Autoliv, Inc. (ALV)

Updated October 29th, 2018 by Josh Arnold

Key Metrics

Current Price:	$85	**5 Year CAGR Estimate:**	12.5%	**Volatility Percentile:**	69.1%
Fair Value Price:	$92	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	37.2%
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.6%	**Growth Percentile:**	71.3%
Dividend Yield:	2.9%	**5 Year Price Target**	$135	**Valuation Percentile:**	94.4%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	94.2%

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, almost $9 billion in annual revenue and a $7 billion market capitalization. Autoliv is listed in both New York and Stockholm and is headquartered in the latter city.

Autoliv reported Q3 earnings on 10/26/18 and results were strong again from a revenue perspective. The top line rose 6.4%, driven by a huge 22% organic increase in the Americas. Airbags carried the weight as Seatbelts were essentially flat. Europe was weak, offsetting some of the strength in the Americas, and helping to send gross margins lower. Leverage in SG&A costs helped with profitability as earnings-per-share rose 11% year-over-year. We've slightly lowered our estimates for 2018 and beyond as a result of Q3, in addition to reducing our gross margin estimates.

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	***$7.65***	***$11.25***
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 earnings-per-share 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 remain 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	***11.1***	***12.0***
Avg. Yld.	3.5%	0.0%	1.9%	2.7%	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	***2.9%***	***2.2%***

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 11.1 times this year's earnings which compares favorably to our estimate of fair value at 12 times earnings. Therefore, we see a 1.6% tailwind to total returns moving forward from a slightly higher valuation. The dividend yield should decline over time as the share price outpaces growth in the payout. 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%	***19.5%***	***20.7%***
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%***	***27%***
Std. Dev.	55%	68%	30%	34%	32%	16%	19%	24%	28%	23%	***20%***	***18%***

