Rockwell Automation (ROK)

Updated May 19th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$257	**5 Year CAGR Estimate:**	5.8%	**Market Cap:**	$30B
Fair Value Price:	$229	**5 Year Growth Estimate:**	6.5%	**Ex-Dividend Date:**	08/10/21[1]
% Fair Value:	112%	**5 Year Valuation Multiple Estimate:**	-2.3%	**Dividend Payment Date:**	09/10/21[2]
Dividend Yield:	1.7%	**5 Year Price Target**	$314	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	4.9%

Overview & Current Events

Rockwell Automation is an industrial company that is active in the industrial automation and information segments. Its business units include Architecture & Software as well as Control Products & Solutions. The company was founded in 1928, is headquartered in Milwaukee, WI, and produces nearly $7 billion in annual revenue.

Rockwell reported its second quarter (fiscal 2021) earnings results on April 28. Total revenue was $1.78 billion for the quarter, which was up 6% against the previous year's quarter. Organic sales were up 1% year-over-year, while acquisitions had a positive impact on the company's reported revenue growth rate. Rockwell Automation's order intake hit a new record level, at more than $2 billion, which was up by double-digits both sequentially and year-over-year.

Rockwell Automation's second quarter earnings-per-share came in at $2.41 on an adjusted basis, which was better than expected by the analyst community. Management believes that the impact that the coronavirus crisis has on its earnings will decline going forward, which is why the forecast for fiscal 2021's earnings-per-share has been increased to $12.53 to $12.93, or $12.73 at the midpoint. This means that profits during the current year will set a new record by a wide margin, as this is more than 50% more compared to 2020's profits.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$4.79	$5.13	$5.36	$5.91	$6.09	$5.56	$6.35	$8.11	$8.67	$7.68	***$12.73***	***$17.44***
DPS	$1.48	$1.75	$1.98	$2.32	$2.60	$2.90	$3.04	$3.68	$3.88	$4.13	***$4.28***	***$6.00***
Shares[3]	142	140	139	137	132	129	128	122	117	117	***114***	***110***

Between 2007 and 2019, Rockwell Automation grew its earnings-per-share at a very solid pace of 8% annually. Profits declined substantially during the financial crisis, though; between 2008 and 2009, Rockwell Automation's earnings-per-share were cut in half, which shows that the company's business can be quite cyclical.

Rockwell Automation's strong earnings growth during fiscal 2018 and 2019 was due to fundamental improvements and the impact of tax law changes. Higher sales, margin increases, a lower tax rate, and a decline in the company's share count explain how the company was able to grow its earnings-per-share by 28% during one single year. In fiscal 2020, however, Rockwell had to report lower profits, as the pandemic impacted its business considerably during the year, which is why its revenues and earnings declined versus pre-crisis levels. According to management, 2021 will see a reversal of that decline, however, and it is expected that Rockwell Automation's earnings-per-share will hit a new record level this year. Some of Rockwell's end markets are still feeling pandemic headwinds, but growth in other markets, and the positive impact of acquisitions, will allow Rockwell to grow its revenues meaningfully this year. Rockwell sees long-term tailwinds from its China business, as well as from other emerging markets such as Brazil, Mexico, and other countries in Latin America, where the revenue growth outlook for Rockwell Automation is strong. Cost controls and buybacks have allowed the company to grow its EPS at a rate that is higher than its revenue growth in the past.

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[1] Estimated date
[2] Estimated date
[3] 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	15.8	14.3	16.2	19.9	18.7	19.7	23.6	23.4	19.1	19.1	***20.2***	***18.0***
Avg. Yld.	1.9%	2.4%	2.3%	2.0%	2.3%	2.7%	2.0%	2.1%	2.3%	2.3%	***1.7%***	***1.9%***

Rockwell Automation trades at more than 20 times this year's expected net profits right now, based on management's current guidance midpoint. This means that shares are trading in excess of our estimate of fair value, which we see at 18 times earnings. We thus forecast some multiple compression headwinds to total returns in the coming years, as Rockwell Automation's valuation normalizes back towards a somewhat lower valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30.9%	34.1%	36.9%	39.3%	42.7%	52.2%	47.9%	45.4%	44.8%	53.8%	***33.6%***	***34.4%***

