Autoliv, Inc. (ALV)

Updated February 8th, 2019 by Josh Arnold

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	10.5%	**Volatility Percentile:**	95.2%
Fair Value Price:	$84	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	1.2%
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.2%	**Growth Percentile:**	33.5%
Dividend Yield:	3.3%	**5 Year Price Target**	$107	**Valuation Percentile:**	70.8%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	59.8%

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, $9 billion in annual revenue and a $6.6 billion market capitalization. Autoliv is listed in both New York and Stockholm and is headquartered in the latter city.

Autoliv reported Q4 earnings on 1/29/19 and results missed expectations on both the top and bottom lines. Total sales were up 1.6% on a reported basis and 4.2% organically, thanks to a 19% gain in the Americas regions. Currency translation losses of 2.6% were the difference between the reported and organic number. Weakness in Europe and China were more than offset by strength in North America, South Korea and Japan during the fourth quarter. Light vehicle production declines are a significant headwind for Autoliv, but the company has been able to outperform its respective benchmarks in all of its reporting regions, Europe excluded.

The company's products are present in a wide variety of new vehicles that launched during the quarter, including some high-volume sedans and SUVs. Autoliv continues to possess an enviable order book, and its order rates are often in excess of market benchmarks. Particular strength continues to be seen in the airbags and other segment, offsetting weakness from the seatbelts line of business.

Operating margins fell 90bps in Q4 as raw material costs continue to weigh on Autoliv's results. This meaningfully crimped profitability and as a result, adjusted earnings-per-share fell 38% year-over-year to $1.42.

Guidance for 2019 was a bit underwhelming as the company expects just $8.5 billion in revenue, which is well off of consensus at $9+ billion, and operating margins are expected to be flat at 10.5%. Given this, we're adjusting our 2019 estimate for earnings-per-share down to $7. We believe management is being a bit too conservative given light vehicle production rates, its own ability to save on operating costs and the number of new products and orders it possesses. However, the outlook is not as bright for Autoliv as it was in recent quarters.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.25	$6.39	$6.65	$5.08	$5.07	$5.06	$5.17	$6.42	$4.87	$6.83	***$7.00***	***$8.93***
DPS	$0.00	$1.05	$1.78	$1.89	$2.00	$2.12	$2.22	$2.30	$2.38	$2.46	***$2.48***	***$3.20***
Shares	85	89	89	96	94	89	88	88	87	87	***87***	***86***

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. After Q4 results and the 2019 outlook, however, we've revised our long-term earnings growth estimate down to 5% annually.

Autoliv is performing well against benchmarks, but the benchmarks are declining. The rate of global light vehicle production was down about 5% year-over-year in Q4, which is a significant headwind for Autoliv. It does have a strong history of achieving cost savings but the revenue headwinds for the near term are significant. We don't believe 2019 will be quite as dire as forecast, but some caution is certainly warranted, so we've become more conservative.

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.

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 $3.20 per share in the coming years from the current $2.48.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	23.0	8.9	9.9	12.0	15.6	19.6	22.2	17.1	23.1	14.1	***10.8***	***12.0***
Avg. Yld.	0.0%	1.9%	2.7%	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	***3.3%***	***3.0%***

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 10.8 times this year's earnings, which compares favorably to our estimate of fair value at 12 times earnings. Therefore, we see a 2.2% 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 at 2.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	14%	10%	25%	37%	39%	42%	43%	36%	49%	36%	***35%***	***36%***

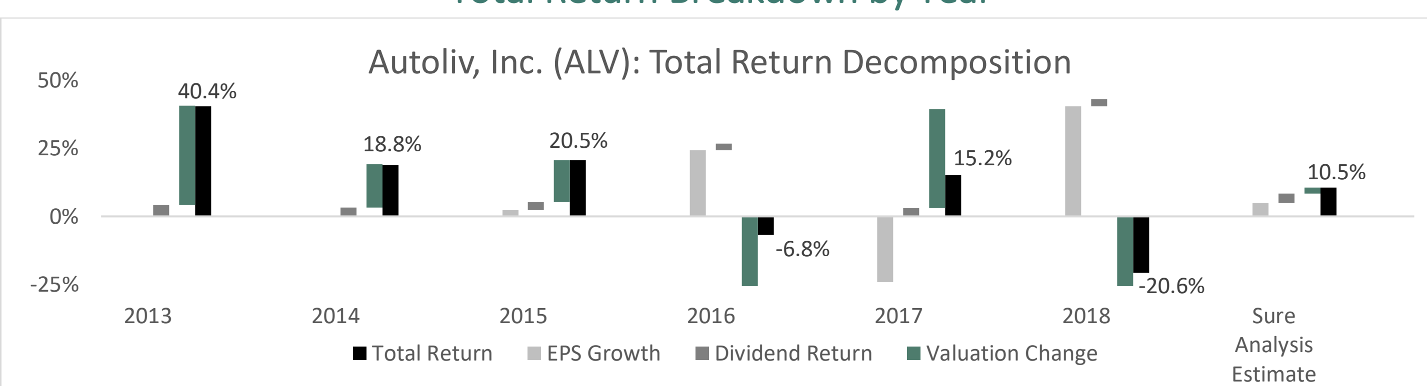
Autoliv's payout ratio is just over one-third of earnings, and we do not see that changing in the near future. Management is more concerned with financing future growth, but the yield is high enough that boosting the payout ratio seems unnecessary at this point. Autoliv's dividend yield is the highest it has ever been thanks to the flagging share price and rising payout.

