



ABM Industries (ABM)

Updated March 19th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	7.9%	Volatility Percentile:	63.5%
Fair Value Price:	\$35	5 Year Growth Estimate:	6.0%	Momentum Percentile:	45.6%
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Growth Percentile:	52.3%
Dividend Yield:	2.1%	5 Year Price Target	\$46	Valuation Percentile:	51.5%
Dividend Risk Score:	A	Retirement Suitability Score:	B	Total Return Percentile:	42.1%

Overview & Current Events

ABM Industries is a leading provider of facility solutions, which includes janitorial, electrical & lighting, energy solutions, facilities engineering, HVAC & mechanical, landscape & turf, and parking. The company employs more than 130,000 people in more than 350 offices throughout the United States and various international locations, primarily in Canada. ABM Industries has increased its dividend for 51 consecutive years, which makes the company a Dividend King. ABM Industries is headquartered in New York, NY, and is currently trading with a market capitalization of \$2.3 billion.

ABM Industries reported its first quarter earnings results (fiscal 2019) on March 7. The company announced that its revenues totaled \$1.61 billion during the quarter, which was in line with analyst estimates, and which represents a growth rate of 1.3% versus the prior year's revenues. As GCA Services Group was taken over more than a year ago, the first quarter of fiscal 2018 included that impact already, which explains why ABM Industries' revenue growth rate during the most recent quarter was lower than during prior quarters. ABM Industries' organic revenue growth rate, adjusted for currency rate movements, was 2% during the first quarter of fiscal 2019.

ABM Industries was able to generate earnings-per-share of \$0.31 during the first quarter, which easily beat the analyst consensus estimate of \$0.25, and which represents a substantial growth rate of 19% versus the prior year's quarter. This was possible thanks to several contributing factors, including higher revenues, and higher operating margins, as ABM Industries' EBITDA margin rose from 4.1% to 4.3% throughout the last year.

ABM Industries guides for further margin expansion, to ~5.2% during fiscal 2019, while the company also forecasts that its adjusted earnings-per-share will fall into a range of \$1.90 to \$2.05 during the current fiscal year.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.33	\$1.34	\$1.39	\$1.39	\$1.52	\$1.53	\$1.62	\$1.74	\$1.75	\$1.89	\$1.98	\$2.65
DPS	\$0.52	\$0.54	\$0.56	\$0.58	\$0.60	\$0.62	\$0.64	\$0.66	\$0.68	\$0.70	\$0.72	\$0.82
Shares	51.7	52.6	53.3	54.4	54.4	55.8	56.1	55.6	65.5	66.0	66.5	68.0

ABM Industries' earnings-per-share have compounded at 5.3% over the last decade, which is solid, but not spectacular. ABM Industries' profits have grown very regularly, though, as profits have risen every year. This is a remarkable feat that underlines how non-cyclical ABM Industries' business model is; ABM Industries was even able to grow its earnings-per-share during the financial crisis. The last year where its profits declined on a year-over-year basis was in 2003. Because of this outstanding recession performance track record, we believe ABM Industries should be able to do well during future economic downturns as well.

The GCA Services acquisition, which closed on September 1, 2018, has allowed the company to expand its foothold both within the United States and internationally. The scale advantages of the takeover, coupled with synergies that ABM Industries should be able to capture over the coming years, is why we believe that ABM Industries' long-term earnings-per-share growth could be a bit higher than the growth rate that ABM Industries generated over the last decade. Our estimate is for long-term earnings-per-share growth of 6% annually. ABM Industries has an excellent dividend growth track record, as more than 50 years of dividend increases have made ABM Industries a Dividend King. The company has

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raised its payout by a fixed amount every year over the last decade (\$0.02 each year), which means that the relative dividend growth rate has declined. The most recent dividend increase is just slightly higher than the rate of inflation.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.3	15.5	16.7	15.0	15.3	17.7	18.8	19.2	24.0	16.4	17.7	17.5
Avg. Yld.	2.9%	2.6%	2.4%	2.8%	2.6%	2.3%	2.1%	2.0%	1.5%	2.3%	2.1%	1.8%

ABM Industries trades at slightly less than 18 times this year's forecasted earnings right now. This is marginally ahead of our fair value estimate of 17.5 times annual net profits, which is how ABM Industries was valued historically. Multiple compression will not be a major headwind for ABM Industries' total returns, however, and this negative impact will be more than offset by ABM Industries' above-average dividend yield of 2.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	39.1%	40.3%	40.3%	41.7%	39.5%	40.5%	39.5%	37.9%	38.9%	37.0%	36.4%	30.9%

