Autoliv, Inc. (ALV)

Updated July 21st, 2019 by Josh Arnold

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	10.1%	**Volatility Percentile:**	96.1%
Fair Value Price:	$78	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	8.2%
% Fair Value:	92%	**5 Year Valuation Multiple Estimate:**	1.7%	**Growth Percentile:**	36.3%
Dividend Yield:	3.4%	**5 Year Price Target**	$100	**Valuation Percentile:**	71.0%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	61.3%

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 $6.3 billion market capitalization. Autoliv is listed in both New York and Stockholm, and is headquartered in the latter city.

Autoliv reported Q2 earnings on 7/19/19 and results were somewhat weaker than expected, including a guidance cut. Organic sales rose 1.5% in Q2 as weakness in Seatbelts was offset by relative strength in Airbags. Indeed, the former produced a 7.1% decline in headline sales to $719 million in Q2, while the latter was essentially flat at $1.44 billion.

Geographically, the Americas showed strength, producing an 11.5% gain in organic revenue, while Europe saw a 13.3% decline off of a 6.5% decline in organic revenue. Asia was virtually flat on an organic basis, but fell 4.4% on a headline basis, which includes the impact of forex, as well as acquisitions and divestitures.

Gross margins fell 130bps to 18.6%, consistent with Autoliv's recent quarters. Somewhat weak organic growth has led to a decline in pricing as input costs remain steady or rise in some cases. Autoliv's gross margins remain an issue and adding to the concern, SG&A costs continue to rise. Indeed, SG&A costs rose 20bps to 4.7% of revenue. Combined, this led to a 190bps decline in operating margin to 8.5% of revenue.

Autoliv continues to outperform global light vehicle production, or LVP, but the fact remains that LVP has been and continues to be weak. This leaves Autoliv fighting an uphill battle for volume and pricing, and while it is outperforming the benchmark, the benchmark is shrinking rapidly.

Adjusted earnings-per-share fell 38% in Q2 year-over-year, falling to $1.38. Autoliv cut its revenue guidance for this year to a new range of -1% to +1% on organic sales of +1% to +3%. It also says adjusted operating margin will be 9% to 9.5%, but this has caused us to cut our earnings-per-share estimate to $6.50 from $7.00 for this year.

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	***$6.50***	***$8.30***
DPS	---	$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 Q2 results and the new 2019 outlook, however, we're reiterating our long-term earnings growth estimate of 5% annually.

Autoliv is performing well against benchmarks, but the benchmarks are declining. The rate of global light vehicle production was down 7.6% year-over-year in Q2, 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. While some of this was certainly expected, the rate at which LVP is declining is concerning, even if Autoliv continues to outperform the benchmark, which we believe it will.

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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	***11.1***	***12.0***
Avg. Yld.	---	1.9%	2.7%	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	***3.4%***	***3.2%***

Autoliv's price-to-earnings ratio has moderated following the Q2 report, returning to 11 times earnings. The stock now trades below our estimate of fair value at 12 times earnings. Therefore, we see a 1.7% tailwind to total returns moving forward from a slightly higher valuation. The dividend yield should remain about where it is today. 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 2.9%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	10%	25%	37%	39%	42%	43%	36%	49%	36%	***38%***	***39%***

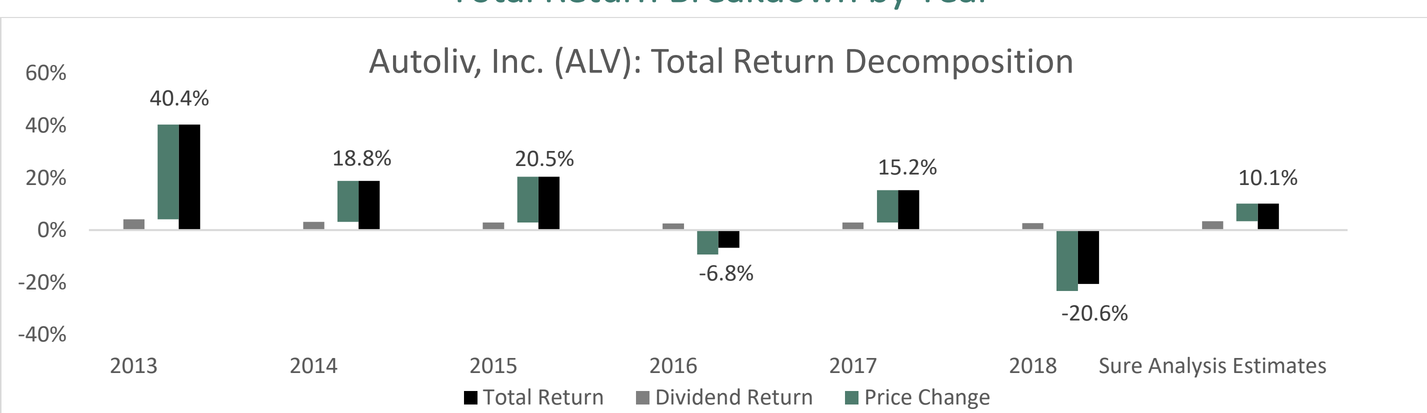
Autoliv's payout ratio is just over one-third of earnings, and we do not see that changing in the near future. Management is more concerned with financing future growth, but the yield is high enough that boosting the payout ratio seems unnecessary at this point. Autoliv's dividend yield is still near the highest it has ever been thanks to the falling 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 could still be 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 reasonably priced and the yield is strong, so we still find the stock attractive for certain investors. We see Autoliv potentially producing 10.1% annual returns moving forward, consisting of the current 3.4% yield, 5% earnings-per-share growth and a 1.7% tailwind from the valuation. We're reiterating Autoliv at a hold rating after the Q2 report as we see the company suffering from weak LVP for the foreseeable future.

Total Return Breakdown by Year



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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.