Rockwell Automation (ROK)

Updated November 11th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$169	**5 Year CAGR Estimate:**	7.8%	**Volatility Percentile:**	45.4%
Fair Value Price:	$163	**5 Year Growth Estimate:**	6.3%	**Momentum Percentile:**	24.1%
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Growth Percentile:**	56.7%
Dividend Yield:	2.3%	**5 Year Price Target**	$221	**Valuation Percentile:**	47.0%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	41.0%

Overview & Current Events

Rockwell Automation is an industrial company that is active in the industrial automation and information segments. Its business units include Architecture & Software as well as Control Products & Solutions. The company was founded in 1928, is headquartered in Milwaukee, WI, and is currently trading with a market capitalization of $21 billion.

Rockwell Automation reported its fourth quarter earnings results, as well as fiscal 2018 earnings results, on November 7. The company generated revenues of $1.73 billion during the fourth quarter, an increase of 3.6% compared to the prior year's quarter. Rockwell Automation's earnings-per-share rose to $2.11, an increase of 25% year over year. Rockwell Automation's organic net sales rose by 7.3% year over year, significantly faster than reported net sales, with currency headwinds and divestitures explaining the difference. During fiscal 2018 Rockwell Automation generated earnings-per-share of $8.11, an increase of 28% year over year. Rockwell Automation guides towards earnings-per-share of $8.85 to $9.25 for fiscal 2019, which implies an earnings-per-share growth rate of 11.6% during 2019. Rockwell Automation announced a quarterly dividend of $0.97 per share during November, a 5.4% increase year over year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.82	$3.05	$4.79	$5.13	$5.36	$5.91	$6.09	$5.56	$6.35	$8.11	***$9.05***	***$12.28***
DPS	$1.16	$1.22	$1.48	$1.75	$1.98	$2.32	$2.60	$2.90	$3.04	$3.68	***$3.88***	***$5.18***
Shares	142	142	142	140	139	137	132	129	128	122	***120***	***110***

Between 2007 and 2018 Rockwell Automation grew its earnings-per-share by 7.9% annually. Profits declined substantially during the financial crisis, though, between 2008 and 2009 EPS were cut in half.

Rockwell Automation's strong earnings growth during fiscal 2018 was due to fundamental improvements. Higher sales, margin increases, and a decline in the company's share count explain how the company was able to grow its earnings-per-share by 28% during the last four quarters. Rockwell Automation's sales performance is looking good across its business units as well as across the geographic markets the company targets.

Rockwell Automation sees tailwinds going forward from its China business, where orders have grown by double digits recently, as well as from other emerging markets such as Brazil and Mexico in Latin America. Rockwell Automation's customers include oil and gas companies, which benefit from the increase in the price of oil over the last year. Margin expansion has been a key factor for higher profits in the recent past as well. Rockwell Automation should be able to continue to expand its margins through better economics of scale and fixed cost digression.

Rockwell Automation's dividend has grown by a bit above 11% annually since 2008, even though there was no dividend raise in 2009. Going forward dividend growth will likely slow down a bit and be more in line with the EPS growth rate.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	17.0	16.9	15.8	14.3	16.2	19.9	18.7	19.7	23.6	23.4	***18.7***	***18.0***
Avg. Yld.	3.7%	2.4%	1.9%	2.4%	2.3%	2.0%	2.3%	2.7%	2.0%	2.1%	***2.3%***	***2.4%***

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Rockwell Automation's valuation has declined substantially from the level shares have traded at over the last two years, due to a combination of higher profits and a declining share price. Rockwell Automation's stock still trades slightly above our fair value estimate, though, but multiple compression will not be a major headwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
GP/A	36.5%	40.8%	45.2%	44.8%	44.0%	44.2%	42.2%	34.9%	36.6%	45.9%	***45.0%***	***45.0%***
Debt/A	69.4%	69.2%	66.9%	67.1%	55.8%	57.3%	64.8%	72.0%	62.8%	74.2%	***75.0%***	***75.0%***
Int. Cov.	5.5	10.9	17.3	19.6	20.4	24.0	22.5	17.3	19.7	19.2	***19.0***	***18.0***
Payout	63.7%	40.0%	30.9%	34.1%	36.9%	39.3%	42.7%	52.2%	47.9%	45.4%	***42.9%***	***42.2%***
Std. Dev.	57.2%	27.9%	44.6%	24.9%	17.6%	18.9%	20.0%	20.9%	13.5%	23.0%	***20.0%***	***20.0%***

