Autoliv, Inc. (ALV)

Updated April 26th, 2021 by Josh Arnold

Key Metrics

Current Price:	$106	**5 Year CAGR Estimate:**	5.9%	**Market Cap:**	$9.3 B
Fair Value Price:	$96	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	N/A
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date:**	N/A
Dividend Yield:	N/A	**5 Year Price Target**	$141	**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 60,000 employees, about $9.1 billion in revenue this year and a $9.3 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 U.S. dollars for this report.

Autoliv reported first quarter earnings on April 23rd, 2021, with results coming in ahead of expectations on both the top and bottom lines. Total revenue was up 21% year-over-year to $2.24 billion, as Autoliv retraced some of the lost revenue from the early stages of COVID-19 shutdowns, as well as produced strong organic growth. Autoliv saw organic growth come in at 17.9%, which was about 4% better than global light vehicle production (LVP), which is the company's benchmark. The company said it saw strong organic growth on new vehicle launches globally, as well as favorable product mix.

Operating margin came to 10.6% of revenue, which was driven by strong sales growth, and continued cost controls. That provided Autoliv with very strong operating leverage during the quarter, adding 3.2% to operating margins. Earnings-per-share came to $1.79 in Q1, which was more than double the year-ago period.

Autoliv guided for 23% sales growth for this year, including 20% organic sales growth. In addition, it guided for 10% adjusted operating margins. Given this, we've slightly trimmed our 2021 estimates, down from $7.00 to $6.85 in earnings-per-share.

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	***$6.85***	***$10.06***
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 booming globally, we see the future as bright.

Autoliv is performing well against benchmarks, as was evidenced again by Q1 results. LVP rebounded significantly in the second half of 2020 and is generally back to normalized levels, but with more growth expected in 2021. We note that Autoliv's level of outperformance against LVP has remained strong.

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

[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.

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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	***15.5***	***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 15.5 times our earnings estimate for 2021. We reiterate our fair value estimate of 14 times earnings, which is more normalized based upon historical data, because Autoliv has rebounded exceptionally quickly from the slowdown of 2020. Given the post-earnings run in shares, the stock is a bit expensive, so we see a small headwind 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%	---	---

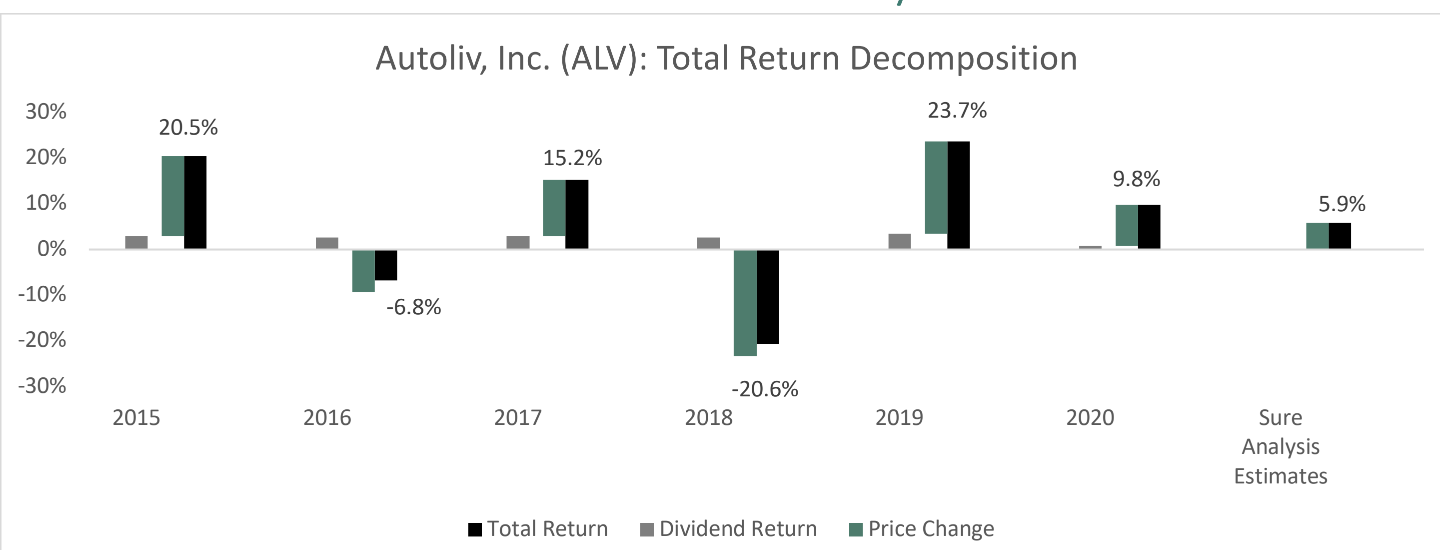
Given earnings have rebounded but the dividend still hasn't been reinstated, we have removed our dividend assumption for the time being until management gives an indication of when it may be reinstated.

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 decent at 5.9% annually. Given that LVP has rebounded, and that Autoliv's growth outlook remains strong, but that the valuation has moved in excess of our estimate of fair value, we are downgrading Autoliv from buy to hold. We see the current rally as pricing in much of the company's expected growth.

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.