ABB Ltd. (ABB)

Updated February 12th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$25	**5 Year CAGR Estimate:**	3.2%	**Market Cap:**	$52.8 B
Fair Value Price:	$18	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	5/4/2020[1]
% Fair Value:	136%	**5 Year Valuation Multiple Estimate:**	-5.9%	**Dividend Payment Date:**	6/11/2020
Dividend Yield:	3.2%	**5 Year Price Target**	$25	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	1.3%

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$53 billion under the ticker ABB on the New York Stock Exchange.

In early February, ABB reported (2/5/20) financial results for the fourth quarter of fiscal 2019. In the quarter, orders and revenues decreased 1% and 4%, respectively, over prior year's quarter, due to soft demand in Robotics & Discrete Automation. While operational earnings-per-share fell 10% over prior year's quarter, from $0.30 to $0.27, they exceeded analysts' consensus by $0.04 and thus triggered a 4% rally of the stock on the day of its earnings release. However, the company continues to see uncertainty in its near-term prospects while it is facing continued challenges in some markets, particularly in automotive and machine builders.

On August 12th, ABB announced its new CEO, who will take over from March-2020. As ABB has spent many years trying to return to sustainable growth, this development will probably turn out to be positive for the company.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.11	$1.38	$1.18	$1.23	$1.13	$0.87	$0.88	$1.25	$1.33	$1.24	***$1.15***	***$1.54***
DPS	$0.49	$0.68	$0.71	$0.72	$0.77	$0.75	$0.75	$0.76	$0.81	$0.79	***$0.80***	***$1.00***
Shares[2]	2283.5	2290.4	2295.9	2300.6	2314.7	2191.6	2138.7	2138.7	2135.0	2135.0	***2130***	***2100.0***

ABB's per-share growth in net income over the last decade has been far from compelling. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	18.0	16.1	15.9	18.6	20.8	23.1	22.9	23.5	17.3	16.0	***21.7***	***16.0***
Avg. Yld.	2.5%	3.1%	3.8%	3.1%	3.3%	3.7%	3.7%	3.1%	3.4%	4.0%	***3.2%***	***4.0%***

ABB has traded at an average price-to-earnings ratio of 19.2 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 at a price-to-earnings ratio of

[1] Estimated date.
[2] 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.

21.7. If the stock trades at our estimated fair earnings multiple of 16.0 in five years from now, the stock will incur a -5.9% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	44.1%	49.3%	60.2%	58.5%	68.1%	86.2%	85.2%	73.8%	58.6%	63.7%	***69.6%***	***64.8%***

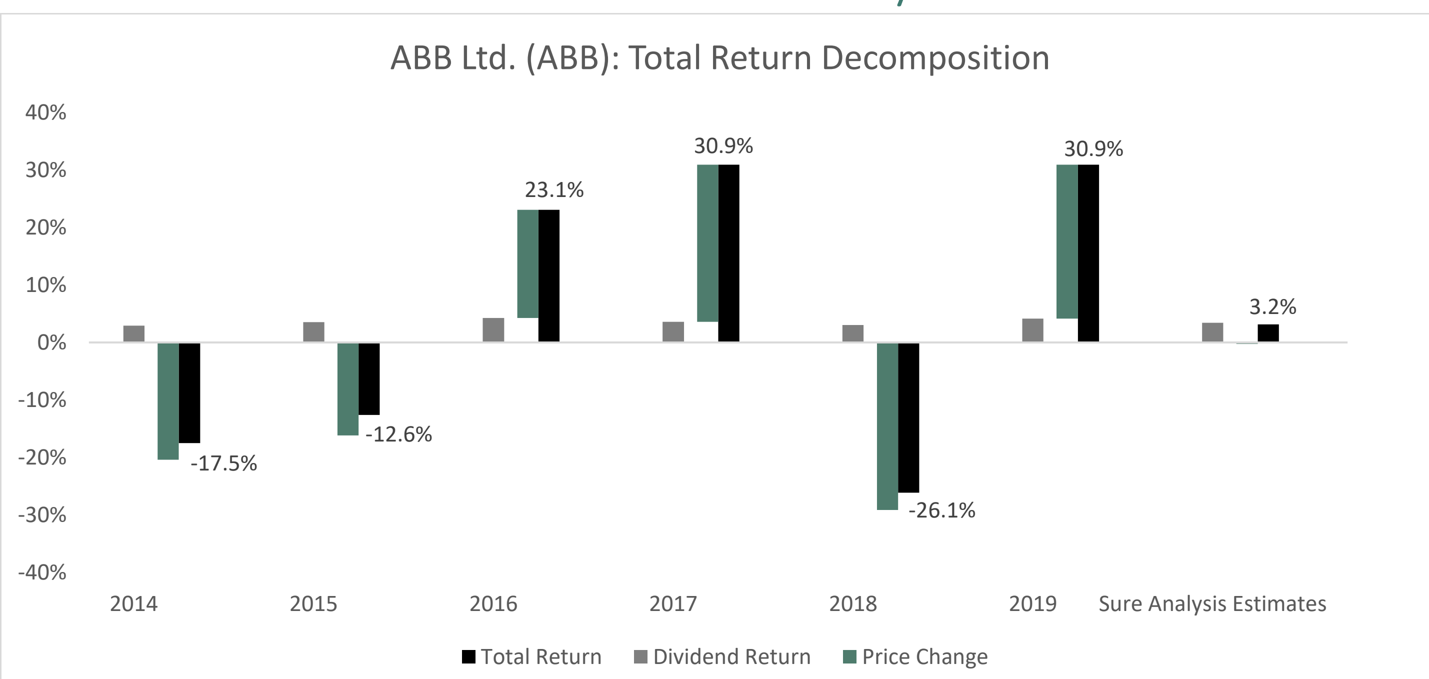
ABB has global businesses that are either the #1 or #2 player in attractive markets, with strong secular growth. The company expects its business markets to grow by 3.5%-4.0% per year on average over the long run. Thanks to its dominant position in its segments, ABB has a strong reputation and thus enjoys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

