Autoliv, Inc. (ALV)

Updated January 28th, 2021 by Josh Arnold

Key Metrics

Current Price:	$89	**5 Year CAGR Estimate:**	10.1%	**Market Cap:**	$7.8 B
Fair Value Price:	$98	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.9%	**Dividend Payment Date:**	N/A
Dividend Yield:	N/A	**5 Year Price Target**	$144	**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 $9.3 billion in revenue this year and a $7.8 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 and US dollars for this report.

Autoliv reported fourth quarter and full-year earnings on January 26th, 2021 with results coming in quite strong against expectations on both the top and bottom lines. Organic sales were up 13% in Q4 against a 4.7% gain in global light vehicle production. Autoliv has outperformed this benchmark for many years. In China, organic sales were up 15%, Americas revenue was up 12%, and Europe was up 10%. All regions vastly outperformed light vehicle production totals once again. By product, revenue rose 13% for Airbags to $1.64 billion, while Seatbelts revenue soared 18% to $880 million. In total, revenue was up 15% year-over-year to $5.5 billion.

The company continued its streak of boosting operating margins, this time seeing a 130bps gain to 12.4% of revenue. Autoliv continues to see expense leverage on higher revenue thanks to tight cost controls.

The company noted light vehicle production is expected to be lower in 2021 than the past two quarters but guided for total sales of +25% and organic sales of +20% for 2021 despite the LVP headwind. Adjusted operating margin is forecast at 10% of revenue, and our initial estimate is for $7.00 in earnings-per-share. Autoliv should achieve this mostly via a rebound in revenue after prolonged shutdowns in 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$6.65	$5.08	$5.07	$5.06	$5.17	$6.42	$4.87	$6.83	$5.72	$3.15	***$7.00***	***$10.29***
DPS	$1.78	$1.89	$2.00	$2.12	$2.22	$2.30	$2.38	$2.46	$2.48	$0.62	---	---
Shares[1]	89	96	94	89	88	88	87	87	87	87	***87***	***87***

Autoliv's earnings-per-share has been 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 8% annually. This is up from our prior estimate of 4% because Autoliv has rebounded from COVID-19 shutdowns much quicker than expected. With LVP back at normalized levels, we see the future as bright.

Autoliv is performing well against benchmarks, but the benchmarks aren't moving higher. LVP rebounded significantly in the second half of 2020 and is generally back to normalized levels. We note that Autoliv's level of outperformance against LVP has widened.

The dividend remains suspended and we do not know if or when it may be reinstated.

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[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.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	9.9	12.0	15.6	19.6	22.2	17.1	23.1	14.1	13.3	22.7	***12.7***	***14.0***
Avg. Yld.	2.7%	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	0.9%	---	---

Autoliv's price-to-earnings ratio has increased since our last report, rising to 12.7 times our earnings estimate for 2021. We are boosting our fair value estimate to 14 times earnings, which is more normalized based upon historical data, because Autoliv has rebounded exceptionally quickly from the slowdown of 2020. With shares at less than 13 times earnings, we see a modest tailwind to total returns.

There is no dividend for Autoliv at this time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	25%	37%	39%	42%	43%	36%	49%	36%	43%	20%	---	---

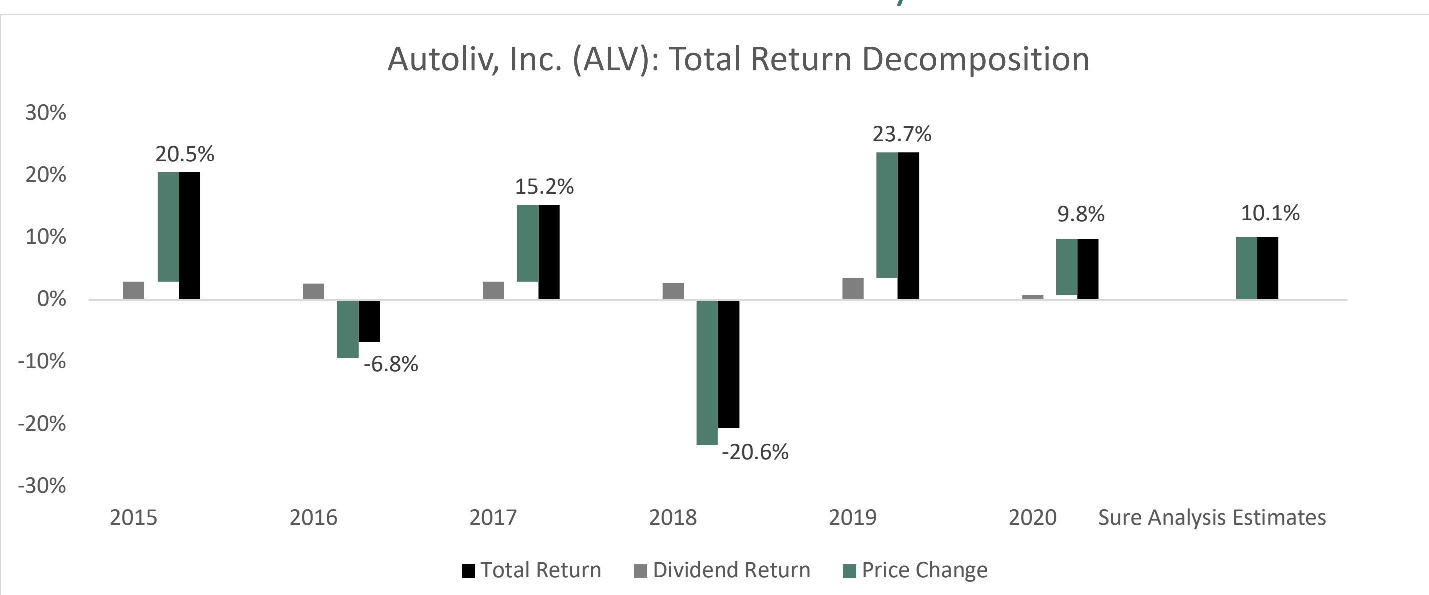
Given earnings have rebounded but the dividend still hasn't been reinstated, we have removed our dividend assumption for the time being until management gives an indication of when it may be reinstated.