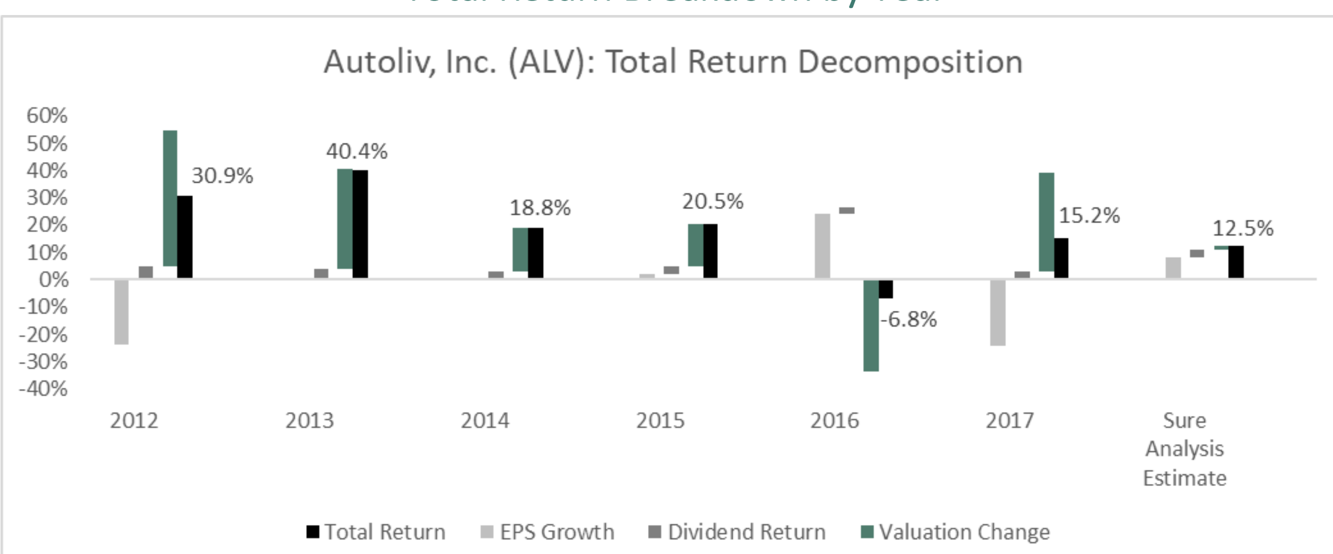
Autoliv's quality metrics have not moved much in recent years with the exception of margins, which have moved in the right direction. We see continued growth in margins, albeit on a relatively small scale, as its new products become part of the comparable base and as the company's efficiency efforts bear fruit. Q3's margin weakness is not of concern just yet as management maintains the introduction of new products is the culprit. However, investors would do well to monitor the margin situation closely as it is critical for the stock's eventual revaluation higher. 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 12.5% annual returns moving forward, consisting of the current 2.9% yield, 8% earnings-per-share growth and a 1.6% tailwind from a higher valuation. Autoliv is appropriate for just about any kind of investor and we rate it a buy as a result.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	6473.2	5120.7	7170.6	8232.4	8266.7	8803.4	9240.5	9169.6	10074	10383
Gross Profit	1124.2	847.9	1592.1	1727.9	1646.2	1704.6	1803.8	1844.1	2057	2149
Gross Margin	17.4%	16.6%	22.2%	21.0%	19.9%	19.4%	19.5%	20.1%	20.4%	20.7%
SG&A Exp.	354.3	299.8	327.2	368.7	366.7	389.9	414.9	411.5	476.1	489.7
D&A Exp.	346.9	314.3	281.7	268.3	273.2	286	305.4	319.1	383	425.8
Operating Profit	306.5	202.6	869.2	889.2	705.4	761.4	722.6	727.8	847.7	839.5
Op. Margin	4.7%	4.0%	12.1%	10.8%	8.5%	8.6%	7.8%	7.9%	8.4%	8.1%
Net Profit	164.7	10	590.6	623.4	483.1	485.8	467.8	456.8	567.1	427.1
Net Margin	2.5%	0.2%	8.2%	7.6%	5.8%	5.5%	5.1%	5.0%	5.6%	4.1%
Free Cash Flow	319.6	352.9	688	390.9	323.1	450.3	255.3	259.8	360.5	355.8
Income Tax	76.3	-7.1	210	201.3	183	244.1	198	218.2	242.2	203.5

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	5206	5186	5665	6117	6570	6983	7443	7526	8234	8550
Cash & Equivalents	489	473	588	739	978	1118	1529	1334	1227	960
Accounts Receivable	839	1053	1368	1458	1509	1688	1706	1788	1960	2157
Inventories	592	489	562	623	611	662	676	711	773	859
Goodwill & Int. Ass.	1745	1729	1722	1716	1707	1687	1661	1794	2083	1854
Total Liabilities	3032	2750	2725	2768	2794	2983	4001	4057	4308	4381
Accounts Payable	613	772	1003	1084	1056	1200	1092	1170	1197	1281
Long-Term Debt	1671	1139	725	666	633	619	1601	1539	1543	1341
Shareholder's Equity	2117	2388	2927	3333	3759	3981	3427	3456	3677	4035
D/E Ratio	0.79	0.48	0.25	0.20	0.17	0.16	0.47	0.45	0.42	0.33

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	3.1%	0.2%	10.9%	10.6%	7.6%	7.2%	6.5%	6.1%	7.2%	5.1%
Return on Equity	7.4%	0.4%	22.2%	19.9%	13.6%	12.6%	12.6%	13.3%	15.9%	11.1%
ROIC	4.3%	0.3%	16.3%	16.2%	11.5%	10.8%	9.7%	9.1%	10.8%	7.8%
Shares Out.	70	85	89	89	96	94	89	88	88	87
Revenue/Share	89.78	60.60	77.60	87.86	86.93	91.80	100.01	103.73	113.95	118.39
FCF/Share	4.43	4.18	7.45	4.17	3.40	4.70	2.76	2.94	4.08	4.06

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.