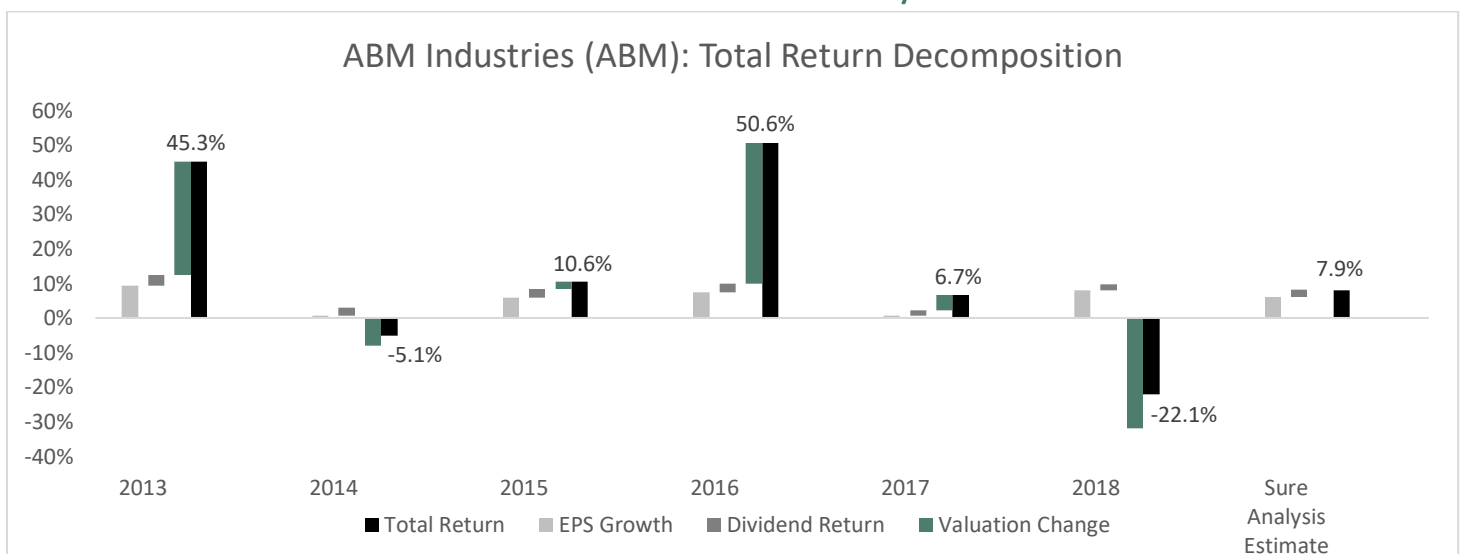
ABM Industries has increased its dividend consistently for decades, but not at a high growth rate. This has made its dividend payout ratio decline slightly throughout the last decade, as earnings growth outpaced ABM Industries' dividend growth. Due to the low dividend payout ratio and its very stable, recession-resilient business model, ABM Industries' dividend looks very safe. ABM Industries would likely not be harmed during a recession in a meaningful way, which is why we believe that ABM Industries is a low-risk investment from that perspective.

ABM Industries is one of the biggest companies in its industry, and its history of making acquisitions has enhanced its scale advantages further. It is likely that ABM Industries will continue to make acquisitions to increase its size further.

Final Thoughts & Recommendation

ABM Industries is active in a somewhat boring industry, but the company has been a great low-risk dividend growth investment in the past. We believe that the company will continue to grow its profits, but since shares trade slightly above fair value, we rate ABM Industries a hold for now.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3482	3496	4247	4300	4428	4650	4898	5145	5454	6442
Gross Profit	367	362	466	446	464	489	506	541	572	695
Gross Margin	10.5%	10.3%	11.0%	10.4%	10.5%	10.5%	10.3%	10.5%	10.5%	10.8%
SG&A Exp.	264	242	325	328	331	348	395	410	437	438
D&A Exp.	33	36	53	51	59	56	57	58	70	N/A
Operating Profit	92	109	118	97	105	115	86	106	104	191
Operating Margin	2.6%	3.1%	2.8%	2.2%	2.4%	2.5%	1.8%	2.1%	1.9%	3.0%
Net Profit	54	64	69	63	73	76	76	57	4	98
Net Margin	1.6%	1.8%	1.6%	1.5%	1.6%	1.6%	1.6%	1.1%	0.1%	1.5%
Free Cash Flow	122	126	138	123	103	84	120	40	-52	321
Income Tax	29	40	37	30	36	44	18	-10	9	-8

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	1521	1549	1880	1851	2119	2193	2131	2279	3813	3628
Cash & Equivalents	34	39	26	43	33	37	56	54	63	39
Accounts Receivable	445	451	552	561	691	687	743	804	1038	1014
Goodwill & Int. Ass.	607	660	880	861	1017	982	979	1017	2294	2191
Total Liabilities	834	810	1084	1001	1202	1224	1123	1305	2437	2173
Accounts Payable	85	79	130	130	157	174	179	174	231	222
Long-Term Debt	173	141	300	215	315	320	158	268	1178	939
Shareholder's Equity	687	739	796	850	918	969	1008	974	1376	N/A
D/E Ratio	0.25	0.19	0.38	0.25	0.34	0.33	0.16	0.28	0.86	N/A

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.5%	4.2%	4.0%	3.4%	3.7%	3.5%	3.5%	2.6%	0.1%	2.6%
Return on Equity	8.2%	9.0%	8.9%	7.6%	8.2%	8.0%	7.7%	5.8%	0.3%	N/A
ROIC	6.3%	7.4%	6.9%	5.8%	6.3%	6.0%	6.2%	4.8%	0.2%	N/A
Shares Out.	51.7	52.6	53.3	54.4	54.4	55.8	56.1	55.6	65.5	66.0
Revenue/Share	67.16	66.07	78.50	78.33	78.93	81.43	85.33	90.42	93.54	97.02
FCF/Share	2.36	2.38	2.55	2.23	1.83	1.47	2.09	0.69	-0.89	4.83

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

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