Rockwell Automation (ROK)

Updated May 3rd, 2019 by Jonathan Weber

Key Metrics

Current Price:	$176	**5 Year CAGR Estimate:**	6.8%	**Volatility Percentile:**	45.2%
Fair Value Price:	$163	**5 Year Growth Estimate:**	6.3%	**Momentum Percentile:**	44.4%
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Growth Percentile:**	62.6%
Dividend Yield:	2.2%	**5 Year Price Target**	$221	**Valuation Percentile:**	39.2%
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Total Return Percentile:**	35.7%

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 $20.8 billion.

Rockwell Automation reported its second quarter (fiscal 2019) earnings results on April 25. The company reported revenues of $1.66 billion for the quarter, which represents an increase of 0.6% compared to the prior year's second quarter. Rockwell Automation was able to grow its organic sales by 3.6% year over year, but currency rate changes had a negative impact on the company's reported growth rate. Revenue growth was strongest in Rockwell Automation's Process segment, while weak automotive sales were a headwind for the company's top line growth rate. Rockwell Automation generated earnings-per-share of $2.04 during the second quarter, which was slightly below the analyst consensus estimate, and which represents a growth rate of 8% compared to the profits that Rockwell Automation was able to generate during the second quarter of fiscal 2018.

Rockwell Automation's management stated that the company sees uncertainty due to trade tensions and geopolitical risks, but Industrial Production growth should nevertheless allow for further growth during the remainder of the current fiscal year. Rockwell Automation forecasts an organic sales growth rate of 4.5% at the midpoint of guidance during fiscal 2019, although currency headwinds will likely reduce this amount by ~2%. Earnings-per-share are forecasted to fall into a range of $8.85 to $9.15, a small reduction versus the guidance that management gave in January.

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	***$9.00***	***$12.22***
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 Rockwell Automation's earnings-per-share were cut in half, which shows that the company's business is relatively cyclical.

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 fiscal 2018. 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. 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 has also reduced its share count meaningfully in the past. This trend will likely remain in place, which is beneficial for its per-share growth rate.

Going forward dividend growth will likely slow down a bit and be more in line with the earnings growth rate.

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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	***19.6***	***18.0***
Avg. Yld.	3.7%	2.4%	1.9%	2.4%	2.3%	2.0%	2.3%	2.7%	2.0%	2.1%	***2.2%***	***2.4%***

Rockwell Automation trades at more than 19 times the net profits that the company's management forecasts for the current fiscal year. This is not an overly high valuation, but it still represents a small premium over the long-term average and our fair value estimate. We believe that Rockwell Automation's multiple will contract a bit going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	63.7%	40.0%	30.9%	34.1%	36.9%	39.3%	42.7%	52.2%	47.9%	45.4%	***43.1%***	***42.4%***

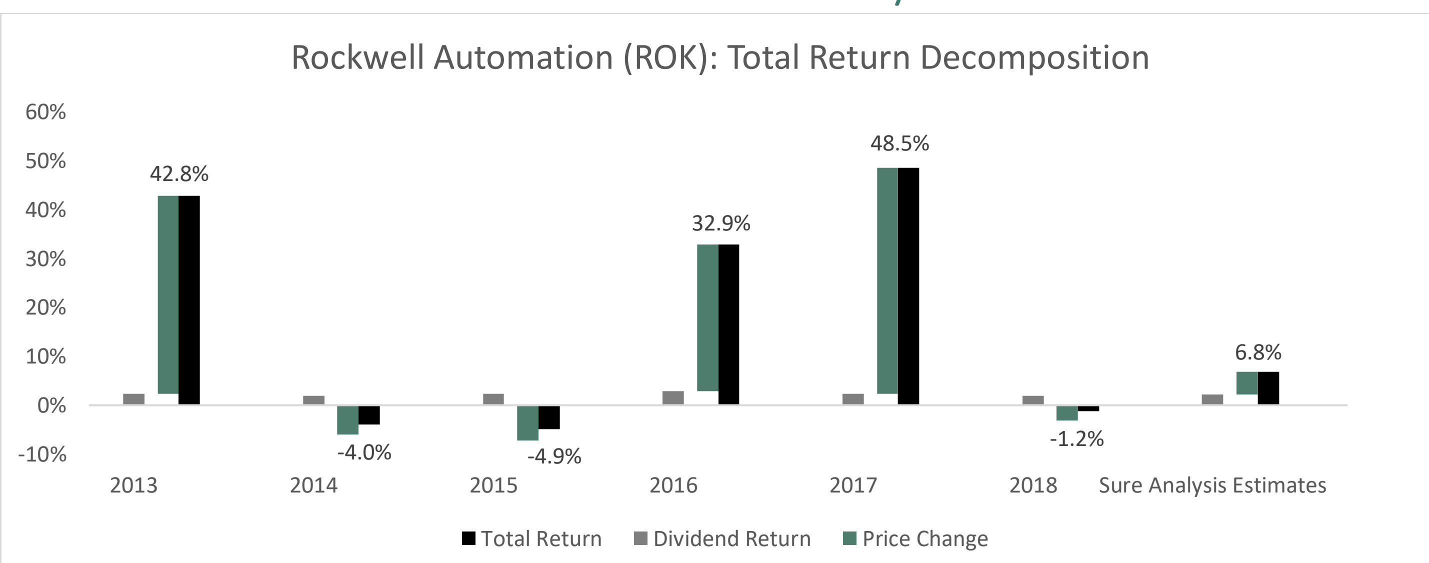
Rockwell Automation's dividend payout ratio has been around 40% throughout the majority of the last decade, although the payout ratio was substantially higher during the last financial crisis. Rockwell Automation did not have to cut its dividend during the especially harsh recession, though, which makes us believe that the company's dividend is relatively safe, despite the cyclicality of Rockwell Automation's business.

Rockwell Automation's earnings-per-share dropped by more than 50% from 2008 to 2009, which shows that the company is somewhat vulnerable versus broad economic downturns. During a more benign, smaller recession, Rockwell Automation would likely see its earnings-per-share decline to a smaller degree. Rockwell Automation is well positioned internationally, as it produces roughly half of its sales outside of the US. Rockwell Automation's strong position in the higher-growth emerging markets could provide a growth advantage versus its peers.

Final Thoughts & Recommendation

Rockwell Automation operates a business that can be cyclical, but the company managed to generate solid earnings-per-share growth throughout the last decade, even though the last financial crisis was a quite harsh recession. Going forward, we believe that Rockwell Automation will produce solid, but not overly strong total returns. We rate Rockwell Automation a hold, as shares trade above our fair value estimate today.

Total Return Breakdown by Year



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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.

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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.