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. Autoliv continues to get multiple products in major vehicle launches across the world, reaffirming its strong market position.

Final Thoughts & Recommendation

While we still think Autoliv is a strong performer relative to its competitors, the fact remains that the industry it serves is in a slowdown. That said, the stock is cheap and the yield is strong, so we still find the stock attractive for certain investors. We see Autoliv producing 10.5% annual returns moving forward, consisting of the current 3.3% yield, 5% earnings-per-share growth and a 2.2% tailwind from a higher valuation. We're downgrading Autoliv to a hold from buy given the increased risks it is facing in 2019, despite double-digit forecast total returns.

Total Return Breakdown by Year



Click here to rate and review this research 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.

Autoliv, Inc. (ALV)

Updated February 8th, 2019 by Josh Arnold

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	5121	7171	8232	8267	8803	9241	9170	10074	10383	8678
Gross Profit	848	1592	1728	1646	1705	1804	1844	2057	2149	1711
Gross Margin	16.6%	22.2%	21.0%	19.9%	19.4%	19.5%	20.1%	20.4%	20.7%	19.7%
SG&A Exp.	300	327	369	367	390	415	412	476	490	390
D&A Exp.	314	282	268	273	286	305	319	383	426	397
Operating Profit	203	869	889	705	761	723	728	848	840	686
Operating Margin	4.0%	12.1%	10.8%	8.5%	8.6%	7.8%	7.9%	8.4%	8.1%	7.9%
Net Profit	10	591	623	483	486	468	457	567	427	190
Net Margin	0.2%	8.2%	7.6%	5.8%	5.5%	5.1%	5.0%	5.6%	4.1%	2.2%
Free Cash Flow	353	688	391	323	450	255	260	361	356	36
Income Tax	-7	210	201	183	244	198	218	242	204	235

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	5186	5665	6117	6570	6983	7443	7526	8234	8550	6722
Cash & Equivalents	473	588	739	978	1118	1529	1334	1227	960	616
Accounts Receivable	1053	1368	1458	1509	1688	1706	1788	1960	2157	1667
Inventories	489	562	623	611	662	676	711	773	859	758
Goodwill & Int. Ass.	1729	1722	1716	1707	1687	1661	1794	2083	1854	1423
Total Liabilities	2750	2725	2768	2794	2983	4001	4057	4308	4381	4825
Accounts Payable	772	1003	1084	1056	1200	1092	1170	1197	1281	1029
Long-Term Debt	1139	725	666	633	619	1601	1539	1543	1341	2230
Shareholder's Equity	2388	2927	3333	3759	3981	3427	3456	3677	4035	1884
D/E Ratio	0.48	0.25	0.20	0.17	0.16	0.47	0.45	0.42	0.33	1.18

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	0.2%	10.9%	10.6%	7.6%	7.2%	6.5%	6.1%	7.2%	5.1%	2.5%
Return on Equity	0.4%	22.2%	19.9%	13.6%	12.6%	12.6%	13.3%	15.9%	11.1%	6.4%
ROIC	0.3%	16.3%	16.2%	11.5%	10.8%	9.7%	9.1%	10.8%	7.8%	4.0%
Shares Out.	85	89	89	96	94	89	88	88	87	87
Revenue/Share	60.60	77.60	87.86	86.93	91.80	100.01	103.73	113.95	118.39	98.95
FCF/Share	4.18	7.45	4.17	3.40	4.70	2.76	2.94	4.08	4.06	0.41

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