Johnson Controls Int'l PLC (JCI)

Updated November 15th, 2018 by Eli Inkrot

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	13.7%	**Volatility Percentile:**	57.3%
Fair Value Price:	$42	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	33.8%
% Fair Value:	80%	**5 Year Valuation Multiple Estimate:**	4.6%	**Growth Percentile:**	48.0%
Dividend Yield:	3.1%	**5 Year Price Target**	$56	**Valuation Percentile:**	85.1%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	80.9%

Overview & Current Events

Johnson Controls is an industrial company that had operated (more on that below) in the following two industries: Buildings (cooling, heating, ventilation, security) and Energy (storage solutions, batteries). Johnson Control is headquartered in Ireland after its merger with Tyco in 2016. The company is currently valued at $31 billion and was originally founded in 1885.

On November 8th, 2018 Johnson Controls announced fourth quarter fiscal 2018 earnings (ending September 30th). For the quarter sales increased from $8.1 billion to $8.4 billion and earnings-per-share rose from $0.87 to $0.93 as compared to the year-ago periods. For the year the top line came in at $31.4 billion, a 4.2% increase, and earnings-per-share grew to $2.83, representing an 8.8% increase and $0.03 above our expectation. The company also said that it expected to generate between $2.90 and $3.05 in adjusted earnings for fiscal year 2019.

On November 13th, Johnson Controls announced an agreement to sell its Power Solutions business for $13.2 billion. Net cash proceeds will total $11.4 billion after tax and transaction-related expenses. The transaction is expected to close by June 30th, 2019 and $3.0 to $3.5 billion of the proceeds will be used to pay down debt, with the remaining proceeds available to return to shareholders. The Power business made up about a fourth of Johnson Control's business and this sale now makes the company a "pure play" buildings technologies and solutions provider.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.47	$2.00	$2.42	$2.54	$2.66	$3.19	$3.42	$3.98	$2.60	$2.83	***$2.97***	***$4.00***
DPS	$0.52	$0.55	$0.64	$0.72	$0.76	$0.88	$1.04	$1.16	$1.00	$1.04	***$1.08***	***$1.60***
Shares	669	674	680	682	685	666	647	936	928	932	***930***	***930***

From 2010 through 2016, Johnson Controls grew earnings-per-share by 12.2% per annum. However, the Johnson Controls of today looks very different from the Johnson Controls of 5 years ago due to the Tyco merger and automotive business spinoff, which is now publicly traded as Adient (ADNT). The 2016 merger with Tyco relocated Johnson Controls to Ireland for tax purposes. Yet Tax legislation changes in the US meant that the benefit of that move has evaporated and Johnson Controls was left with the integration costs of the merger. Moreover, the company continues to evolve with its recent sale of the Power business.

Moving forward we believe the Building Solutions segment ought to do well, but keep in mind that the business results could be increasingly volatile, as the company has become more and more concentrated.

After the sale of the Power business, Johnson Controls will have ~$7.9 billion to deploy after taxes, transaction expenses and debt payments are taken out. Some of this will be reinvested into the business, but a good portion could be returned to shareholders. The company has stated that they will provide more insight on what this might look like – faster dividend increases, special dividends or share repurchases – as the transaction comes closer. For now we have not modeled a significant increase in any of these areas, but we would not be surprised if one or all of them come to fruition.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	40.0	14.5	15.4	11.9	12.7	15.0	13.9	10.5	16.2	12.4	***11.2***	***14.0***
Avg. Yld.	2.8%	1.9%	1.7%	2.4%	2.2%	1.8%	2.2%	2.8%	2.4%	3.0%	***3.2%***	***2.9%***

The historical P/E and dividend yield is interesting to look at but not necessarily telling given how different the company is today versus a few years ago. Regardless, the security looks compelling with a below average P/E ratio, above average dividend yield and the propensity for earnings growth ahead – a trifecta of positive attributes. Moreover, the recent cash infusion from the Power business sale ought to bode well for future shareholder returns, whether this takes form as increased common dividends, a one-time special dividend or substantial share repurchases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

