Johnson Controls Int'l PLC (JCI)

Updated May 5th, 2020 by Eli Inkrot

Key Metrics

Current Price:	$29	**5 Year CAGR Estimate:**	12.0%	**Market Cap:**	$21.5 B
Fair Value Price:	$29	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	06/21/20
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date[1]:**	07/12/20
Dividend Yield:	3.6%	**5 Year Price Target**	$44	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

Overview & Current Events

Johnson Controls, originally founded in 1885, is a $21 billion industrial company that offers Building Solutions (cooling, heating, ventilation and security) around the world, with roughly 40% of its sales coming from North America. Johnson Controls is headquartered in Ireland after its merger with Tyco in 2016. In November of 2018 the company announced it was selling its Power Solutions business. The Power segment made up about a fourth of Johnson Control's business and this sale now makes the company a "pure play" buildings technologies and solutions provider.

On April 30th, 2019 Johnson Controls completed the sale of its Power Business for $11.6 billion in net proceeds. The company then launched an equity tender of 102 million shares for $4.0 billion and repaid $3.4 billion of debt.

On May 1st, 2020 Johnson Controls reported Q2 fiscal year 2020 results for the period ending March 31st, 2020. (Johnson Controls fiscal year ends September 30th.) For the quarter sales came in at $5.44 billion, representing a -5.8% decline compared to Q2 2019. The Building Solutions North America segment held up the best with a -1% decline, but all of the company's segments were lower on a year-over-year basis. Adjusted net income from continuing operations equaled $317 million, up from $287 million, while adjusted earnings-per-share totaled $0.42 versus $0.32 prior.

Previously Johnson Controls provided fiscal year 2020 guidance, expecting revenue to grow in the low to mid-single-digits with adjusted earnings-per-share of $2.50 to $2.60. However, this guidance has been withdrawn as a result of the uncertain environment attributable to the COVID-19 pandemic. However, the company did suspend its share repurchase program and indicate that organic revenue is likely to decline -15% to -20% in the second half of this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.00	$2.42	$2.54	$2.66	$3.19	$3.42	$3.98	$2.60	$1.59	$1.96	***$1.80***	***$2.77***
DPS	$0.55	$0.64	$0.72	$0.76	$0.88	$1.04	$1.16	$1.00	$1.04	$1.04	***$1.04***	***$1.36***
Shares[2]	674	680	682	685	666	647	936	928	932	778	***750***	***730***

The Johnson Controls of today looks very different from the Johnson Controls of five years ago due to the Tyco merger and automotive business spinoff, which is now publicly traded as Adient (ADNT). The 2016 merger with Tyco relocated Johnson Controls to Ireland for tax purposes. Yet Tax legislation changes in the U.S. meant that the benefit of that move has evaporated, and Johnson Controls was left with the integration costs of the merger.

Moreover, the complexity of looking back at historical numbers continues to evolve with the recent sale of the Power Business. We have kept the historical numbers through 2017, but we have inputted only earnings from continuing operations starting with 2018. We believe the Building Solutions segment ought to do well, but keep in mind that the business results could be increasingly volatile, as the company has become more and more concentrated.

This is going to be tested in short order with the COVID-19 pandemic reducing demand in the short-term. To this point, we expect notably lower earnings this year. In addition, we are forecasting 9% growth; however, it is important to note that this is coming off a reduced base. As such, this still implies reduced expectations moving forward.

[1] Estimate
[2] In millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.5	15.4	11.9	12.7	15.0	13.9	10.5	16.2	16.0	18.8	***15.9***	***16.0***
Avg. Yld.	1.9%	1.7%	2.4%	2.2%	1.8%	2.2%	2.8%	2.4%	2.8%	2.8%	***3.6%***	***3.1%***

Looking at the 2010 through 2019 period, shares of Johnson Controls have traded hands with an average P/E ratio of about 14- or 15-times earnings. Earnings-per-share were temporarily depressed after the sale of the Power Business, but they have since rebounded due in large part to Johnson Controls retiring a significant amount of stock. We are using 16 times earnings as a starting fair value baseline, taking into account the ongoing growth avenues – both organically and via share repurchases – which is weighed against a more volatile business and the current crisis.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	28%	26%	28%	29%	28%	30%	29%	38%	65%	53%	***58%***	***49%***

