Autoliv, Inc. (ALV)

Updated November 1st, 2020 by Josh Arnold

Key Metrics

Current Price:	$76	**5 Year CAGR Estimate:**	5.4%	**Market Cap:**	$6.6 B
Fair Value Price:	$75	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date:**	N/A
Dividend Yield:	0.0%	**5 Year Price Target**	$91	**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 $7.3 billion in revenue this year and a $6.6 billion market capitalization. Autoliv is listed in both New York and Stockholm and is headquartered in the latter city; we use the New York listing for this report.

Autoliv reported third quarter results on October 23rd, and while revenue was in line with expectations, earnings came in above consensus estimates. Total revenue was up fractionally against the year-ago period to just over $2 billion. This was a vast improvement over the -48% organic sales performance in the second quarter, which was impacted by COVID-19-related shutdowns. To its credit Autoliv outperformed its benchmark by nearly 5%, as it continues to outpace global auto sales. Airbags revenue was off -1.3% to $1.33 billion, while Seatbelts revenue was up 4% to $706 million.

Adjusted operating margin rose 110bps to 10.1% of revenue in Q3, as adjusted earnings-per-share came to $1.48, up 14% year-over-year, and easily beating estimates.

The company guided for organic sales to decline -13% for this year, producing a total revenue decline of -14.5%. In addition, Autoliv expects operating margin of 6% of revenue for 2020. We've boosted our earnings-per-share estimate to $2.70 following Q3 results, and we've updated our earnings power estimate to $7.50 on a quicker-than-expected recovery in global auto sales.

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	***$2.70***	***$9.12***
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 estimating long-term earnings growth of 4% annually. We're using an estimate of normalized earnings power ($7.50) for our fair value and valuation calculations, rather than actual estimate earnings for this year.

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. Autoliv outperformed this benchmark again in Q3.

[1] Share count in millions

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The dividend has been suspended, but we expect Autoliv to pick it back up at some point when earnings recover. We see the payout at $2.30 by 2025, although we note there is significant forecast risk to this given Autoliv currently isn't paying anything.

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	***10.1***	***10.0***
Avg. Yld.	1.9%	2.7%	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	---	***2.5%***

Autoliv's price-to-earnings ratio has declined since our last report, falling to 10.1 times our earnings power estimate. We're reiterating our estimate of fair value at 10 times earnings. Therefore, we see essentially no impact to total returns from the valuation. We see the yield rising back to 2.5% 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%	---	***25%***

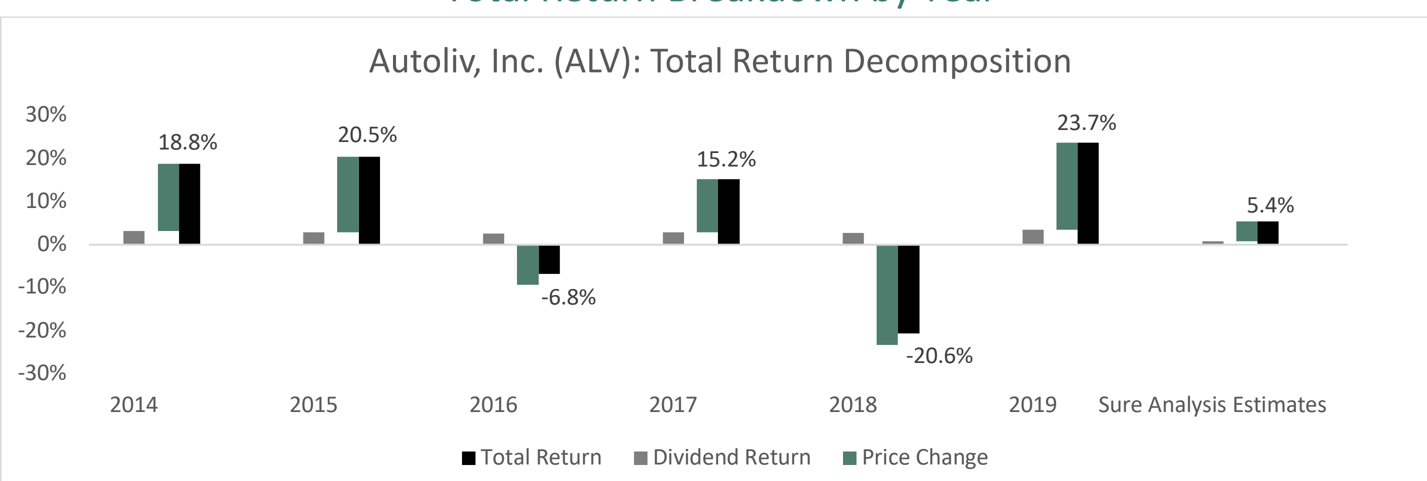
Autoliv's payout ratio should be around 25% under normalized conditions. However, we don't yet know when or if the payout will be reinstated. We expect the dividend to return in 2021 alongside a rebound in earnings, but no indication has been given yet.

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 less expensive than it was, but risks remain high. We see Autoliv potentially producing 5.4% annual returns moving forward based upon normalized earnings. We're upgrading Autoliv to hold from sell based upon a better valuation.

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.