Technology is a highly competitive and rapidly-changing industry. Companies that are on top can quickly lose their competitive advantages if trends change. This is what happened to Garmin, and it has been trying to catch up since smartphones displaced external navigation devices within the automotive market. We also do not believe Garmin would be highly resistant to recessions, as consumers typically reduce spending on aspirational technology products during economic downturns.

Final Thoughts & Recommendation

Garmin is a financially-healthy company with a strong balance sheet. It deserves credit for diversifying its portfolio. Still, it is unlikely Garmin will return to its former level of peak earnings power for several years, as it continues to work through the deterioration in the automotive GPS device market. Automotive sales still represent 20% of total revenue, and should continue to be a drag on Garmin's growth. Garmin stock should be viewed favorably for its dividend, but after a strong rally in 2016 and 2017 the stock appears to be overvalued. As a result, we expect annual returns of 3.9% for Garmin over the next five years, which makes the stock fairly unattractive. We recommend investors sell Garmin and invest in a technology stock with better return prospects.

Total Return Breakdown by Year



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