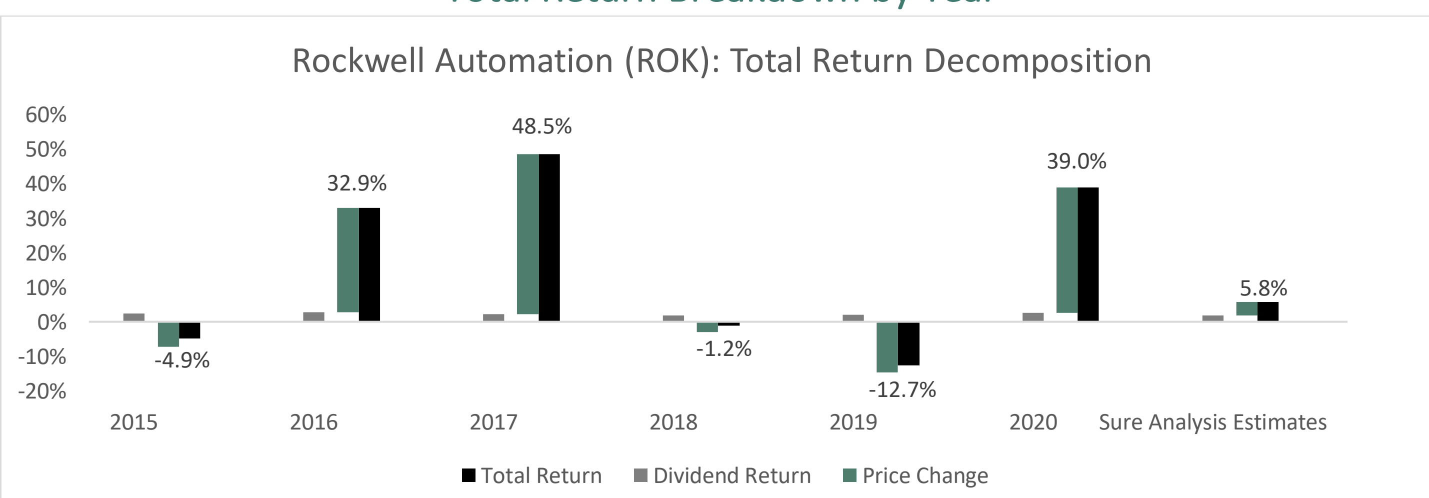
Rockwell's dividend payout ratio has been around 40%-50% throughout the majority of the last decade, although the payout ratio was substantially higher during the last financial crisis. The company did not have to cut its dividend during that especially harsh recession, though, which makes us believe that the company's dividend is relatively safe, despite the cyclicality of Rockwell Automation's business.

Rockwell's earnings-per-share dropped by more than 50% from 2008 to 2009, which shows that the company can be relatively vulnerable to broad economic downturns. During the coronavirus crisis, however, Rockwell Automation's profits did only decline slightly, by around 10%. Rockwell is well positioned internationally, as it generates roughly half of its sales outside of the US. Rockwell's strong position in the higher-growth emerging markets could provide a growth advantage versus peers that are more focused on lower-growth markets in industrial countries.

Final Thoughts & Recommendation

Rockwell Automation operates a business that can be quite cyclical, but the company nevertheless managed to generate solid earnings-per-share growth throughout much more than the last decade. During 2020 profits were down, but Rockwell is on track to generate new record profits this year, with strong earnings growth being expected for 2021. We rate the stock a hold, as shares trade ahead of our fair value estimate at current prices, which hurts the total return outlook, and which explains why forecasted returns are solid, but not overly attractive.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	6,000	6,259	6,352	6,624	6,308	5,880	6,311	6,666	6,695	6,330
Gross Profit	2,390	2,523	2,574	2,754	2,703	2,476	2,668	2,885	2,900	2,595
Gross Margin	39.8%	40.3%	40.5%	41.6%	42.9%	42.1%	42.3%	43.3%	43.3%	41.0%
SG&A Exp.	1,461	1,492	1,538	1,570	1,506	1,467	1,558	1,588	1,539	1,480
D&A Exp.	131	139	145	153	163	172	169	165	152	173
Operating Profit	929	1,031	1,036	1,184	1,197	1,008	1,110	1,297	1,362	1,115
Operating Margin	15.5%	16.5%	16.3%	17.9%	19.0%	17.1%	17.6%	19.5%	20.3%	17.6%
Net Profit	698	737	756	827	828	730	826	536	696	1,023
Net Margin	11.6%	11.8%	11.9%	12.5%	13.1%	12.4%	13.1%	8.0%	10.4%	16.2%
Free Cash Flow	524	579	869	892	1,065	830	892	1,175	1,049	1,007
Income Tax	171	229	225	307	300	213	212	795	205	113

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5,285	5,637	5,845	6,224	6,405	7,101	7,162	6,262	6,113	7,265
Cash & Equivalents	989	904	1,201	1,191	1,427	1,526	1,411	619	1,018	705
Accounts Receivable	1,063	1,187	1,186	1,216	1,041	1,079	1,136	1,190	1,179	1,249
Inventories	642	619	615	588	536	527	559	582	576	584
Goodwill & Int. Ass.	1,171	1,158	1,236	1,297	1,258	1,329	1,316	1,291	1,265	2,130
Total Liabilities	3,537	3,785	3,259	3,566	4,148	5,111	4,498	4,645	5,709	5,918
Accounts Payable	609	716	722	705	694	720	812	920	894	887
Long-Term Debt	905	1,062	1,084	1,225	1,501	1,965	1,844	1,776	2,257	1,999
Shareholder's Equity	1,748	1,852	2,586	2,658	2,257	1,990	2,664	1,618	404	1,028
D/E Ratio	0.52	0.57	0.42	0.46	0.67	0.99	0.69	1.10	5.58	1.95

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	13.9%	13.5%	13.2%	13.7%	13.1%	10.8%	11.6%	8.0%	11.2%	15.3%
Return on Equity	43.5%	40.9%	34.1%	31.5%	33.7%	34.4%	35.5%	25.0%	68.8%	143%
ROIC	27.8%	26.5%	23.0%	21.9%	21.7%	18.9%	19.5%	13.6%	23.0%	34.1%
Shares Out.	142	140	139	137	132	129	128	122	117	117
Revenue/Share	41.33	43.65	45.08	47.41	46.48	44.85	48.59	52.53	56.12	54.29
FCF/Share	3.61	4.04	6.16	6.39	7.85	6.33	6.87	9.26	8.79	8.63

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

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