



ABM Industries (ABM)

Updated January 19th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$40	5 Year CAGR Estimate:	4.9%	Market Cap:	\$2.6B
Fair Value Price:	\$35	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	12/31/19
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	02/03/20
Dividend Yield:	1.9%	5 Year Price Target	\$47	Years Of Dividend Growth:	52
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	2.8%

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 52 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 \$2.6 billion.

ABM Industries reported its fourth quarter earnings results (fiscal 2019) on December 18. The company announced that its revenues totaled \$1.65 billion during the quarter, which missed the analyst estimate slightly, and which was unchanged from the previous year's quarter. Unlike in previous quarters, acquisitions did not have a meaningful positive impact on ABM Industries' revenue growth rate during the quarter. The company's organic revenue growth rate, which backs out currency movements, was 0.6% during the quarter. Results were slightly hurt by a strong US Dollar that weakened its non-US revenues when translated to USD.

ABM Industries was able to generate earnings-per-share of \$0.66 during the fourth quarter, which beat the analyst consensus estimate by \$0.03. On top of that, ABM Industries' earnings-per-share grew by an attractive pace of 15% versus the previous year's quarter, a quite strong growth rate relative to what the company delivered in the recent past. Adjusted EBITDA was up slightly versus the previous year's quarter, growing to \$93 million. For fiscal 2020, ABM Industries expects earnings-per-share to fall into a range of \$1.90 to \$2.10, at the midpoint of guidance this represents a small decline versus the profits that the company generated during the most recent fiscal year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.34	\$1.39	\$1.39	\$1.52	\$1.53	\$1.62	\$1.74	\$1.75	\$1.89	\$2.05	\$2.00	\$2.68
DPS	\$0.54	\$0.56	\$0.58	\$0.60	\$0.62	\$0.64	\$0.66	\$0.68	\$0.70	\$0.72	\$0.74	\$0.85
Shares¹	52.6	53.3	54.4	54.4	55.8	56.1	55.6	65.5	66.0	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 consistently, as profits have risen during every year. This is a remarkable feat that underlines how non-cyclical ABM Industries' business model is. The last year during which its profits declined on a year-over-year basis was 2003. ABM Industries was also able to grow its earnings-per-share during the financial crisis. 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 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.

¹ In Millions

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.5	16.7	15.0	15.3	17.7	18.8	19.2	24.0	16.4	17.6	20.0	17.5
Avg. Yld.	2.6%	2.4%	2.8%	2.6%	2.3%	2.1%	2.0%	1.5%	2.3%	2.0%	1.9%	1.8%

ABM Industries trades at 20 times this year's forecasted earnings right now. This is above ABM Industries' multiples in most of the last decade, and it represents a rather high valuation compared to the long-term median. Multiple compression will likely be a headwind for ABM Industries' total returns going forward. Due to the rather high valuation, ABM Industries' dividend yield has also fallen to a below-average level of slightly less than 2%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	40.3%	40.3%	41.7%	39.5%	40.5%	39.5%	37.9%	38.9%	37.0%	35.1%	37.0%	31.6%

