Autoliv, Inc. (ALV)

Updated July 28th, 2020 by Josh Arnold

Key Metrics

Current Price:	$70	**5 Year CAGR Estimate:**	3.6%	**Market Cap:**	$6.1 B
Fair Value Price:	$60	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.1%	**Dividend Payment Date:**	N/A
Dividend Yield:	0.9%	**5 Year Price Target**	$77	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	N/A	**Retirement Suitability Score:**	N/A	**Last Dividend Increase:**	N/A

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 $6.1 billion market capitalization. Autoliv is listed in both New York and Stockholm, and is headquartered in the latter city.

Autoliv reported second quarter earnings on July 17th, with results coming in worse than expected on the top and bottom lines. Revenue declined by half year-over-year as much of the second quarter saw automotive production factories shut down around the world. With the company's customers having shut down, and Autoliv itself shutting down for part of the quarter, revenue was tough to come by.

Organic sales plummeted -48% in Q2, with April declining -65%, May declining -55%, and June falling -20%. This sequential improvement suggests that the worst is probably behind Autoliv, barring a second round of shutdowns.

Airbag sales were down -55% in Q2 to $654 million, while seatbelts revenue was off -45% to $394 million. Sales in the US were down -72% in Q2, -61% in Europe, and -22% in Asia. However, China was up 5% as it came out of shut downs more quickly than the rest of the world, so Q2 was more normalized than the rest of the world.

As expected, gross margins plummeted to just 1.4% of revenue, down from nearly 19%, and SG&A costs soared, doubling to 9.4% of revenue due to extremely low production volumes. Management said they expect to see profitability tailwinds in the second half from lower raw material costs, as well as productivity improvements, but the big wildcard is obviously production and sales volumes.

We've cut our estimate of earnings-per-share again to $2.15 for this year as Q2 losses were higher than expected. However, we see a rapid rebound in earnings into the second half of this year and 2021, utilizing an earnings power estimate of $6 per share to normalize for what should be temporary headwinds.

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	***$2.15***	***$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 has 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.

[1] Share count 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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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.

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	***11.7***	***10.0***
Avg. Yld.	1.9%	2.7%	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	***0.9%***	***3.0%***

Autoliv's price-to-earnings ratio has risen significantly since our last report, increasing to 11.7 times our earnings power estimate. We're reiterating our estimate of fair value at 10 times earnings. Therefore, we see a modest headwind to 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 commensurately 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%	***10%***	***30%***

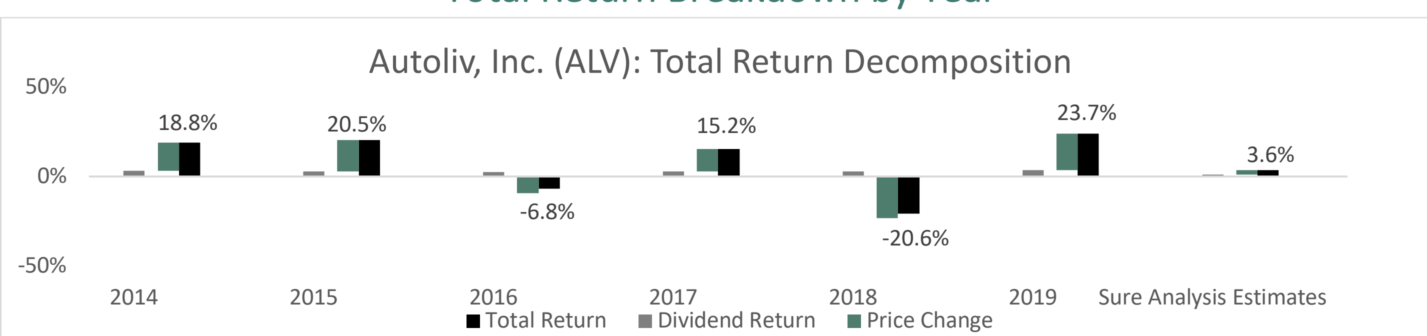
Autoliv's payout ratio should be around 30% under normalized conditions. However, we don't yet know when the payout will be reinstated. We expect the dividend to return in 2021 alongside a rebound in earnings, but no indication has been given yet.

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 more expensive than it was, and risks remain high. We see Autoliv potentially producing 3.6% annual returns moving forward based upon normalized earnings. We're downgrading Autoliv to sell from hold based upon deteriorating total return potential, as well as immense risks in its industry.

Total Return Breakdown by Year



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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.