ABB Ltd. (ABB)

Updated October 26th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$20	**5 Year CAGR Estimate:**	13.3%	**Volatility Percentile:**	XX.X%
Fair Value Price:	$21	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	XX.X%
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Growth Percentile:**	XX.X%
Dividend Yield:	4.0%	**5 Year Price Target**	$31	**Valuation Percentile:**	XX.X%
Dividend Risk Score:	X	**Retirement Suitability Score:**	X	**Total Return Percentile:**	XX.X%

Overview & Current Events

ABB is a global provider of automation technologies and power solutions. The company operates in more than 100 countries and has four business units: Power Grids, Electrification Products, Robotics & Motion, and Industrial Automation. ABB is incorporated in Switzerland, but domestic investors can initiate an ownership stake in the company through American Depository Receipts that trade with a market capitalization of US$42 billion under the ticker ABB on the New York Stock Exchange.

ABB reported financial results for the third quarter of fiscal 2018 yesterday. In the quarter, the company grew its orders by 9% and its revenues by 3% thanks to sustained growth in Robotics and Motion and positive momentum in Electrification Products and Industrial Automation. Total orders increased in all divisions and regions compared to a year ago. They increased 15% in Europe and 9% in America. Service orders, which comprise 18% of total orders, increased 8%. The net income and the earnings-per-share increased 6% over last year.

During the quarter, ABB received a large order to supply high-voltage, direct-current converter stations, which will transmit renewable energy from Kyrgyz Republic and Tajikistan to Pakistan. Overall, management maintains its positive growth outlook thanks to favorable macro signs in Europe, China and the U.S.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.37	$1.26	$1.11	$1.38	$1.18	$1.23	$1.13	$0.87	$0.88	$1.03	***$1.33***	***$1.95***
DPS	$0.47	$0.45	$0.49	$0.68	$0.71	$0.72	$0.77	$0.75	$0.75	$0.76	***$0.80***	***$1.20***
Shares	2282.7	2289.4	2283.5	2290.4	2295.9	2300.6	2314.7	2191.6	2138.7	2138.6	***2140.0***	***2150.0***

ABB's per-share growth in net income over the last decade has been far from compelling. With that said, ABB has a number of current growth opportunities that lead us to believe its future performance will be stronger than its historical track record. Thanks to its strong Q3 results, we now expect earnings-per-share of $1.33 for this year. Moreover, we maintain our forecast for 8% annual earnings-per-share growth over the next five years, though this estimate has some uncertainty due to the high sensitivity of ABB to the underlying macro conditions and its volatile performance record.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.9	13.1	18.0	16.1	15.9	18.6	20.8	23.1	22.9	23.5	***15.0***	***16.0***
Avg. Yld.	2.0%	2.7%	2.5%	3.1%	3.8%	3.1%	3.3%	3.7%	3.7%	3.1%	***4.0%***	***3.9%***

ABB has traded at an average price-to-earnings ratio of 18.9 over the last decade. With that said, this sample includes several years (2014-2017) where the stock was objectively overvalued. We believe that fair value for a company of ABB's caliber lies somewhere around 16 times earnings. In our last research report, in September, we noted that ABB was trading at a rich valuation. Since then, the stock has incurred a sharp correction due to the broad correction in European stock markets. As a result, the stock is now trading at a more reasonable P/E ratio of 15.0. If the P/E ratio of the stock

ABB Ltd. (ABB)

Updated October 26th, 2018 by Aristofanis Papadatos

approaches our estimated fair value of 16.0 over the next five years, the stock will enjoy a 1.3% annualized gain thanks to P/E expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	33.1%	26.9%	26.3%	28.8%	23.2%	25.0%	25.0%	24.5%	24.9%	23.7%	***24.0%***	***24.0%***
Debt/A	64.3%	58.3%	57.4%	58.8%	64.4%	60.0%	62.5%	63.8%	64.6%	64.5%	***67.0%***	***65.0%***
Int. Cov.	143	708	50.2	40.7	18.8	13.9	15.1	15.0	16.3	17.3	***15.0***	***15.0***
Payout	34.3%	35.7%	44.1%	49.3%	60.2%	58.5%	68.1%	86.2%	85.2%	73.8%	***60.2%***	***61.5%***
Std. Dev.	57.8%	37.6%	35.2%	31.2%	28.0%	13.9%	15.7%	18.3%	20.6%	17.1%	***22.0%***	***22.0%***