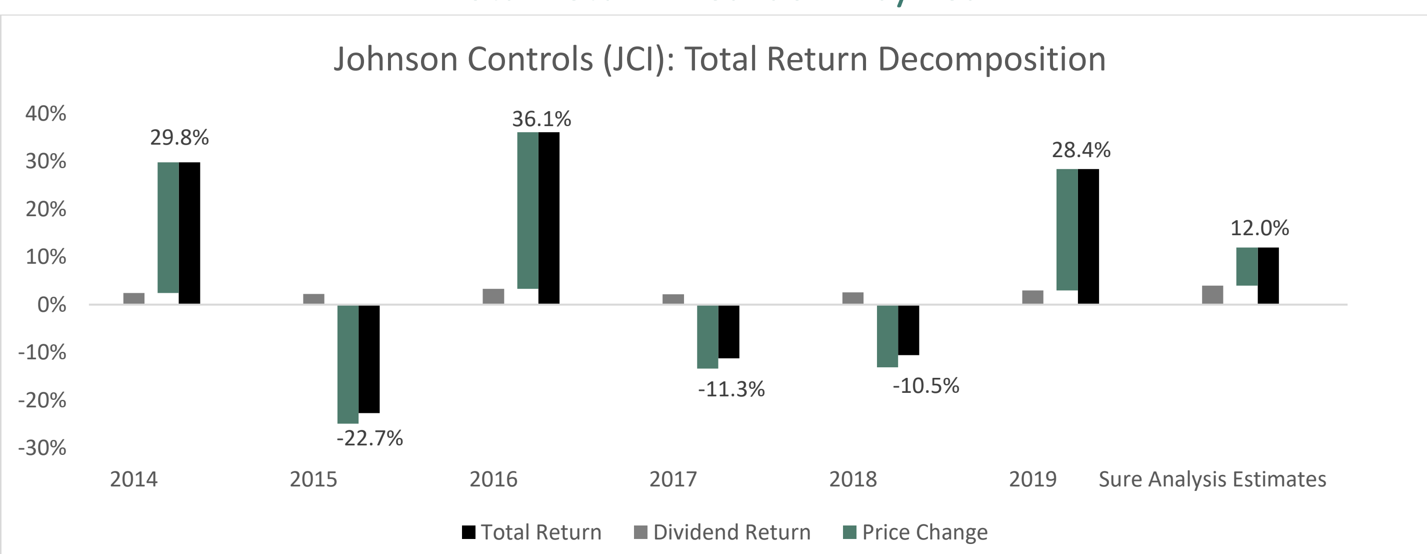
Johnson Controls is one of the key players in the building construction industry, where it provides products and services for heating, ventilation, cooling and security systems. The company's sales network and expertise are hard to replicate for new entrants. Moreover, the sale of the Power business has led to financial flexibility, an increased focus on growth trends, lower capital intensity, and margin expansion.

As of the most recent report, Johnson Controls held $1.0 billion in cash, $10.0 billion in current assets and $40.4 billion in total assets against $9.5 billion in current liabilities and $21.3 billion in total liabilities. Long-term debt stood at $5.6 billion against earnings of $1.7 billion last year.

Final Thoughts & Recommendation

Shares are down -26% since our last report, while earnings expectations have declined as well. Johnson Controls' business continues to transform, with the newest iteration being a "pure play" Buildings Solution company. It should be noted that this transformation comes with added uncertainty in the way of a less diversified business. We are forecasting 12.0% annual total return potential, driven by 9% growth off a lower base, a 3.6% starting dividend yield and a small valuation tailwind. We are reiterating our hold rating, noting that recession performance is likely to be poor.

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	34305	40833	40604	37145	38749	17100	20837	30172	31400	23968
Gross Profit	5221	6059	5837	6146	6305	4531	5654	9339	9380	7693
Gross Margin	15.2%	14.8%	14.4%	16.5%	16.3%	26.5%	27.1%	31.0%	29.9%	32.1%
SG&A Exp.	3796	4393	4311	3627	4216	3191	4190	6158	6010	6244
D&A Exp.	691	731	824	952	955	860	953	1188	1085	825
Operating Profit	1425	1666	1526	2519	2089	1340	1464	3181	3370	1449
Op. Margin	4.2%	4.1%	3.8%	6.8%	5.4%	7.8%	7.0%	10.5%	10.7%	6.0%
Net Profit	1307	1415	1184	1178	1215	1563	-868	1611	2162	5674
Net Margin	3.8%	3.5%	2.9%	3.2%	3.1%	9.1%	-4.2%	5.3%	6.9%	23.7%
Free Cash Flow	661	-249	-272	1309	1196	465	659	-1312	1483	616
Income Tax	127	258	161	674	407	71	197	705	518	-233

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	25743	29676	30954	31518	32804	29622	63179	51884	48797	42287
Cash & Equivalents	560	257	265	1055	409	597	579	321	200	2805
Acc. Receivable	6095	7151	7308	7206	5871	5751	6394	6666	7065	5770
Inventories	1786	2316	2343	2325	2477	2377	2888	3209	3224	1814
Goodwill & Int.	7242	7961	7929	7588	8766	8340	28564	26429	25821	23810
Total Liabilities	15370	18496	19181	18944	21242	19124	38089	30517	26339	21458
Accounts Payable	5426	6159	6114	6318	5270	5174	4000	4271	4644	3582
Long-Term Debt	3389	5146	6068	5498	6680	6610	12759	13572	10995	7219
Total Equity	10071	11042	11625	12314	11311	10335	24118	20447	21164	19766
D/E Ratio	0.34	0.47	0.52	0.45	0.59	0.64	0.53	0.66	0.52	0.37

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.2%	5.1%	3.9%	3.8%	3.8%	5.0%	-1.9%	2.8%	4.3%	12.5%
Return on Equity	13.6%	13.4%	10.4%	9.8%	10.3%	14.4%	-5.0%	7.2%	10.4%	27.7%
ROIC	9.7%	9.4%	6.9%	6.6%	6.7%	8.8%	-3.2%	4.4%	6.3%	18.5%
Shares Out.	674	680	682	685	666	647	936	928	932	778
Revenue/Share	50.26	59.19	58.97	53.90	57.42	25.85	30.98	31.94	33.70	27.41
FCF/Share	0.97	-0.36	-0.40	1.90	1.77	0.70	0.98	-1.39	1.59	0.70

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