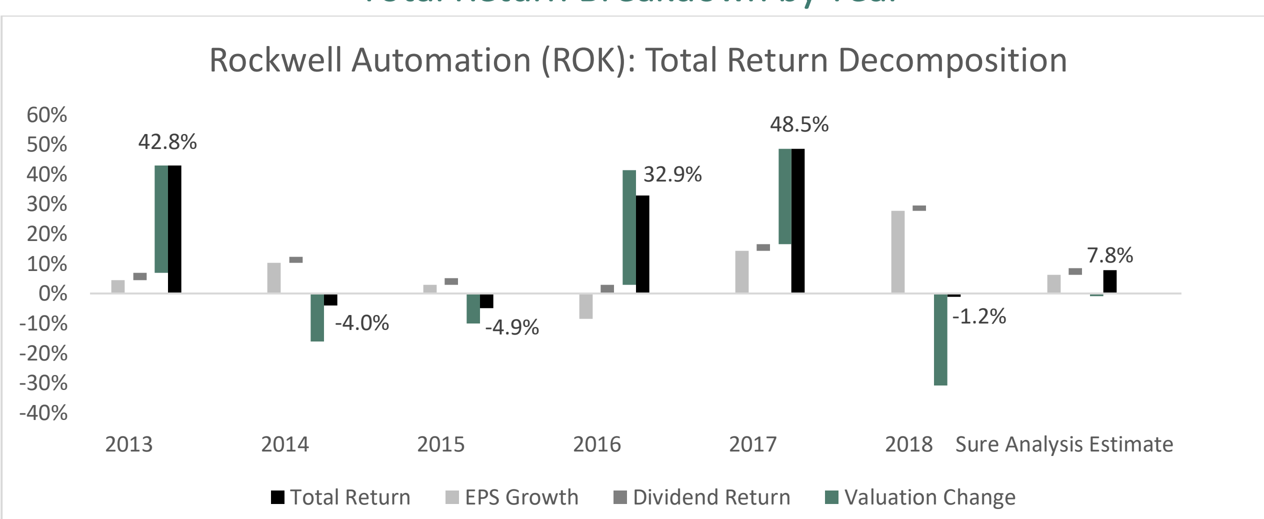
Rockwell Automation has a relatively strong balance sheet, despite the fact that the company's liabilities to assets ratio is relatively high. Cash totaled $900 million at the end of FY 2018, whereas long-term debt totaled $1.2 billion, for a net debt position of just $300 million. The majority of liabilities consists of items such as accounts payable. Rockwell Automation's interest coverage ratio is very strong. Rising rates will not be a relevant headwind moving forward.

Rockwell Automation has seen its profitability decline substantially through the last financial crisis. Earnings-per-share dropped by more than 50% from 2008 to 2009. The company remained profitable, though, and was not forced to cut its dividend, despite the fact that the financial crisis was an especially harsh recession. During a more benign economic downturn Rockwell Automation would be less impacted. Rockwell Automation is well positioned internationally. It produces roughly half of its sales outside of the US. Rockwell Automation's strong position in the higher-growth emerging markets allows for compelling revenue growth opportunities.

Final Thoughts & Recommendation

Rockwell Automation is a high-quality industrial company that has a solid long-term track record of earnings-per-share growth and dividend growth. The company is not immune to economic downturns, but Rockwell Automation was able to remain profitable during the last financial crisis, and the company did not cut its dividend. Rockwell Automation's valuation has come down considerably over the last couple of months, and the total return outlook is solid. Shares still trade slightly above fair value, though, which is why we rate shares a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	4333	4857	6000	6259	6352	6624	6308	5880	6311	6666
Gross Profit	1570	1936	2390	2523	2574	2754	2703	2476	2624	2872
Gross Margin	36.2%	39.9%	39.8%	40.3%	40.5%	41.6%	42.9%	42.1%	41.6%	43.1%
SG&A Exp.	1228	1323	1461	1492	1538	1570	1506	1467	1592	1599
D&A Exp.	134	127	131	139	145	153	163	172	169	165
Operating Profit	342	613	929	1031	1036	1184	1197	1008	1033	1273
Operating Margin	7.9%	12.6%	15.5%	16.5%	16.3%	17.9%	19.0%	17.1%	16.4%	19.1%
Net Profit	221	464	698	737	756	827	828	730	826	536
Net Margin	5.1%	9.6%	11.6%	11.8%	11.9%	12.5%	13.1%	12.4%	13.1%	8.0%
Free Cash Flow	428	395	524	579	869	892	1065	830	892	1175
Income Tax	56	104	171	229	225	307	300	213	212	795

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	4306	4748	5285	5637	5845	6224	6405	7101	7162	6262
Cash & Equivalents	644	813	989	904	1201	1191	1427	1526	1411	619
Accounts Receivable	N/A	N/A	1063	1187	1186	1216	1041	1079	1136	1190
Inventories	436	603	642	619	615	588	536	527	559	582
Goodwill & Int. Ass.	1144	1130	1171	1158	1236	1297	1258	1329	1316	1291
Total Liabilities	2989	3288	3537	3785	3259	3566	4148	5111	4498	4645
Accounts Payable	313	436	609	716	722	705	694	720	812	920
Long-Term Debt	905	905	905	1062	1084	1225	1501	1965	1844	1776
Shareholder's Equity	1316	1460	1748	1852	2586	2658	2257	1990	2664	1618
D/E Ratio	0.69	0.62	0.52	0.57	0.42	0.46	0.67	0.99	0.69	1.10

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	5.0%	10.3%	13.9%	13.5%	13.2%	13.7%	13.1%	10.8%	11.6%	8.0%
Return on Equity	14.7%	33.4%	43.5%	40.9%	34.1%	31.5%	33.7%	34.4%	35.5%	25.0%
ROIC	9.0%	20.2%	27.8%	26.5%	23.0%	21.9%	21.7%	18.9%	19.5%	13.6%
Shares Out.	142	142	142	140	139	137	132	129	128	122
Revenue/Share	30.42	33.73	41.33	43.65	45.08	47.41	46.48	44.85	48.59	52.53
FCF/Share	3.00	2.74	3.61	4.04	6.16	6.39	7.85	6.33	6.87	9.26

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