Autoliv, Inc. (ALV)

Updated February 1st, 2020 by Josh Arnold

Key Metrics

Current Price:	$77	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$6.8B
Fair Value Price:	$72	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/19/20
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Dividend Payment Date:**	03/05/20
Dividend Yield:	3.2%	**5 Year Price Target**	$91	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	3.3%

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 70,000 employees, nearly $9 billion in annual revenue and a $6.8 billion market capitalization. Autoliv is listed in both New York and Stockholm, and is headquartered in the latter city.

Autoliv reported Q4 and full-year earnings on January 28th and results were strong, beating top and bottom line expectations. Total revenue for the year came in at $8.5 billion, down -1.5% from $8.7 billion in 2018. Autoliv reported that it outperformed global light vehicle production, or LVP, by nearly 6% in Q4. This is a trend that has existed for several years as Autoliv continues to struggle with macro headwinds, but performs well nonetheless, taking market share in the process.

Operating margins declined due to lower volumes, falling 140bps year-over-year to 9.1% of revenue. Operating income fell -15% on a dollar basis, and earnings-per-share declined -16% year-over-year. Sizable declines were expected given relatively weak global LVP in 2019, so investors took the news in stride.

We see volumes stabilizing for 2020, but cost efficiency measures and new products should help drive margins and revenue, respectively. Autoliv guided for 3% to 4% sales growth for 2020, and at least 9.5% operating margins, up from 9.1% in 2019. Given this, we think Autoliv will hit ~$6.50 per share in earnings for 2020.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$6.39	$6.65	$5.08	$5.07	$5.06	$5.17	$6.42	$4.87	$6.83	$5.72	***$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	***$2.48***	***$3.20***
Shares[1]	89	89	96	94	89	88	88	87	87	87	***87***	***87***

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. 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 LVP should be about equal to 2019, which removes a significant headwind for Autoliv. It does have a strong history of achieving cost savings, and with revenue moving higher for 2020, the outlook is bright. Investors must keep an eye on global LVP moving forward as Autoliv, even with its outperformance, is heavily reliant upon volume to drive revenue.

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.

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[1] Share count in millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	8.9	9.9	12.0	15.6	19.6	22.2	17.1	23.1	14.1	13.3	***11.8***	***11.0***
Avg. Yld.	1.9%	2.7%	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	***3.2%***	***3.5%***

Autoliv's price-to-earnings ratio has fallen significantly since our last report, declining from 14.2 times earnings to 11.8. The stock now trades just above our estimate of fair value at 11 times earnings. Therefore, we see a -1.4% headwind to total returns moving forward from a lower valuation. The dividend yield should rise over time thanks to a higher payout and lower price-to-earnings ratio. 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 for US investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	10%	25%	37%	39%	42%	43%	36%	49%	36%	43%	***38%***	***39%***

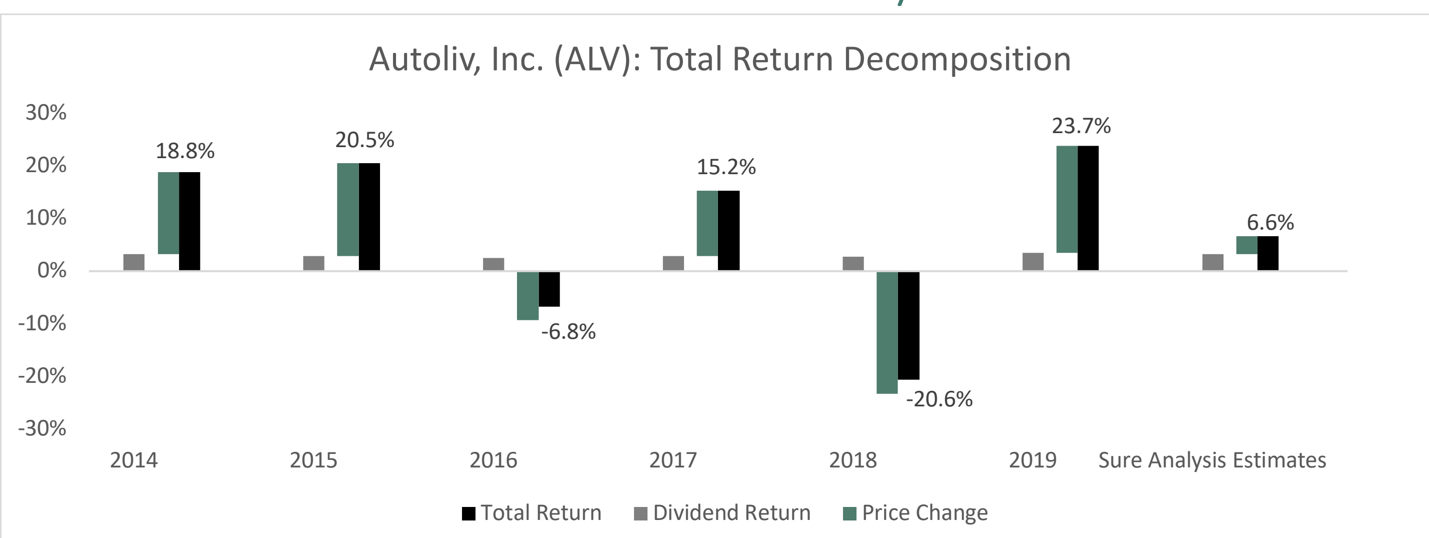
Autoliv's payout ratio is just under 40% of earnings, and we do not see that changing in the near future. Management is more concerned with financing future growth, but the yield is high enough that boosting the payout ratio seems unnecessary at this point. Autoliv's dividend yield is still near the highest it has ever been despite the higher valuation.

