ABB Ltd. (ABB)

Updated August 2nd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$18	**5 Year CAGR Estimate:**	10.8%	**Volatility Percentile:**	36.8%
Fair Value Price:	$18	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	28.4%
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Growth Percentile:**	54.1%
Dividend Yield:	4.4%	**5 Year Price Target**	$25	**Valuation Percentile:**	47.9%
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Total Return Percentile:**	50.5%

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: Electrification Products, Robotics & Discrete Automation, 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$40 billion under the ticker ABB on the New York Stock Exchange.

In late July, ABB reported (7/25/19) financial results for the second quarter of fiscal 2019. The company grew its orders by 1%, as growth from Electrification and Motion was partly offset by lower demand in Robotics & Discrete Automation due to poor trends in automotive and machine building. Orders remained strong in the Americas, where they increased 7%, but they remained flat in Europe and decreased 3% in Asia, Middle East, and Africa. ABB incurred a $455 million charge related to the sale of its loss-making solar inverter business to FIMER, an Italian solar company. The solar business has suffered from intense competition from China. Excluding this charge, operational earnings-per-share fell 10% over last year's quarter, from $0.38 to $0.34.

Management sees uncertainty in the near-term prospects of the company but remains confident about long-term growth potential. Moreover, the company expects to reduce its annual operating costs by $150-$200 million this year and reach its goal of $500 million by 2021.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.26	$1.11	$1.38	$1.18	$1.23	$1.13	$0.87	$0.88	$1.25	$1.33	***$1.15***	***$1.54***
DPS	$0.45	$0.49	$0.68	$0.71	$0.72	$0.77	$0.75	$0.75	$0.76	$0.78	***$0.80***	***$1.00***
Shares	2289.4	2283.5	2290.4	2295.9	2300.6	2314.7	2191.6	2138.7	2138.7	2134.0	***2130.0***	***2100.0***

ABB's per-share growth in net income over the last decade has been far from compelling. This helps explain the fact that the stock is currently trading at the level it was trading 10 years ago. 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. The Electrification segment, which currently generates 46% of the total revenues of ABB, seems to have the most promising prospects thanks to strong demand in key segments, such as rail, data centers, wind and electric vehicle infrastructure. We expect 6% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.1	18.0	16.1	15.9	18.6	20.8	23.1	22.9	23.5	17.3	***15.7***	***16.0***
Avg. Yld.	2.7%	2.5%	3.1%	3.8%	3.1%	3.3%	3.7%	3.7%	3.1%	3.4%	***4.4%***	***4.0%***

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) in which the stock traded with an elevated P/E ratio. We believe that fair value for a company of ABB's caliber lies somewhere around 16 times earnings. The stock is currently trading very close to our assumed fair

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value, at a price-to-earnings ratio of 15.7. If the stock trades at our estimated fair earnings multiple of 16.0 five years from now, the stock will enjoy a 0.4% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	35.7%	44.1%	49.3%	60.2%	58.5%	68.1%	86.2%	85.2%	73.8%	58.6%	***69.6%***	***64.9%***

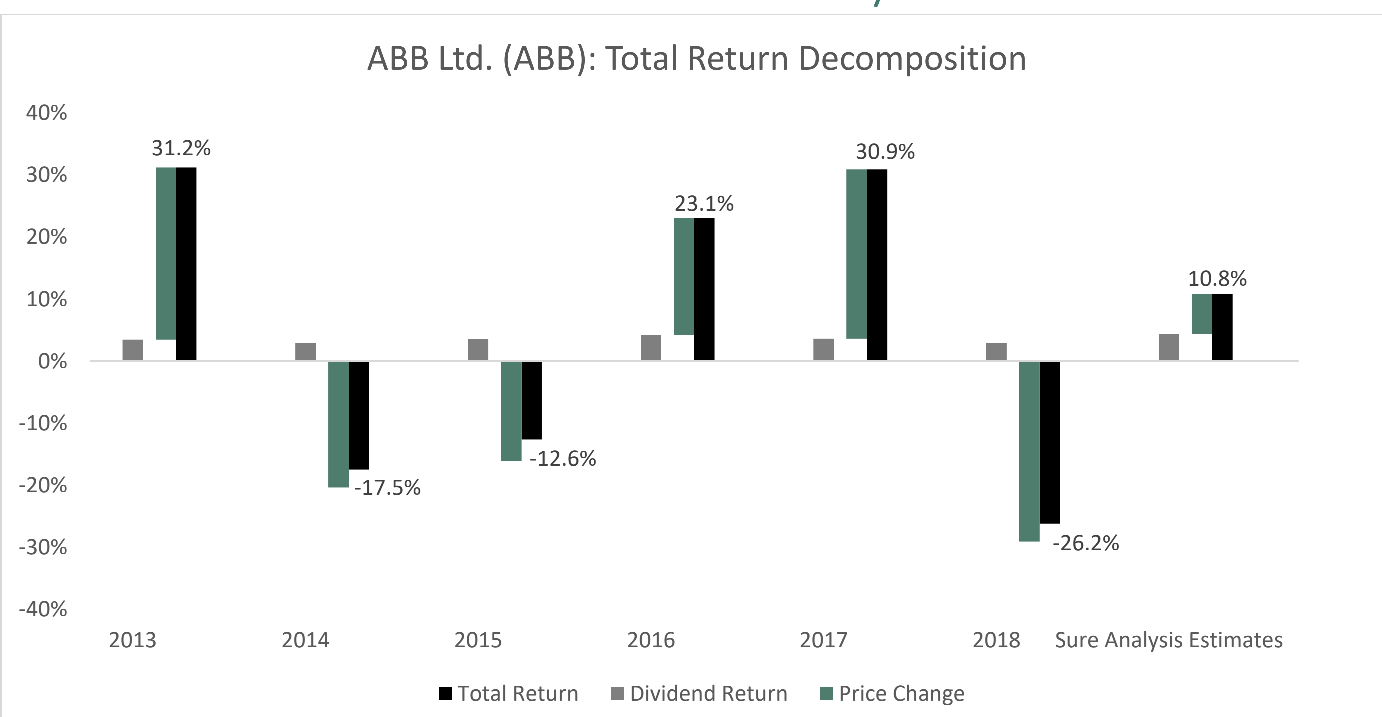
ABB has global businesses that are either the #1 or #2 player in attractive markets, with strong secular growth. The company expects its business markets to grow by 3.5%-4.0% per year on average over the long run. Thanks to its dominant position in its segments, ABB has a strong reputation and thus enjoys a significant competitive advantage over its peers.