Moreover, the company has a strong balance sheet, with its interest expense having consumed only 4% of its operating income in the last 12 months. 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 price pressure should consider 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. However, the stock has rallied 40% in the last four months, as its results in the last two quarters have exceeded analysts' consensus by a wide margin. As a result, we expect the stock to offer just a 3.2% average annual return over the next five years. Moreover, the company has a markedly poor performance record, it is not recession resistant, and has an elevated chance of poor performance and a possible dividend reduction during a severe recession. We thus maintain our hold rating for the stock.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	31589	37990	39336	41848	39830	35481	24929	25196	27662	27978
Gross Profit	9529	11434	11378	11992	11215	10134	7533	7846	8544	8906
Gross Margin	30.2%	30.1%	28.9%	28.7%	28.2%	28.6%	30.2%	31.1%	30.9%	31.8%
SG&A Exp.	4615	5373	5756	6094	6067	5574	4532	4765	5295	5447
D&A Exp.	702	995	1182	1318	1305	1160	870	836	916	961
Operating Profit	3832	4690	4158	4428	3649	3154	2034	2068	2102	2261
Op. Margin	12.1%	12.3%	10.6%	10.6%	9.2%	8.9%	8.2%	8.2%	7.6%	8.1%
Net Profit	2561	3168	2704	2787	2594	1933	1899	2213	2173	1439
Net Margin	8.1%	8.3%	6.9%	6.7%	6.5%	5.4%	7.6%	8.8%	7.9%	5.1%
Free Cash Flow	3357	2591	2486	2547	2819	2942	3211	3047	2152	1563
Income Tax	1018	1244	1030	1122	1202	788	526	583	544	772

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	36295	39648	49070	48064	44852	41356	39202	43458	44441	46108
Cash & Equivalents	5897	4819	6875	6021	5443	4565	3644	4526	3445	3544
Acc. Receivable	N/A	7750	8233	8360	7715	7197	7293	5553	5970	6434
Inventories	4878	5737	6182	6004	5376	4757	4347	3737	4284	4184
Goodwill & Int.	4786	9522	13727	13967	12755	12008	11497	11961	13371	13077
Total Liabilities	20837	23312	31624	28856	28037	26368	25305	28109	29907	32128
Accounts Payable	4555	4789	4992	5112	4765	4342	4446	3736	4424	4353
Long-Term Debt	2182	3996	10071	8023	7665	7439	6803	7408	8618	9059
Total Equity	14885	15777	16906	18678	16269	14481	13395	14819	13952	13526
D/E Ratio	0.15	0.25	0.60	0.43	0.47	0.51	0.51	0.50	0.62	0.67

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.2%	8.3%	6.1%	5.7%	5.6%	4.5%	4.7%	5.4%	4.9%	3.2%
Return on Equity	17.9%	20.7%	16.5%	15.7%	14.8%	12.6%	13.6%	15.7%	15.1%	10.5%
ROIC	14.9%	16.7%	11.3%	10.2%	10.0%	8.2%	8.8%	10.2%	9.5%	6.2%
Shares Out.	2283.5	2290.4	2295.9	2300.6	2314.7	2191.6	2138.7	2138.7	2135.0	2135.0
Revenue/Share	13.79	16.58	17.14	18.16	17.36	15.91	11.57	11.73	12.93	13.10
FCF/Share	1.47	1.13	1.08	1.11	1.23	1.32	1.49	1.42	1.01	0.73

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