Garmin Ltd. (GRMN)

Updated May 29th, 2021 by Josh Arnold

Key Metrics

Current Price:	$142	**5 Year CAGR Estimate:**	1.3%	**Market Cap:**	$27 B
Fair Value Price:	$102	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	06/14/21
% Fair Value:	140%	**5 Year Valuation Multiple Estimate:**	-6.5%	**Dividend Payment Date:**	06/30/21
Dividend Yield:	1.9%	**5 Year Price Target**	$136	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	9.8%

Overview & Current Events

Garmin is a technology company based in Switzerland. It manufactures navigation, communication, and information devices and applications that are enabled by GPS. Its business segments are as follows: Auto, Aviation, Marine, Outdoor, and Fitness. The Auto segment offers auto navigation products for vehicles. The Aviation segment includes navigation, communications transmitters and receivers, multi-function displays, electronic flight instrumentation systems, automatic flight control systems, and traffic advisory systems. The Marine segment includes products for recreational boats. The Outdoor segment makes products for outdoor activities, while the Fitness segment makes products designed for activity tracking. Garmin produces $4.7 billion in annual revenue and has a $27 billion market capitalization.

Garmin reported first quarter earnings on April 28th, 2021, with results coming in well ahead of expectations on both the top and bottom lines. Total revenue soared 25% year-over-year to $1.07 billion, which was the result of double-digit growth in all of its segments except for one, and beat consensus estimates by more than $127 million.

The fitness segment saw strong demand for cycling and advanced wearables products pushed revenue a staggering 38% higher in Q1. Outdoor was up 46% year-over-year on demand strength in all of its product lines, particularly in adventure watches. Marine revenue continued its run higher, adding 28% year-over-year, while even the flagging automotive division managed to add 18% to its top line year-over-year. Aviation was the lone decliner with a year-over-year revenue decline of -8%.

Gross margin was 59.8% of revenue, up slightly from 59.2% in the comparable period last year. Operating margin moved up commensurately, adding 60bps to end Q1 at 23.3%. The combination of higher revenue and higher margins led to better operating income, which soared 41% to $250 million.

Earnings-per-share came to $1.18 on an adjusted basis, which cruised past estimates of 90 cents. The company maintained its guidance for the year but given the immense strength in Q1, we've slightly boosted our estimate for this year, which now stands at $5.35 in earnings-per-share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.67	$2.76	$2.73	$3.00	$2.49	$2.83	$2.94	$3.66	$4.45	$5.14	***$5.35***	***$7.16***
DPS	$2.00	$1.80	$1.80	$1.92	$2.04	$2.04	$2.04	$2.12	$2.24	$2.40	***$2.68***	***$3.42***
Shares[1]	194.7	195.6	195.2	191.8	189.7	188.6	188.2	189.5	191.2	191.6	***192***	***195***

Garmin has engineered a major turnaround due to structural changes in the technology industry. Garmin rose to prominence due in large part to its automotive GPS devices. However, GPS devices for the automotive industry were rendered virtually obsolete with the widespread adoption of the smartphone.

As a result, Garmin has restructured itself around the aviation, marine, outdoor, and fitness markets, and has had success in those categories. After a very successful year in 2019 where earnings followed another successful performance in 2018, Garmin posted outstanding growth in 2020. We expect 6% annual earnings growth through 2026 as the automotive business continues to shrink – Q1 results notwithstanding – but is offset by growth in other segments.

[1] Share count in millions

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Dividends are expected to grow at a slightly faster rate, and we see the payout rising to $3.42 per share by 2026, following the most recent increase of 10%.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.6	15.1	14.6	18.1	17.4	15.7	18.0	17.2	18.6	18.9	***26.5***	***19.0***
Avg. Yld.	5.9%	4.3%	4.5%	3.5%	4.7%	4.6%	3.9%	3.4%	2.7%	2.5%	***1.9%***	***2.5%***

In the past 10 years, Garmin stock traded with an average price-to-earnings ratio of ~17; on this basis, the stock looks overvalued today. However, more recently, shares have been valued at higher multiples. Shares trade at 26.5 times earnings estimates for 2021, well above our fair value of 19 times earnings. While Garmin's fundamentals are improving, we don't see 26+ times earnings as a sustainable valuation given its growth profile. Garmin is now at 140% of our estimate of fair value, and we see it as very overvalued as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	75%	65%	66%	64%	82%	72%	69%	58%	50%	47%	***50%***	***48%***

