ABB Ltd. (ABB)

Updated April 29th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	-1.5%	**Market Cap:**	$66.2 B
Fair Value Price:	$18	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	3/29/2021
% Fair Value:	188%	**5 Year Valuation Multiple Estimate:**	-11.8%	**Dividend Payment Date:**	5/14/2021
Dividend Yield:	2.6%	**5 Year Price Target**	$26	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.8%

Overview & Current Events

ABB is a global provider of automation technologies and power solutions. The company operates in more than 100 countries and has four business units: Electrification Products, Robotics & Discrete Automation, Motion and Industrial Automation. ABB is incorporated in Switzerland, but domestic investors can initiate an ownership stake in the company through American Depository Receipts that trade with a market capitalization of US$66.2 billion under the ticker ABB on the New York Stock Exchange.

In late April, ABB reported (4/27/21) financial results for the first quarter of fiscal 2021. The company began to recover from the pandemic. The performance was negatively affected by a weak environment in cruising and oil & gas divisions but it was helped by improved trends in the U.S. and stellar growth in China. Comparable revenue grew 7% and comparable orders edged up 1% over the prior year's quarter while operational earnings-per-share grew 41%, from $0.18 to $0.25. In essence, the performance of ABB returned to its pre-pandemic level.

Management provided positive guidance for the rest of the year. It expects comparable revenue growth of at least 10% in the second quarter and at least 5% in the full year. Thanks to its positive outlook, ABB initiated a share repurchase program of $4.3 billion, which ends in March-2022 and is sufficient to reduce the share count by about 6% at the current stock price.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.38	$1.18	$1.23	$1.13	$0.87	$0.88	$1.25	$1.33	$1.24	$0.98	***$1.10***	***$1.62***
DPS	$0.68	$0.71	$0.72	$0.77	$0.75	$0.75	$0.76	$0.81	$0.79	$0.83	***$0.87***	***$1.00***
Shares[1]	2290.4	2295.9	2300.6	2314.7	2191.6	2138.7	2138.7	2135.0	2135.0	2071.0	***2000***	***1900***

ABB's per-share growth in net income over the last decade has been far from compelling. In addition, the company is now facing a downturn due to the pandemic. However, we expect the global economy to begin to recover in the second half of the year thanks to the massive vaccination program underway. Moreover, ABB has a number of current growth opportunities that lead us to believe its future performance will be stronger than its historical track record. The Electrification segment, which generates 46% of the total revenues of ABB, seems to have the most promising prospects thanks to strong demand in key segments, such as rail, data centers, wind and electric vehicle infrastructure. We thus expect 8% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.1	15.9	18.6	20.8	23.1	22.9	23.5	17.3	16.0	23.8	***30.0***	***16.0***
Avg. Yld.	3.1%	3.8%	3.1%	3.3%	3.7%	3.7%	3.1%	3.4%	4.0%	3.6%	***2.6%***	***3.9%***

[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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ABB has traded at an average price-to-earnings ratio of 19.8 over the last decade. With that said, this sample includes several years (2014-2017) in which the stock traded with an elevated P/E ratio. We believe that fair value for a company of ABB's caliber lies somewhere around 16 times earnings. The stock is currently trading at a decade-high price-to-earnings ratio of 30.0. If the stock were to trade at our estimated fair earnings multiple of 16.0 in five years, it would incur an -11.8% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	49.3%	60.2%	58.5%	68.1%	86.2%	85.2%	73.8%	58.6%	63.7%	84.7%	***79.1%***	***61.8%***

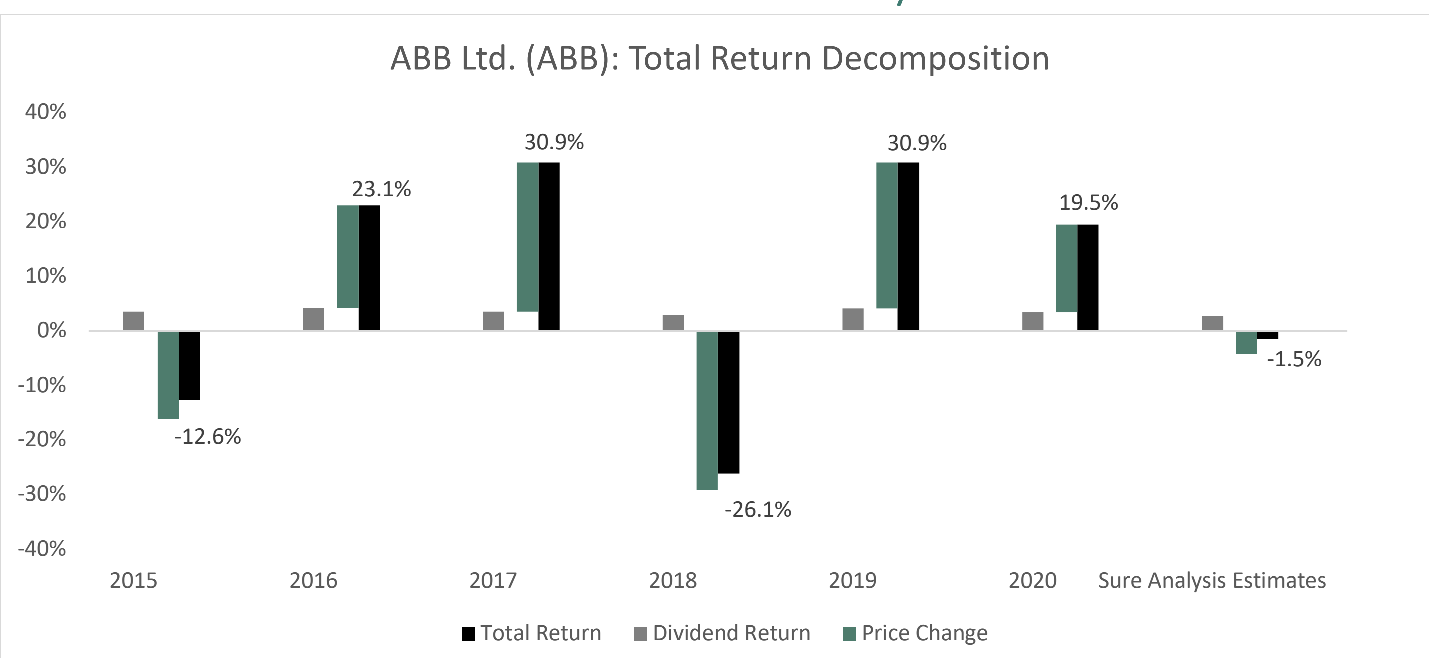
ABB has global businesses that are either the #1 or #2 player in attractive markets, with strong secular growth. The company expects its business markets to grow by 3.5%-4.0% per year on average over the long run. Thanks to its dominant position in its segments, ABB has a strong reputation and thus enjoys a significant competitive advantage over its peers.