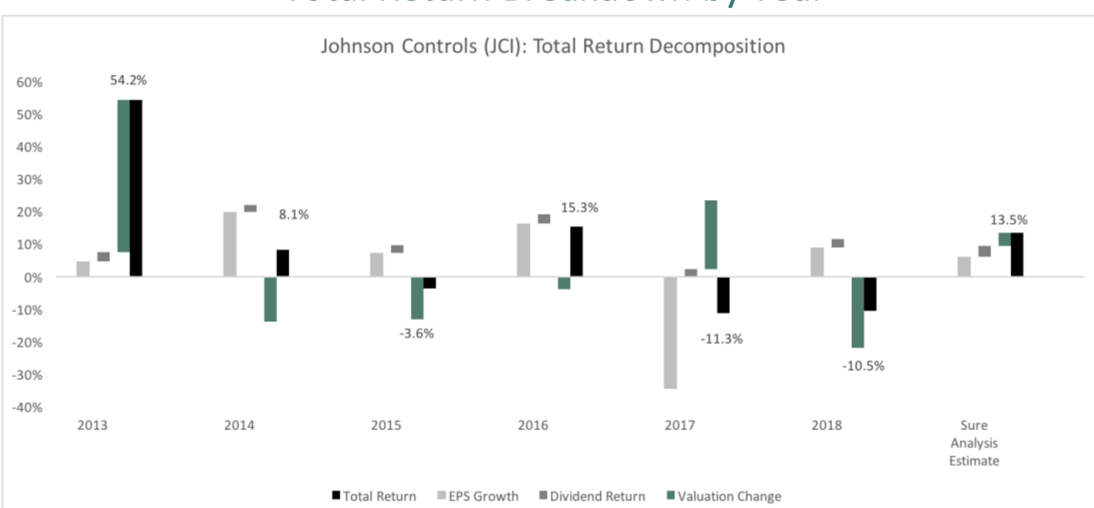
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2024
GP/A	22.0%	14.5%	20.2%	20.5%	18.7%	19.4%	19.2%	15.2%	9.0%	17.9%	***19.2%***	***20.0%***
Liabil./A	61.2%	61.0%	59.9%	61.3%	61.9%	59.7%	64.0%	63.9%	60.0%	58.4%	***54.0%***	***50.0%***
Int. Cov.	6.1	-	9.9	9.5	6.7	8.2	8.9	4.4	4.7	6.1	***7.4***	***8.0***
Payout	22.3%	111%	27.0%	26.4%	28.3%	28.6%	27.6%	30.4%	29.1%	38.5%	36.7%	***40.0%***
Std. Dev.	48.5%	33.2%	19.3%	26.5%	19.4%	13.3%	15.4%	15.2%	21.7%	19.1%	***18.0%***	***18.0%***

Johnson Controls is one of the key players in the Buildings segment, where it provides products and services for heating, ventilation, cooling and security systems. The company's sales network and expertise are hard to replicate for new entrants. Moreover, the sale of the Power business ought to lead to exceptional financial flexibility, not to mention an increased focus on secular growth trends, lower capital intensity and continued margin expansion.

Final Thoughts & Recommendation

Johnson Controls business continues to transform, with the newest iteration being a "pure play" Buildings Solution company. There are four factors that offer potential tailwinds: a below average earnings multiple, an above average dividend yield, the potential for growth and a new cash infusion from the Power business sale. We rate Johnson Controls a buy at current prices, noting that recession performance is likely to be poor.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	28497	34305	40833	40604	37145	38749	17100	20837	30172	31400
Gross Profit	3549	5221	6059	5837	6146	6305	4531	5654	9339	9380
Gross Margin	12.5%	15.2%	14.8%	14.4%	16.5%	16.3%	26.5%	27.1%	31.0%	29.9%
SG&A Exp.	3210	3796	4393	4311	3627	4216	3191	4190	6158	6010
D&A Exp.	745	691	731	824	952	955	860	953	1188	1085
Operating Profit	339	1425	1666	1526	2519	2089	1340	1464	3181	3370
Op. Margin	1.2%	4.2%	4.1%	3.8%	6.8%	5.4%	7.8%	7.0%	10.5%	10.7%
Net Profit	-338	1307	1415	1184	1178	1215	1563	-868	1611	2162
Net Margin	-1.2%	3.8%	3.5%	2.9%	3.2%	3.1%	9.1%	-4.2%	5.3%	6.9%
Free Cash Flow	270	661	-249	-272	1309	1196	465	646	-1331	1483
Income Tax	32	127	258	161	674	407	71	197	705	518

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	24088	25743	29676	30954	31518	32804	29622	63179	51884	48797
Cash & Equivalents	761	560	257	265	1055	409	597	579	321	200
Acc. Receivable	5528	6095	7151	7308	7206	5871	5751	6394	6666	7065
Inventories	1521	1786	2316	2343	2325	2477	2377	2888	3209	3224
Goodwill & Int.	7288	7242	7961	7929	7588	8766	8340	28564	26429	25821
Total Liabilities	14749	15370	18496	19181	18944	21242	19124	38089	30517	26339
Accounts Payable	4434	5426	6159	6114	6318	5270	5174	4000	4271	5790
Long-Term Debt	3966	3389	5146	6068	5498	6680	6610	12759	13572	10995
Total Equity	9100	10071	11042	11625	12314	11311	10335	24118	20447	21164
D/E Ratio	0.44	0.34	0.47	0.52	0.45	0.59	0.64	0.53	0.66	0.52

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	-1.4%	5.2%	5.1%	3.9%	3.8%	3.8%	5.0%	-1.9%	2.8%	4.3%
Return on Equity	-3.6%	13.6%	13.4%	10.4%	9.8%	10.3%	14.4%	-5.0%	7.2%	10.4%
ROIC	-2.5%	9.7%	9.4%	6.9%	6.6%	6.7%	8.8%	-3.2%	4.4%	6.3%
Shares Out.	669	674	680	682	685	666	647	936	928	932
Revenue/Share	47.87	50.26	59.19	58.97	53.90	57.42	25.85	30.98	31.94	33.70
FCF/Share	0.45	0.97	-0.36	-0.40	1.90	1.77	0.70	0.96	-1.41	1.59

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