Johnson Controls Int'l PLC (JCI)

Updated November 3rd, 2020 by Eli Inkrot

Key Metrics

Current Price:	$44	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$32 B
Fair Value Price:	$39	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	12/13/20
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Dividend Payment Date[1]:**	01/10/21
Dividend Yield:	2.3%	**5 Year Price Target**	$55	**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 $32 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 November 3rd, 2020 Johnson Controls reported Q4 and fiscal year 2020 results for the period ending September 30th, 2020. For the quarter sales came in at $5.95 billion, representing a -5.1% decline compared to Q4 2019, as the company dealt with the COVID-19 pandemic. All segments posted a decline, with the Building Solutions North America segment (the company's largest) declining -6.6%. Adjusted net income equaled $563 million or $0.76 per share compared to $615 million or $0.78 in Q4 2019. This was above prior guidance of $0.68 to $0.72.

For the year sales came in at $22.32 billion, a -6.9% decline compared to fiscal year 2019. Once more sales were down across the board, with the Building Solutions North America segment posting a -4.7% decline. Adjusted net income equaled $1.688 billion or $2.24 per share compared to $1.71 billion or $1.96 per share in fiscal 2019. The gain in per share EPS, despite a decline in overall profitability, was due to a -6.6% reduction in the company's share count.

Johnson Controls also provided Q1 fiscal 2021 guidance, anticipating adjusted EPS of $0.39 to $0.41.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.42	$2.54	$2.66	$3.19	$3.42	$3.98	$2.60	$1.59	$1.96	$2.24	***$2.45***	***$3.44***
DPS	$0.64	$0.72	$0.76	$0.88	$1.04	$1.16	$1.00	$1.04	$1.04	$1.04	***$1.04***	***$1.40***
Shares[2]	680	682	685	666	647	936	928	932	778	726	***720***	***690***

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, although recent results have been encouraging. We are forecasting $2.45 in EPS for 2021 and using a 7% intermediate-term growth rate.

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[1] Estimate

[2] In millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	15.4	11.9	12.7	15.0	13.9	10.5	16.2	16.0	18.8	14.7	***18.1***	***16.0***
Avg. Yld.	1.7%	2.4%	2.2%	1.8%	2.2%	2.8%	2.4%	2.8%	2.8%	3.2%	***2.3%***	***2.7%***

Looking at the 2011 through 2020 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	26%	28%	29%	28%	30%	29%	38%	65%	53%	46%	***42%***	***41%***

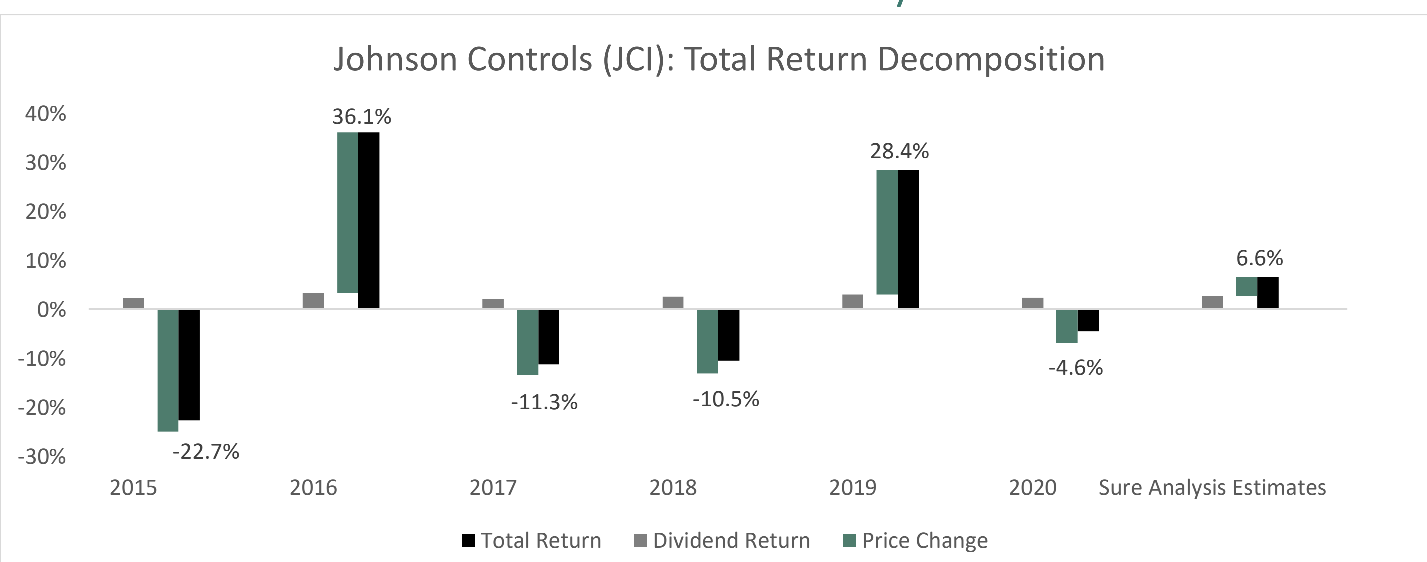
Johnson Controls is one of the key players in the building construction industry, where it provides products and services for heating, ventilation, cooling and security systems. The company's sales network and expertise are hard to replicate for new entrants. Moreover, the sale of the Power business 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 $2.0 billion in cash, $10.0 billion in current assets and $40.8 billion in total assets against $8.2 billion in current liabilities and $22.3 billion in total liabilities. Long-term debt stood at $7.5 billion against ~$1.8 billion in underlying earnings power.