Moreover, the company has a strong balance sheet, with its interest expense having consumed only 18% of its operating income in the last 12 months. On the other hand, the performance of ABB is greatly affected by economic growth and oil prices, which are beyond its control. Due to this vulnerability, the stock tends to underperform the market during sell-offs. Consequently, only investors who can tolerate significant price pressure should consider this stock.

Final Thoughts & Recommendation

ABB has a variety of appealing characteristics. It is a global business with leadership in many segments of the industrial sector. Moreover, we view the global recession as temporary and expect the business of ABB to begin to recover this year. However, the stock of ABB has more than doubled off its bottom last year and it is now trading at an all-time high, at a decade-high price-to-earnings ratio. It will also be highly vulnerable if the pandemic lasts longer than currently anticipated. Overall, we expect the stock to offer low returns over the next five years. We thus rate it as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	37990	39336	41848	39830	35481	24929	25196	27662	27978	26,134
Gross Profit	11434	11378	11992	11215	10134	7533	7846	8544	8906	7,878
Gross Margin	30.1%	28.9%	28.7%	28.2%	28.6%	30.2%	31.1%	30.9%	31.8%	30.1%
SG&A Exp.	5373	5756	6094	6067	5574	4532	4765	5295	5447	4,895
D&A Exp.	995	1182	1318	1305	1160	870	836	916	961	915
Operating Profit	4690	4158	4428	3649	3154	2034	2068	2102	2261	1,904
Op. Margin	12.3%	10.6%	10.6%	9.2%	8.9%	8.2%	8.2%	7.6%	8.1%	7.3%
Net Profit	3168	2704	2787	2594	1933	1899	2213	2173	1439	5,146
Net Margin	8.3%	6.9%	6.7%	6.5%	5.4%	7.6%	8.8%	7.9%	5.1%	19.7%
Free Cash Flow	2591	2486	2547	2819	2942	3211	3047	2152	1563	999
Income Tax	1244	1030	1122	1202	788	526	583	544	772	496

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	39648	49070	48064	44852	41356	39202	43458	44441	46108	41,088
Cash & Equivalents	4819	6875	6021	5443	4565	3644	4526	3445	3544	3,278
Acc. Receivable	7750	8233	8360	7715	7197	7293	5553	5970	6434	6,820
Inventories	5737	6182	6004	5376	4757	4347	3737	4284	4184	4,469
Goodwill & Int.	9522	13727	13967	12755	12008	11497	11961	13371	13077	12,928
Total Liabilities	23312	31624	28856	28037	26368	25305	28109	29907	32128	25,089
Accounts Payable	4789	4992	5112	4765	4342	4446	3736	4424	4353	4,571
Long-Term Debt	3996	10071	8023	7665	7439	6803	7408	8618	9059	6,121
Total Equity	15777	16906	18678	16269	14481	13395	14819	13952	13526	15,685
D/E Ratio	0.25	0.60	0.43	0.47	0.51	0.51	0.50	0.62	0.67	0.39

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	8.3%	6.1%	5.7%	5.6%	4.5%	4.7%	5.4%	4.9%	3.2%	11.8%
Return on Equity	20.7%	16.5%	15.7%	14.8%	12.6%	13.6%	15.7%	15.1%	10.5%	35.2%
ROIC	16.7%	11.3%	10.2%	10.0%	8.2%	8.8%	10.2%	9.5%	6.2%	22.8%
Shares Out.	2290.4	2295.9	2300.6	2314.7	2191.6	2138.7	2138.7	2135.0	2135.0	2071.0
Revenue/Share	16.58	17.14	18.16	17.36	15.91	11.57	11.73	12.93	13.10	12.33
FCF/Share	1.13	1.08	1.11	1.23	1.32	1.49	1.42	1.01	0.73	0.47

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