



Aon Plc (AON)

Updated February 14th, 2021 by Josh Arnold

Key Metrics

Current Price:	\$228	5 Year CAGR Estimate:	8.9%	Market Cap:	\$52 B
Fair Value Price:	\$209	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	04/30/21 ¹
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Dividend Payment Date:	05/15/21 ²
Dividend Yield:	0.8%	5 Year Price Target	\$337	Years Of Dividend Growth:	9
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	4.5%

Overview & Current Events

Aon is a professional services firm headquartered in London, United Kingdom. The company provides a variety of services including consulting, risk management, and health plan management. Aon has approximately 500 offices worldwide that serve 120 countries through a workforce that numbers nearly 70,000. U.S. investors can initiate an ownership stake in Aon through American Depositary Receipts that trade with a market capitalization of \$52 billion on the New York Stock Exchange, under the ticker AON. Aon should generate around \$11.5 billion in revenue this year.

Aon reported fourth quarter and full-year earnings on February 5th, 2021 with results coming in ahead of expectations on both the top and bottom lines. Total revenue in Q4 was up 3% to \$2.965 billion year-over-year, driven by 2% organic growth and a 1% favorable impact from currency translation. The company said it saw continued growth in the core business driven by strong retention rates, as well as net new business generation.

Commercial Risk Solutions organic revenue was up 4%, Reinsurance Solutions organic revenue was up 12%, Retirement Solutions organic revenue was down -2%, Health Solutions organic revenue rose 2%, and Data & Analytic Services revenue was down -8%.

Total operating expenses were down -5% year-over-year to \$2.3 billion, primarily attributable to a \$170 million decrease in restructuring charges, expense discipline, and lower amortization costs.

Operating margin was up to 24% of revenue, but on an adjusted basis, was down 100bps to 26.9%. Still, earnings-per-share rose 4% year-over-year to \$2.62 on an adjusted basis, capping another good year of growth despite the obvious challenges the pandemic presented.

Our initial estimate for this year is \$11 in earnings-per-share as Aon continues to buy back stock at a decent rate, as well as seeing organic growth and generally very high operating margins.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.86	\$2.99	\$3.53	\$4.66	\$4.88	\$5.16	\$6.52	\$8.16	\$9.17	\$9.81	\$11.00	\$17.72
DPS	\$0.60	\$0.62	\$0.68	\$0.92	\$1.15	\$1.29	\$1.41	\$1.56	\$1.72	\$1.78	\$1.84	\$3.24
Shares³	325	311	301	280	270	262	254	245	237	230	225	205

Between 2011 and 2020, Aon compounded its adjusted earnings-per-share at a rate of nearly 15% per year. Looking ahead, we believe that company's growth is likely to continue to be quite strong, albeit a bit slower than its historical pace. More specifically, we are forecasting 10% annualized earnings growth over a full economic cycle.

Management continues to be bullish, and rightfully so, as Aon's businesses are posting very strong rates of growth across the board, for the most part. We see expense savings as a driver of earnings growth along with the buyback, and organic revenue growth should continue to move the top line higher as well. Given the broad assortment of professional services the company offers as well as its global footprint, we are bullish on Aon's future. We note forex translation has

¹ Estimated date

² Estimated date

³ Share count in millions

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been a sizable headwind in the past, but Aon has thus far been able to overcome that, and then some. The merger with Willis Towers Watson should produce somewhat higher growth, but we will await the merger to alter our growth estimates accordingly. That merger is expected to close early this year.

The dividend should continue to rise at roughly the rate of earnings, and we have the payout at \$3.24 in 2026, up from the current \$1.84. Aon is not a high-yield stock by any means, but its dividend growth potential is strong.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.9	16.8	19.2	18.6	19.8	20.4	20.1	17.9	17.7	20.3	20.7	19.0
Avg. Yld.	1.2%	1.2%	1.0%	1.1%	1.2%	1.2%	1.1%	1.1%	0.9%	0.9%	0.8%	1.0%

Aon has traded at an average price-to-earnings ratio of ~19 over the last decade, which we are using for a fair value estimate. The company is trading for a price-to-earnings ratio of 20.7 using our 2021 earnings-per-share estimate. That implies a small headwind to total returns from the valuation, as Aon is trading just above our estimate of fair value. We see the yield staying about where it is for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	21%	21%	19%	20%	24%	25%	22%	19%	19%	18%	17%	18%