Moreover, the company has a strong balance sheet, with its interest expense currently consuming only 14% of its operating income. On the other hand, the performance of the company is greatly affected by underlying economic growth and oil prices, which are beyond its control. Due to this vulnerability, the stock tends to underperform the market during sell-offs. Consequently, only investors who can tolerate significant pressure on the stock price should consider purchasing this stock.

Final Thoughts & Recommendation

ABB has a variety of 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 poor stock price performance in the last 12 months, ABB has the potential to offer a 10.8% average annual return over the next five years, in the absence of a recession. However, it should be noted that the company has a markedly poor performance record, is not recession resistant, and has an elevated chance of poor performance and a possible dividend reduction during a severe recession. Collectively, we rate shares as a hold.

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	31795	31589	37990	39336	41848	39830	35481	24929	25196	27662
Gross Profit	9325	9529	11434	11378	11992	11215	10134	7533	7846	8544
Gross Margin	29.3%	30.2%	30.1%	28.9%	28.7%	28.2%	28.6%	30.2%	31.1%	30.9%
SG&A Exp.	4491	4615	5373	5756	6094	6067	5574	4532	4765	5295
D&A Exp.	655	702	995	1182	1318	1305	1160	870	836	916
Operating Profit	4126	3832	4690	4158	4428	3649	3154	2034	2068	2102
Op. Margin	13.0%	12.1%	12.3%	10.6%	10.6%	9.2%	8.9%	8.2%	8.2%	7.6%
Net Profit	2901	2561	3168	2704	2787	2594	1933	1899	2213	2173
Net Margin	9.1%	8.1%	8.3%	6.9%	6.7%	6.5%	5.4%	7.6%	8.8%	7.9%
Free Cash Flow	3060	3357	2591	2486	2547	2819	2942	3211	3047	2152
Income Tax	1001	1018	1244	1030	1122	1202	788	526	583	544

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	34728	36295	39648	49070	48064	44852	41356	39202	43458	44441
Cash & Equivalents	7119	5897	4819	6875	6021	5443	4565	3644	4526	3445
Acc. Receivable	N/A	N/A	7750	8233	8360	7715	7197	7293	5553	5970
Inventories	4550	4878	5737	6182	6004	5376	4757	4347	3737	4284
Goodwill & Int.	3469	4786	9522	13727	13967	12755	12008	11497	11961	13371
Total Liabilities	20255	20837	23312	31624	28856	28037	26368	25305	28109	29907
Accounts Payable	3853	4555	4789	4992	5112	4765	4342	4446	3736	4424
Long-Term Debt	2333	2182	3996	10071	8023	7665	7439	6803	7408	8618
Total Equity	13790	14885	15777	16906	18678	16269	14481	13395	14819	13952
D/E Ratio	0.17	0.15	0.25	0.60	0.43	0.47	0.51	0.51	0.50	0.62

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	8.6%	7.2%	8.3%	6.1%	5.7%	5.6%	4.5%	4.7%	5.4%	4.9%
Return on Equity	23.3%	17.9%	20.7%	16.5%	15.7%	14.8%	12.6%	13.6%	15.7%	15.1%
ROIC	18.8%	14.9%	16.7%	11.3%	10.2%	10.0%	8.2%	8.8%	10.2%	9.5%
Shares Out.	2289.4	2283.5	2290.4	2295.9	2300.6	2314.7	2191.6	2138.7	2138.7	2134.0
Revenue/Share	13.90	13.79	16.58	17.14	18.16	17.36	15.91	11.57	11.73	12.93
FCF/Share	1.34	1.47	1.13	1.08	1.11	1.23	1.32	1.49	1.42	1.01

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