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. The stock is now much cheaper than it was, thanks to higher earnings estimates and a moderating share price. We see Autoliv potentially producing 6.6% annual returns moving forward, consisting of the current yield, 5% earnings-per-share growth, and a small headwind from the valuation declining. We're reiterating Autoliv at a hold rating at current prices given that the industry it competes in remains weak, but Autoliv's fundamentals are class-leading.

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	7,171	8,232	8,267	8,803	9,241	9,170	7,922	8,137	8,678	8,548
Gross Profit	1,592	1,728	1,646	1,705	1,804	1,844	1,628	1,680	1,711	1,584
Gross Margin	22.2%	21.0%	19.9%	19.4%	19.5%	20.1%	20.6%	20.6%	19.7%	18.5%
SG&A Exp.	327	369	367	390	415	412	394	407	390	399
D&A Exp.	282	268	273	286	305	319	383	426	397	351
Operating Profit	869	889	705	761	723	728	831	860	686	726
Operating Margin	12.1%	10.8%	8.5%	8.6%	7.8%	7.9%	10.5%	10.6%	7.9%	8.5%
Net Profit	591	623	483	486	468	457	567	427	190	462
Net Margin	8.2%	7.6%	5.8%	5.5%	5.1%	5.0%	7.2%	5.2%	2.2%	5.4%
Free Cash Flow	688	391	323	450	255	260	361	356	31	165
Income Tax	210	201	183	244	198	218	224	204	235	186

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	5,665	6,117	6,570	6,983	7,443	7,526	8,234	8,550	6,722	6,771
Cash & Equivalents	588	739	978	1,118	1,529	1,334	1,227	960	616	445
Accounts Receivable	1,368	1,458	1,509	1,688	1,706	1,788	1,960	1,697	1,652	1,627
Inventories	562	623	611	662	676	711	773	704	758	741
Goodwill & Int. Ass.	1,722	1,716	1,707	1,687	1,661	1,794	2,083	1,440	1,423	1,410
Total Liabilities	2,725	2,768	2,794	2,983	4,001	4,057	4,308	4,381	4,825	4,649
Accounts Payable	1,003	1,084	1,056	1,200	1,092	1,170	1,197	957	978	951
Long-Term Debt	725	666	633	619	1,601	1,539	1,543	1,330	2,230	2,094
Shareholder’s Equity	2,927	3,333	3,759	3,981	3,427	3,456	3,677	4,035	1,884	2,109
D/E Ratio	0.25	0.20	0.17	0.16	0.47	0.45	0.42	0.33	1.18	0.99

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.9%	10.6%	7.6%	7.2%	6.5%	6.1%	7.2%	5.1%	2.5%	6.8%
Return on Equity	22.2%	19.9%	13.6%	12.6%	12.6%	13.3%	15.9%	11.1%	6.4%	23.1%
ROIC	16.3%	16.2%	11.5%	10.8%	9.7%	9.1%	10.8%	7.8%	4.0%	11.1%
Shares Out.	89	89	96	94	89	88	88	87	87	87
Revenue/Share	77.60	87.86	86.93	91.80	100.01	103.73	89.61	92.78	99.41	97.91
FCF/Share	7.45	4.17	3.40	4.70	2.76	2.94	4.08	4.06	0.35	1.89

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