Autoliv's competitive advantage is in its strong market share and the fact that it counts every major global automaker among its customers. It undoubtedly suffered in 2020, as it did during the last recession, but has rebounded. Autoliv continues to get multiple products in major vehicle launches across the world, reaffirming its strong market position.

Final Thoughts & Recommendation

Autoliv's valuation has moved higher since our last update as the stock has rallied strongly. However, we see much higher earnings for the company this year, along with a stronger long-term growth rate. The dividend is still suspended, but with a higher fair value projection, we still see Autoliv's total return outlook as quite strong at 10.1% annually. Given that LVP has rebounded, and that Autoliv's growth outlook is much stronger, we are boosting the stock from hold to buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	8,232	8,267	8,803	9,241	9,170	7,922	8,137	8,678	8,548	7,447
Gross Profit	1,728	1,646	1,705	1,804	1,844	1,628	1,680	1,711	1,584	1,247
Gross Margin	21.0%	19.9%	19.4%	19.5%	20.1%	20.6%	20.6%	19.7%	18.5%	16.7%
SG&A Exp.	369	367	390	415	412	394	407	390	399	389
D&A Exp.	268	273	286	305	319	383	426	397	351	371
Operating Profit	889	705	761	723	728	831	860	686	726	382
Operating Margin	10.8%	8.5%	8.6%	7.8%	7.9%	10.5%	10.6%	7.9%	8.5%	5.1%
Net Profit	623	483	486	468	457	567	427	190	462	187
Net Margin	7.6%	5.8%	5.5%	5.1%	5.0%	7.2%	5.2%	2.2%	5.4%	2.5%
Free Cash Flow	391	323	450	255	260	361	356	31	165	509
Income Tax	201	183	244	198	218	224	204	235	186	103

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	6,117	6,570	6,983	7,443	7,526	8,234	8,550	6,722	6,771	8,157
Cash & Equivalents	739	978	1,118	1,529	1,334	1,227	960	616	445	1,178
Accounts Receivable	1,458	1,509	1,688	1,706	1,788	1,960	1,697	1,652	1,627	1,822
Inventories	623	611	662	676	711	773	704	758	741	798
Goodwill & Int. Ass.	1,716	1,707	1,687	1,661	1,794	2,083	1,440	1,423	1,410	1,412
Total Liabilities	2,768	2,794	2,983	4,001	4,057	4,308	4,381	4,825	4,649	5,734
Accounts Payable	1,084	1,056	1,200	1,092	1,170	1,197	957	978	951	1,254
Long-Term Debt	666	633	619	1,601	1,539	1,543	1,330	2,230	2,094	2,411
Shareholder's Equity	3,333	3,759	3,981	3,427	3,456	3,677	4,035	1,884	2,109	2,409
D/E Ratio	0.20	0.17	0.16	0.47	0.45	0.42	0.33	1.18	0.99	1.00

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.6%	7.6%	7.2%	6.5%	6.1%	7.2%	5.1%	2.5%	6.8%	2.5%
Return on Equity	19.9%	13.6%	12.6%	12.6%	13.3%	15.9%	11.1%	6.4%	23.1%	8.3%
ROIC	16.2%	11.5%	10.8%	9.7%	9.1%	10.8%	7.8%	4.0%	11.1%	4.1%
Shares Out.	89	96	94	89	88	88	87	87	87	87
Revenue/Share	87.86	86.93	91.80	100.01	103.73	89.61	92.78	99.41	97.91	85.11
FCF/Share	4.17	3.40	4.70	2.76	2.94	4.08	4.06	0.35	1.89	5.82

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