



ABM Industries (ABM)

Updated December 17th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$40	5 Year CAGR Estimate:	7.6%	Market Cap:	\$2.7B
Fair Value Price:	\$42	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	01/06/21
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	02/01/21
Dividend Yield:	1.9%	5 Year Price Target	\$54	Years Of Dividend Growth:	53
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	2.7%

Overview & Current Events

ABM Industries is a leading provider of facility solutions, which includes janitorial, electrical & lighting, energy solutions, facilities engineering, HVAC & mechanical, landscape & turf, and parking. The company employs about 140,000 people in more than 350 offices throughout the United States and various international locations, primarily in Canada. ABM Industries has increased its dividend for 53 consecutive years, which makes the company a Dividend King. ABM Industries is headquartered in New York, NY.

ABM Industries reported its fourth quarter earnings results (fiscal 2020) on December 16. The company announced that its revenues totaled \$1.48 billion during the quarter, which was above the analyst estimate, but which was still down by 10% versus the previous year's quarter. The revenue decline was primarily caused by lower demand from ABM Industries' customers during the coronavirus crisis, as some customers in heavily-impacted industries cut back on some of the services that ABM Industries offers, in order to preserve cash. ABM Industries battled the negative impact from lower revenues by reducing its own expenses during the crisis, which was enough to grow margins year over year.

ABM Industries was able to generate earnings-per-share of \$0.69 during the fourth quarter, which missed the analyst consensus marginally, by \$0.01. Nevertheless, ABM Industries' earnings-per-share grew by 4.5% versus the previous year's quarter, a very solid growth rate when we account for the negative coronavirus impact on the company's top line. ABM Industries was able to lower its expenses by a lot more compared to the revenue decline it experienced during the quarter, which allowed for rising profits. The same happened during the previous quarter, which is why we expect that profitability will not suffer meaningfully during this crisis.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.39	\$1.39	\$1.52	\$1.53	\$1.62	\$1.74	\$1.75	\$1.89	\$2.05	\$2.43	\$2.40	\$3.06
DPS	\$0.56	\$0.58	\$0.60	\$0.62	\$0.64	\$0.66	\$0.68	\$0.70	\$0.72	\$0.74	\$0.76	\$0.88
Shares¹	53.3	54.4	54.4	55.8	56.1	55.6	65.5	66.0	67.2	67.6	67.8	68.0

ABM Industries' earnings-per-share have compounded at 5% over the last decade, which is solid, but not spectacular. ABM Industries' profits have grown very consistently, as profits have risen during every year of the last decade. This is a remarkable feat that underlines how non-cyclical ABM Industries' business model is. The last year during which its profits declined on a year-over-year basis was 2003. ABM Industries was even able to grow its earnings-per-share during the financial crisis. Because of this outstanding recession performance track record, we believe ABM Industries should be able to do well during future economic downturns, too.

The GCA Services acquisition has allowed the company to expand its foothold both within the United States and internationally, which comes with scale advantages for the company. ABM Industries also plans to capture a meaningful amount of synergies over the years, which could be a positive for the company's long-term earnings-per-share growth rate. As leverage has come down a lot over the last couple of quarters, ABM Industries could do another acquisition in the near term if the opportunity arises to do an accretive takeover.

¹ 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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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.7	15.0	15.3	17.7	18.8	19.2	24.0	16.4	17.6	14.4	16.7	17.5
Avg. Yld.	2.4%	2.8%	2.6%	2.3%	2.1%	2.0%	1.5%	2.3%	2.0%	2.1%	1.9%	1.6%

ABM Industries trades at 17 times this year's forecasted earnings right now. This is slightly below ABM Industries' valuation during most of the last couple of years. We believe that shares are trading marginally below fair value right now, which is why multiple expansion will likely be a small tailwind going forward. ABM Industries' dividend yield stands at slightly below 2%, which is relatively on par with the broad market's yield.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	40.3%	41.7%	39.5%	40.5%	39.5%	37.9%	38.9%	37.0%	35.1%	30.5%	31.7%	28.8%