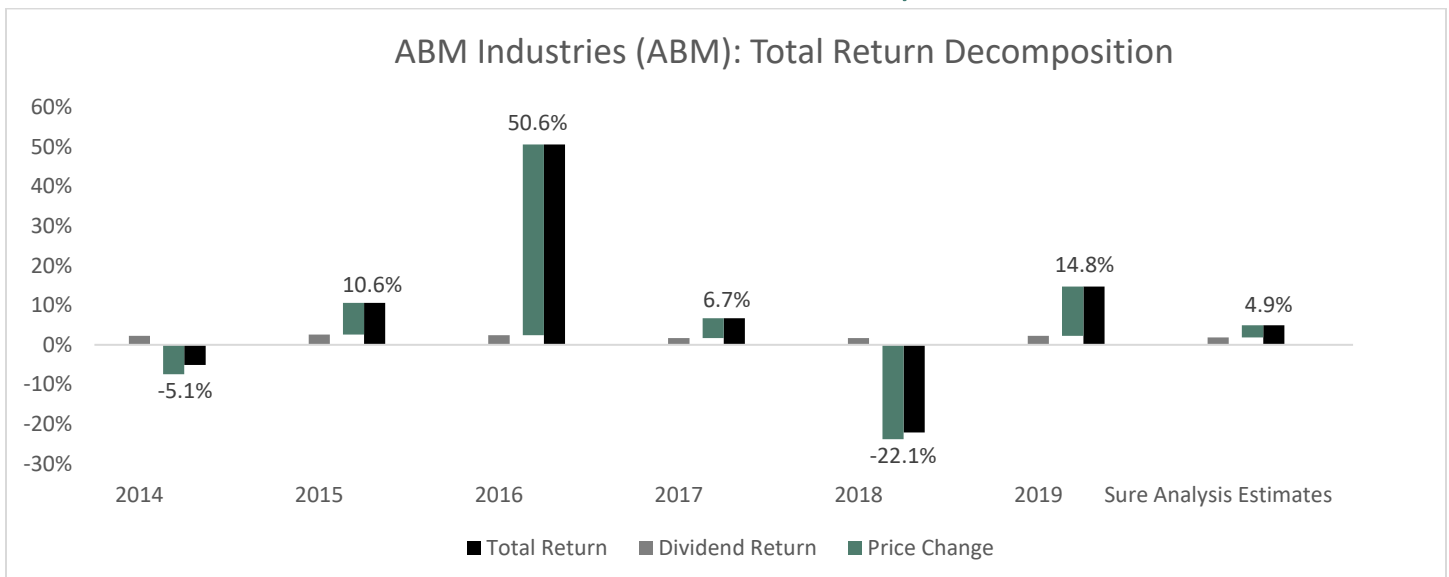
ABM Industries has increased its dividend consistently for decades, but not at a high growth rate. This has made its dividend payout ratio decline slightly throughout the last decade, as earnings growth outpaced ABM Industries' dividend growth. Due to the low dividend payout ratio and its very stable, 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 it 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 the company will continue to make acquisitions to increase its size further whenever the company finds a valuable target that can be acquired at a fair price.

Final Thoughts & Recommendation

ABM Industries is active in a somewhat boring industry, but this does not mean that the stock is a bad investment. ABM Industries has been a great low-risk dividend growth investment in the past. We believe that the company will continue to grow its profits over the coming years, and the company should be able to weather future recessions well. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,496	4,247	4,300	4,428	4,650	4,898	5,145	5,454	6,442	6,499
Gross Profit	362	466	446	464	489	506	541	572	695	731
Gross Margin	10.3%	11.0%	10.4%	10.5%	10.5%	10.3%	10.5%	10.5%	10.8%	11.3%
SG&A Exp.	242	325	328	331	348	395	410	437	438	453
D&A Exp.	36	53	51	59	56	57	58	70	113	107
Operating Profit	109	118	97	105	115	86	106	104	191	220
Operating Margin	3.1%	2.8%	2.2%	2.4%	2.5%	1.8%	2.1%	1.9%	3.0%	3.4%
Net Profit	64	69	63	73	76	76	57	4	98	127
Net Margin	1.8%	1.6%	1.5%	1.6%	1.6%	1.6%	1.1%	0.1%	1.5%	2.0%
Free Cash Flow	126	138	123	103	84	120	40	(52)	270	203
Income Tax	40	37	30	36	44	18	(10)	9	(8)	33

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1,549	1,880	1,851	2,119	2,193	2,131	2,279	3,813	3,628	3,693
Cash & Equivalents	39	26	43	33	37	56	54	63	39	59
Accounts Receivable	451	552	561	691	687	743	804	1,038	1,014	1,013
Goodwill & Int. Ass.	660	880	861	1,017	982	979	1,017	2,294	2,190	2,133
Total Liabilities	810	1,084	1,001	1,202	1,224	1,123	1,305	2,437	2,173	2,151
Accounts Payable	79	130	130	157	174	179	174	231	222	281
Long-Term Debt	141	300	215	315	320	158	268	1,178	939	802
Shareholder's Equity	739	796	850	918	969	1,008	974	1,376	1,455	1,542
D/E Ratio	0.19	0.38	0.25	0.34	0.33	0.16	0.28	0.86	0.65	0.52

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.2%	4.0%	3.4%	3.7%	3.5%	3.5%	2.6%	0.1%	2.6%	3.5%
Return on Equity	9.0%	8.9%	7.6%	8.2%	8.0%	7.7%	5.8%	0.3%	6.9%	8.5%
ROIC	7.4%	6.9%	5.8%	6.3%	6.0%	6.2%	4.8%	0.2%	4.0%	5.4%
Shares Out.	52.6	53.3	54.4	54.4	55.8	56.1	55.6	65.5	66.0	66.0
Revenue/Share	66.07	78.50	78.33	78.93	81.43	85.33	90.42	93.54	97.02	97.14
FCF/Share	2.38	2.55	2.23	1.83	1.47	2.09	0.69	(0.89)	4.07	3.04

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

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