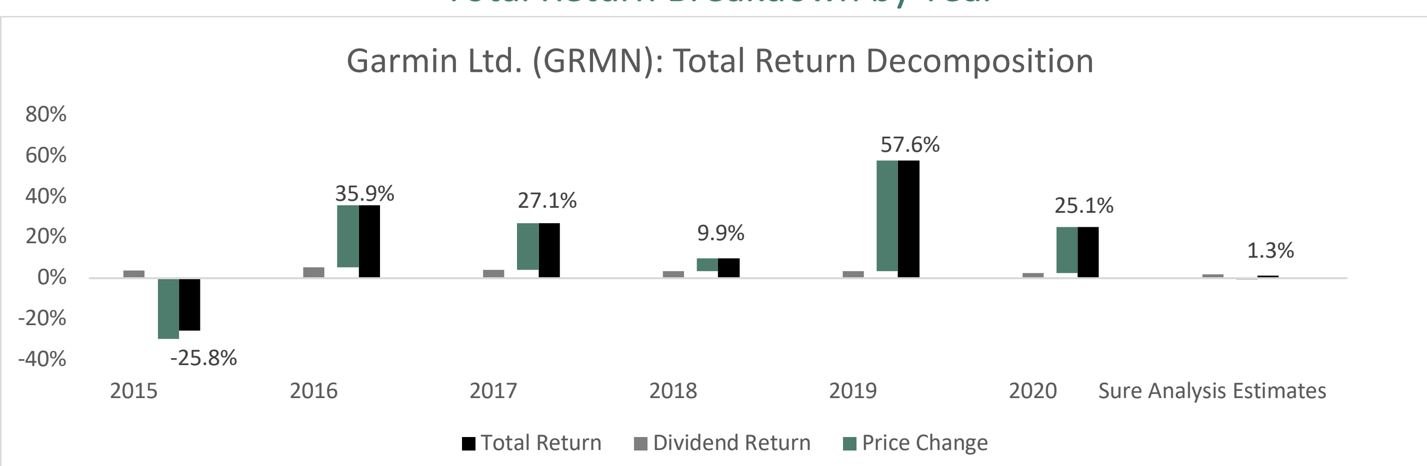
The dividend appears secure, with a payout ratio of 50% of earnings. During the Great Recession in 2008-2009, the company saw earnings drop, but managed to continue to pay out its dividends. We do not believe Garmin would be resistant to a prolonged recession, when consumers reduce spending on aspirational technology products.

Garmin does not possess many notable competitive advantages, which are hard to come by in the technology sector. Technology is a highly competitive and rapidly changing industry. Garmin lost its advantage in automotive GPS devices when trends changed related to widespread smartphone adoption. However, the company has been investing heavily in non-automotive markets to fuel future growth, and we note its leadership in Aviation and Marine products.

Final Thoughts & Recommendation

Garmin is a financially healthy company with a very strong balance sheet, and decent growth. Still, Garmin continues to work through the deterioration in the automotive GPS device market. Automotive sales still represent more than 10% of total revenue and should remain a drag on Garmin's growth, but its other segments are working extremely well. After yet another rally in the stock, total annual returns are estimated at just 1.3%. We see the valuation as offsetting much of the company's growth and are reiterating the stock at a sell rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2759	2716	2632	2871	2820	3046	3122	3347	3758	4,187
Gross Profit	1339	1438	1407	1604	1539	1689	1798	1980	2234	2,481
Gross Margin	48.5%	53.0%	53.5%	55.9%	54.6%	55.4%	57.6%	59.1%	59.5%	59.3%
SG&A Exp.	486	509	468	519	562	588	603	634	683	721
D&A Exp.	95	90	79	77	78	86	86	96	106	127
Operating Profit	554	604	574	691	550	633	684	778	946	1,054
Operating Margin	20.1%	22.2%	21.8%	24.1%	19.5%	20.8%	21.9%	23.3%	25.2%	25.2%
Net Profit	521	542	612	364	456	518	709	694	952	992
Net Margin	18.9%	20.0%	23.3%	12.7%	16.2%	17.0%	22.7%	20.7%	25.3%	23.7%
Free Cash Flow	777	640	573	445	196	609	509	759	578	948
Income Tax	63	82	41	360	111	121	-12	129	35	111

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4471	4819	4880	4693	4499	4525	4948	5383	6167	7,031
Cash & Equivalents	1287	1231	1179	1196	833	847	891	1202	1028	1,458
Accounts Receivable	607	604	565	570	531	527	591	570	707	849
Inventories	398	390	382	420	501	485	518	562	753	762
Goodwill & Int. Ass.	247	233	219	218	246	305	410	417	660	829
Total Liabilities	1215	1287	1220	1290	1154	1107	1096	1220	1373	1,515
Accounts Payable	164	131	147	149	179	172	170	205	241	259
Long-Term Debt	0	0	0	0	0	0	0	0	0	0
Shareholder's Equity	3257	3532	3660	3403	3345	3418	3852	4163	4793	5,516
D/E Ratio	0	0	0	0	0	0	0	0	0	0

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	12.3%	11.7%	12.6%	7.6%	9.9%	11.5%	15.0%	13.4%	16.5%	15.0%
Return on Equity	16.5%	16.0%	17.0%	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%	19.3%
ROIC	16.5%	16.0%	17.0%	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%	19.3%
Shares Out.	194.7	195.6	195.2	191.8	189.7	188.6	188.2	189.5	191.2	191.6
Revenue/Share	14.15	13.84	13.40	14.78	14.76	16.09	16.54	17.64	19.68	21.82
FCF/Share	3.99	3.26	2.92	2.29	1.03	3.22	2.70	4.00	3.03	4.94

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