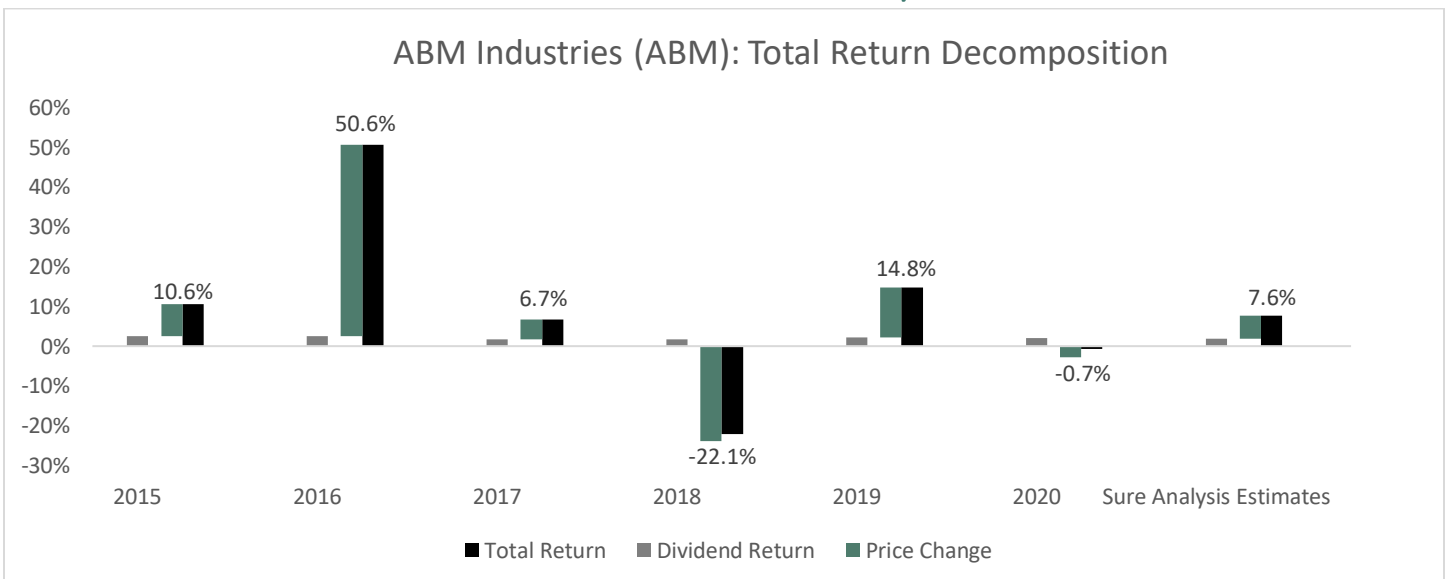
ABM Industries has increased its dividend consistently for decades, but not at a high growth rate. This has made its dividend payout ratio decline slightly throughout the last decade, as earnings growth outpaced ABM Industries' dividend growth. Due to the low dividend payout ratio and its very stable, recession-resilient business model, ABM Industries' dividend looks very safe. ABM Industries would likely not be harmed during a recession in a meaningful way, which is why we believe it is a low-risk investment from that perspective, including during this pandemic.

ABM Industries is one of the biggest companies in its industry, and its history of making acquisitions has enhanced its scale advantages further. It is likely that the company will continue to make acquisitions to increase its size further whenever the company finds a valuable target that can be acquired at a fair price.

Final Thoughts & Recommendation

ABM Industries is active in a somewhat boring industry, but this does not mean that the stock is a bad investment per se. ABM Industries has been a great low-risk dividend growth investment in the past. We believe that the company will continue to grow its profits over the coming years, and the company should be able to weather recessions well, including the current crisis. Based on solid forecasted total returns, we rate the stock a hold right here.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,496	4,247	4,300	4,428	4,650	4,898	5,145	5,454	6,442	6,499
Gross Profit	362	466	446	464	489	506	541	572	695	731
Gross Margin	10.3%	11.0%	10.4%	10.5%	10.5%	10.3%	10.5%	10.5%	10.8%	11.3%
SG&A Exp.	242	325	328	331	348	395	410	437	438	453
D&A Exp.	36	53	51	59	56	57	58	70	113	107
Operating Profit	109	118	97	105	115	86	106	104	191	220
Operating Margin	3.1%	2.8%	2.2%	2.4%	2.5%	1.8%	2.1%	1.9%	3.0%	3.4%
Net Profit	64	69	63	73	76	76	57	4	98	127
Net Margin	1.8%	1.6%	1.5%	1.6%	1.6%	1.6%	1.1%	0.1%	1.5%	2.0%
Free Cash Flow	126	138	123	103	84	120	40	(52)	270	203
Income Tax	40	37	30	36	44	18	(10)	9	(8)	33

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	1,549	1,880	1,851	2,119	2,193	2,131	2,279	3,813	3,628	3,693
Cash & Equivalents	39	26	43	33	37	56	54	63	39	59
Accounts Receivable	451	552	561	691	687	743	804	1,038	1,014	1,013
Goodwill & Int. Ass.	660	880	861	1,017	982	979	1,017	2,294	2,190	2,133
Total Liabilities	810	1,084	1,001	1,202	1,224	1,123	1,305	2,437	2,173	2,151
Accounts Payable	79	130	130	157	174	179	174	231	222	281
Long-Term Debt	141	300	215	315	320	158	268	1,178	939	802
Shareholder's Equity	739	796	850	918	969	1,008	974	1,376	1,455	1,542
D/E Ratio	0.19	0.38	0.25	0.34	0.33	0.16	0.28	0.86	0.65	0.52

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	4.2%	4.0%	3.4%	3.7%	3.5%	3.5%	2.6%	0.1%	2.6%	3.5%
Return on Equity	9.0%	8.9%	7.6%	8.2%	8.0%	7.7%	5.8%	0.3%	6.9%	8.5%
ROIC	7.4%	6.9%	5.8%	6.3%	6.0%	6.2%	4.8%	0.2%	4.0%	5.4%
Shares Out.	52.6	53.3	54.4	54.4	55.8	56.1	55.6	65.5	66.0	66.0
Revenue/Share	66.07	78.50	78.33	78.93	81.43	85.33	90.42	93.54	97.02	97.14
FCF/Share	2.38	2.55	2.23	1.83	1.47	2.09	0.69	(0.89)	4.07	3.04

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

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