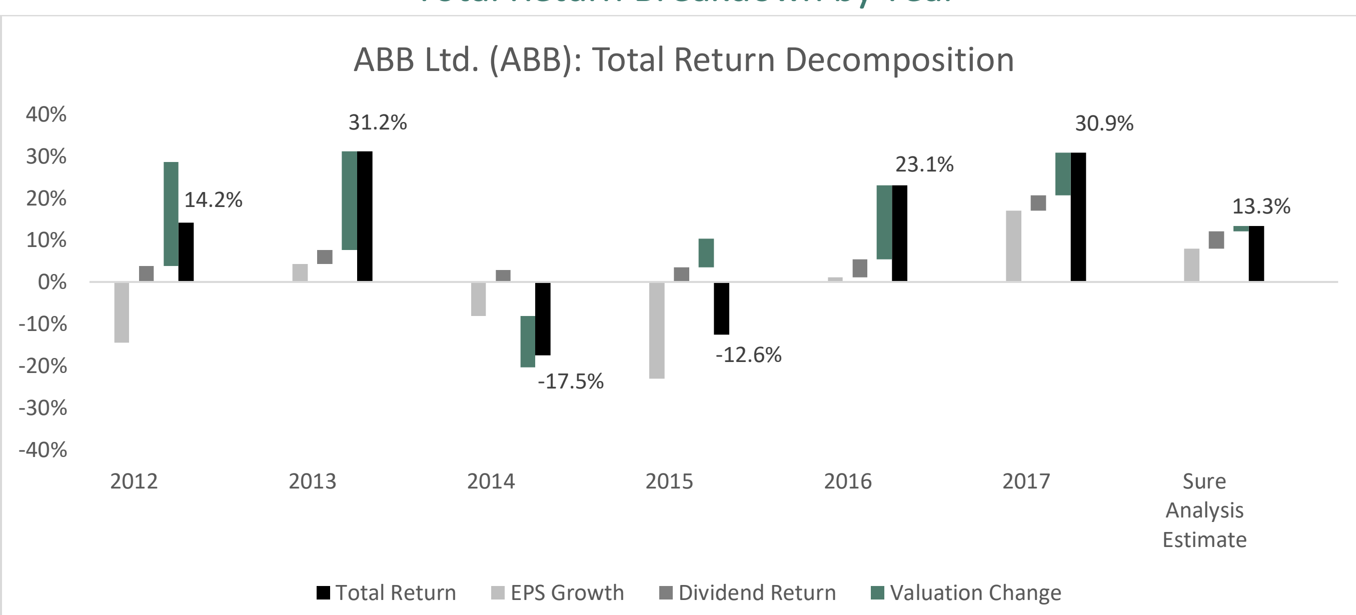
Several of ABB's quality metrics have declined over time. More specifically, the last decade has seen a decrease in its gross profits to total assets, an increase in its dividend payout ratio, and a decline in its interest coverage. We note that each of these quality metrics is still well within our acceptable range – particularly its interest coverage ratio, which is higher than many of ABB's peers in the industrial sector.

As the performance of ABB is greatly affected by the underlying economic growth, the stock tends to underperform the market during sell-offs. Consequently, only investors who can tolerate significant pressure on the stock price may consider purchasing this stock.

Final Thoughts & Recommendation

ABB has many appealing characteristics. It is a global business with leadership in many segments of the industrial sector. The company's recent acquisitions as well as its edge in electric vehicle infrastructure should propel its growth for the foreseeable future. Thanks to its sharp recent correction, ABB has become fairly valued and thus it can now offer a 13.3% average annual return over the next five years, in the absence of a recession. Therefore, ABB earns a buy recommendation. On the other hand, due to its cyclical nature, this is not a buy-and-hold stock. As soon as the stock offers an exceptional return, investors should take the profit, particularly if they are afraid of an imminent recession.

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.

ABB Ltd. (ABB)

Updated October 26th, 2018 by Aristofanis Papadatos

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	34912	31795	31589	37990	39336	41848	39830	35481	33828	34312
Gross Profit	10940	9325	9529	11434	11378	11992	11215	10134	9747	10266
Gross Margin	31.3%	29.3%	30.2%	30.1%	28.9%	28.7%	28.2%	28.6%	28.8%	29.9%
SG&A Exp.	5822	4491	4615	5373	5756	6094	6067	5574	5349	5607
D&A Exp.	661	655	702	995	1182	1318	1305	1160	1135	1101
Operating Profit	4552	4126	3832	4690	4158	4428	3649	3154	3098	3294
Op. Margin	13.0%	13.0%	12.1%	12.3%	10.6%	10.6%	9.2%	8.9%	9.2%	9.6%
Net Profit	3118	2901	2561	3168	2704	2787	2594	1933	1899	2213
Net Margin	8.9%	9.1%	8.1%	8.3%	6.9%	6.7%	6.5%	5.4%	5.6%	6.4%
Free Cash Flow	2787	3060	3357	2591	2486	2547	2819	2942	3012	2850
Income Tax	1119	1001	1018	1244	1030	1122	1202	788	781	860

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	33011	34728	36295	39648	49070	48064	44852	41356	39202	43262
Cash & Equivalents	6399	7119	5897	4819	6875	6021	5443	4565	3644	4526
Acc. Receivable	N/A	N/A	N/A	7750	8233	8360	7715	7197	7293	7883
Inventories	5306	4550	4878	5484	5936	5758	5123	4569	4198	4905
Goodwill & Int.	3228	3469	4786	9522	13727	13967	12755	12008	11497	13821
Total Liabilities	21241	20255	20837	23312	31624	28856	28037	26368	25305	27913
Accounts Payable	5743	3853	4555	4789	4992	5112	4765	4342	4446	5419
Long-Term Debt	2363	2333	2182	3996	10071	8023	7665	7439	6803	7447
Total Equity	11158	13790	14885	15777	16906	18678	16269	14481	13395	14819
D/E Ratio	0.21	0.17	0.15	0.25	0.60	0.43	0.47	0.51	0.51	0.50

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	9.7%	8.6%	7.2%	8.3%	6.1%	5.7%	5.6%	4.5%	4.7%	5.4%
Return on Equity	28.2%	23.3%	17.9%	20.7%	16.5%	15.7%	14.8%	12.6%	13.6%	15.7%
ROIC	22.0%	18.8%	14.9%	16.7%	11.3%	10.2%	10.0%	8.2%	8.8%	10.2%
Revenue/Share	15.21	13.90	13.79	16.59	17.14	18.16	17.36	15.91	15.70	15.97
FCF/Share	1.21	1.34	1.47	1.13	1.08	1.11	1.23	1.32	1.40	1.33

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