Autoliv, Inc. (ALV)

Updated April 29th, 2020 by Josh Arnold

Key Metrics

Current Price:	$59	**5 Year CAGR Estimate:**	7.3%	**Market Cap:**	$5.1B
Fair Value Price:	$60	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.4%	**Dividend Payment Date:**	N/A
Dividend Yield:	1.1%	**5 Year Price Target**	$77	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**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, about $7 billion in revenue this year and a $5.1 billion market capitalization. Autoliv is listed in both New York and Stockholm, and is headquartered in the latter city.

Autoliv reported first quarter earnings on April 24th and results were better than expected. However, expectations going in were quite low. Organic sales fell -13% in Q1 as automakers around the world suspended production due to COVID-19-related factory closures. Airbags revenue was off -17% to $1.2 billion, while Seatbelts revenue declined -11% to $644 million. America saw -9.5% lower revenue, while Europe was down -15%, and Asia was down -20%.

Gross margins actually increased 50bps in Q1 to 17.9%, but SG&A costs were up 40bps to 5.1%, offsetting most of the gain. Operating margin, on an adjusted basis, was down 30bps to 7.4% of revenue.

Adjusted earnings-per-share fell -27% year-over-year to 88 cents, but we expect results will be worse for the second quarter. We've cut our estimate for earnings-per-share in 2020 by more than half, and are now estimating $2.75.

The company pulled all guidance for 2020, which is unsurprising, and has also canceled the dividend and share repurchases until further notice. Autoliv also drew $600 million from an existing credit facility for additional liquidity.

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	***$2.75***	***$7.66***
DPS	$1.05	$1.78	$1.89	$2.00	$2.12	$2.22	$2.30	$2.38	$2.46	$2.48	***$0.62***	***$2.30***
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. We're using an estimate of normalized earnings power for our fair value and valuation calculations, rather than actual estimate earnings for this year. Our earnings power estimate is $6 per share.

Autoliv is performing well against benchmarks, but the benchmarks are declining. The rate of global LVP was expected to be about equal with 2019 for this year, but obviously, that isn't going to happen. This presents a significant headwind for Autoliv. It does have a strong history of achieving cost savings, but with revenue plummeting this year, Autoliv will struggle. Investors must keep an eye on global LVP moving forward as Autoliv, even with its outperformance, is heavily reliant upon volume to drive revenue.

The dividend has been suspended, but we expect Autoliv to pick it back up at some point when earnings recover. We've significantly cut our dividend estimate for 2025, which now stands at $2.30.

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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	***9.8***	***10.0***
Avg. Yld.	1.9%	2.7%	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	***1.1%***	***3.0%***

Autoliv's price-to-earnings ratio has fallen significantly since our last report, declining to 9.8 times our earnings power estimate. We've also reduced our estimate of fair value to 10 times earnings. Therefore, we see virtually no impact on total returns from the valuation. We see the yield rising back to 3% in the coming years as the dividend is reinstated eventually. Note that Sweden imposes a 30% tax on dividends to foreign investors (15% in the U.S. 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%	***23%***	***30%***

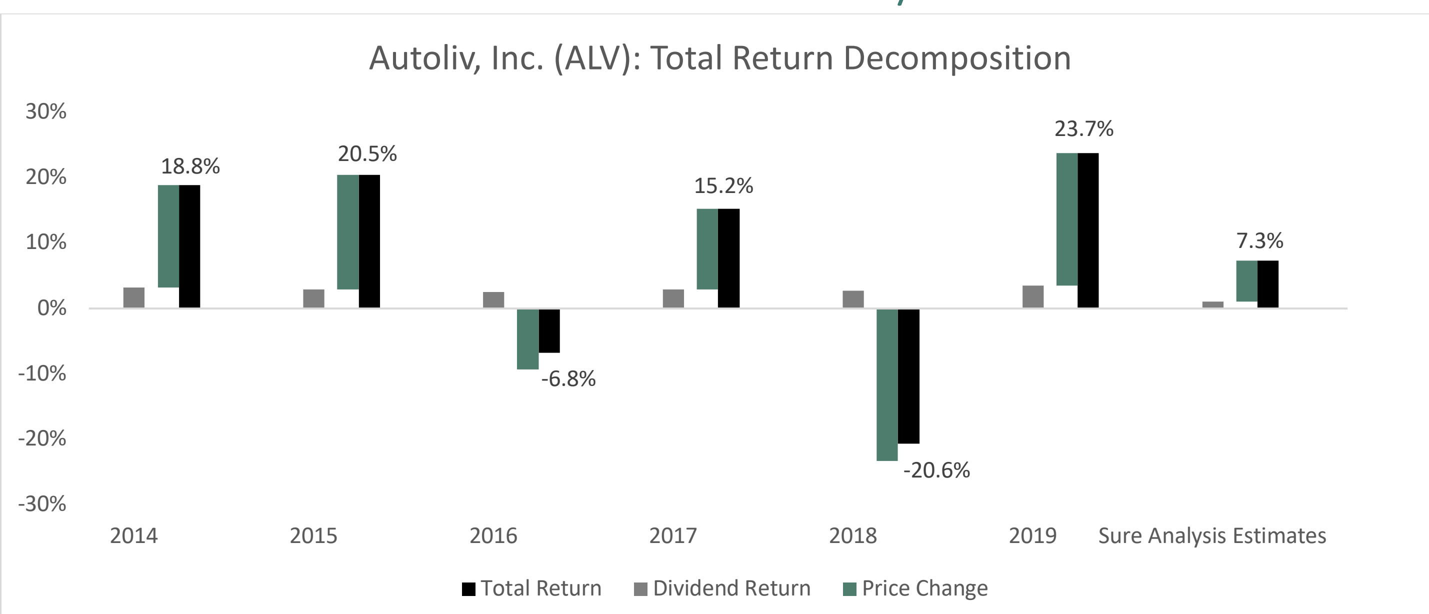
Autoliv's payout ratio should be around 30% under normalized conditions. However, we don't yet know when the payout will be reinstated.

Autoliv's competitive advantage is in its strong market share and the fact that it counts every major global automaker among its customers. It is undoubtedly suffering during this recession, as it did during the last one. 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 deep slowdown. The stock is now much cheaper than it was, but risks are high as well. We see Autoliv potentially producing 7.3% annual returns moving forward based upon normalized earnings. 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.