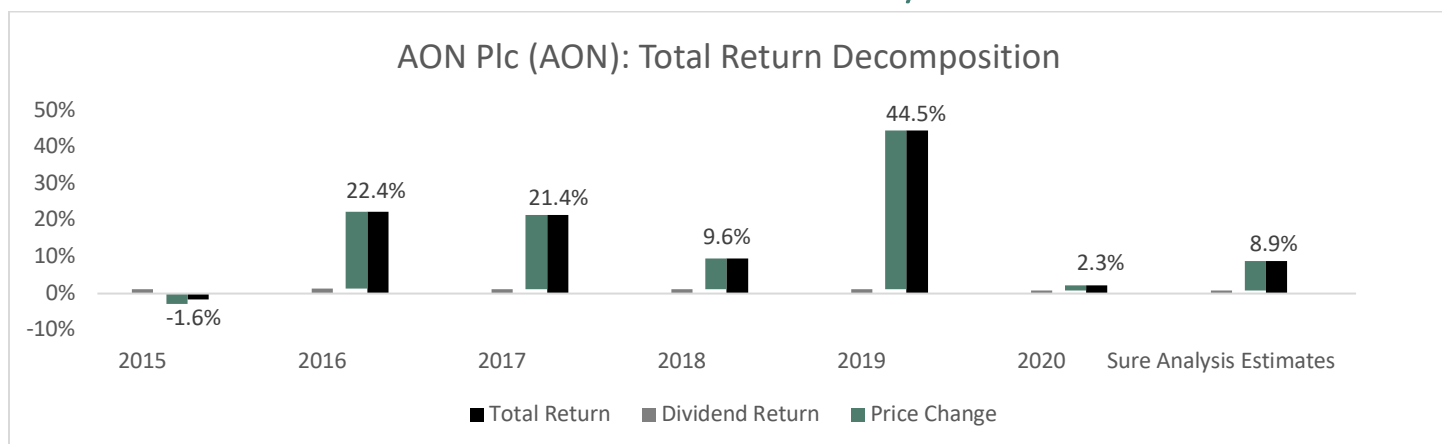
Aon's payout ratio is still very low, consistent with the company's historical practices, and we do not believe that will change. We see the dividend remaining around one-fifth of total earnings, so the payout is extremely safe. However, this means Aon is highly unlikely to have a meaningful yield anytime soon. Management did reiterate that it plans to protect the dividend during periods of uncertainty, so we see it as very safe.

Aon was resilient during the Great Recession and we expect that will be the case again, the product of its very diversified revenue streams. This is also a competitive advantage for the firm, along with its world-class client list and reputation.

Final Thoughts & Recommendation

We are forecasting 8.9% total annual returns, consisting of the 0.8% yield, 10% earnings-per-share growth, and a small headwind from the valuation. With total return potential nearly identical to where it was at the time of our last update, we're reiterating the stock at a hold rating. Aon offers dividend growth potential, but also a long runway for earnings-per-share growth. The merger with Willis Towers Watson should help with future growth as well.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	11287	11514	11815	12045	9480	9409	9998	10770	11013	11,066
SG&A Exp.	3,124	3,209	3,199	3,065	1,951	1,765	2,039	2,354	2,226	5,161
D&A Exp.	582	655	635	594	338	319	891	769	564	46.6%
Operating Profit	1,596	1,596	1,671	1,966	1,587	1,811	1,065	1,544	2,169	1,967
Operating Margin	14.1%	13.9%	14.1%	16.3%	16.7%	19.2%	10.7%	14.3%	19.7%	413
Net Profit	979	993	1,113	1,397	1,385	1,396	1,226	1,134	1,532	2,781
Net Margin	8.7%	8.6%	9.4%	11.6%	14.6%	14.8%	12.3%	10.5%	13.9%	25.1%
Free Cash Flow	777	1,150	1,524	1,556	1,809	2,170	551	1,446	1,610	1,969
Income Tax	378	360	390	334	175	148	250	146	297	17.8%

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	29,552	30,486	30,251	29,772	26,883	26,615	26,088	26,422	29,405	32,106
Cash & Equivalents	272	291	477	374	384	426	756	656	790	884
Acc. Receivable	3,183	3,101	2,896	2,815	2,564	2,106	2,478	2,760	3,112	3,070
Goodwill & Int.	12,046	11,918	11,575	11,380	10,628	9,300	10,091	9,320	8,948	9,306
Total Liabilities	21,432	22,681	22,056	23,141	20,824	21,083	21,440	22,203	25,956	28,523
Accounts Payable	1,832	1,853	1,931	1,805	1,772	1,604	1,961	1,943	1,939	---
Long-Term Debt	4,492	4,165	4,389	5,582	5,700	6,205	5,966	6,244	7,339	7,729
Total Equity	8,078	7,762	8,145	6,571	6,002	5,475	4,583	4,151	3,375	3,495
D/E Ratio	0.56	0.54	0.54	0.85	0.95	1.13	1.30	1.50	2.17	2.21

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.3%	3.3%	3.7%	4.7%	4.9%	5.2%	4.7%	4.3%	5.5%	6.4%
Return on Equity	12.0%	12.5%	14.0%	19.0%	22.0%	24.3%	24.4%	26.0%	40.7%	57.3%
ROIC	7.7%	8.1%	9.1%	11.3%	11.6%	11.9%	11.0%	10.8%	14.4%	17.8%
Shares Out.	325	311	301	280	270	262	254	245	237	230
Revenue/Share	33.11	34.62	37.46	40.20	33.40	34.81	38.35	43.60	45.77	47.47
FCF/Share	2.28	3.46	4.83	5.19	6.37	8.03	2.11	5.85	6.69	11.33

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

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