Final Thoughts & Recommendation

After being up 31% in our last report, shares are up another 17% in the last three months. 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 6.6% annual total return potential, driven by 7% growth and a 2.3% starting dividend yield offset by a valuation headwind. We are reiterating our hold rating.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	40833	40604	37145	38749	17100	20837	30172	31400	23968	22320
Gross Profit	6059	5837	6146	6305	4531	5654	9339	9380	7693	7411
Gross Margin	14.8%	14.4%	16.5%	16.3%	26.5%	27.1%	31.0%	29.9%	32.1%	33.2%
SG&A Exp.	4393	4311	3627	4216	3191	4190	6158	6010	6244	5665
D&A Exp.	731	824	952	955	860	953	1188	1085	825	206
Operating Profit	1666	1526	2519	2089	1340	1464	3181	3370	1449	1746
Op. Margin	4.1%	3.8%	6.8%	5.4%	7.8%	7.0%	10.5%	10.7%	6.0%	7.8%
Net Profit	1415	1184	1178	1215	1563	-868	1611	2162	5674	206
Net Margin	3.5%	2.9%	3.2%	3.1%	9.1%	-4.2%	5.3%	6.9%	23.7%	0.9%
Free Cash Flow	-249	-272	1309	1196	465	659	-1312	1483	616	879
Income Tax	258	161	674	407	71	197	705	518	-233	108

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	29676	30954	31518	32804	29622	63179	51884	48797	42287	40820
Cash & Equivalents	257	265	1055	409	597	579	321	200	2805	1951
Acc. Receivable	7151	7308	7206	5871	5751	6394	6666	7065	5770	5294
Inventories	2316	2343	2325	2477	2377	2888	3209	3224	1814	1773
Goodwill & Int.	7961	7929	7588	8766	8340	28564	26429	25821	23810	23290
Total Liabilities	18496	19181	18944	21242	19124	38089	30517	26339	21458	22280
Accounts Payable	6159	6114	6318	5270	5174	4000	4271	4644	3582	
Long-Term Debt	5146	6068	5498	6680	6610	12759	13572	10995	7219	7819
Total Equity	11042	11625	12314	11311	10335	24118	20447	21164	19766	17450
D/E Ratio	0.47	0.52	0.45	0.59	0.64	0.53	0.66	0.52	0.37	0.45

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.1%	3.9%	3.8%	3.8%	5.0%	-1.9%	2.8%	4.3%	12.5%	1.5%
Return on Equity	13.4%	10.4%	9.8%	10.3%	14.4%	-5.0%	7.2%	10.4%	27.7%	3.4%
ROIC	9.4%	6.9%	6.6%	6.7%	8.8%	-3.2%	4.4%	6.3%	18.5%	2.3%
Shares Out.	680	682	685	666	647	936	928	932	778	754
Revenue/Share	59.19	58.97	53.90	57.42	25.85	30.98	31.94	33.70	27.41	29.61
FCF/Share	-0.36	-0.40	1.90	1.77	0.70	0.98	-1.39	1.59	0.70	1.17

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