Autoliv, Inc. (ALV)

Updated July 20th, 2021, by Josh Arnold

Key Metrics

Current Price:	$93	**5 Year CAGR Estimate:**	10.7%	**Market Cap:**	$7.9 B
Fair Value Price:	$87	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	08/27/2021[1]
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Dividend Payment Date:**	09/14/2021
Dividend Yield:	2.7%	**5 Year Price Target**	$140	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**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 nearly 60,000 employees, about $9 billion in revenue this year and a $7.9 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 second quarter earnings on July 16th, 2021, and results were weaker than expected on both the top and bottom lines. The company also cut guidance for the year. Total revenue grew by 92% year-over-year to $2.02 billion as Autoliv lapped the weakest period of the pandemic.

Organic sales grew 85%, outperforming the company's benchmark, which is global light vehicle production, or LVP. Autoliv outperformed LVP by a staggering 33%, which was due to new vehicle launches that provided outsized benefits to Autoliv's numbers, as well as positive geographical and product mix.

Organic sales in China were essentially flat year-over-year, but LVP was down almost -5% in that country. In the Americas, organic growth was 181% versus LVP growth of 159%. In Europe, organic sales more than doubled, rising 136% versus LVP growth of 98%. Airbag revenue doubled to $1.31 billion while Seatbelt revenue was up 167% to $712 million. Adjusted operating margins soared 24.6% to 8.2% of revenue, as last year's Q2 produced a large operating loss. Operating cash flow improved as well, rising from a deficit of $128 million in the year-ago period to $63 million in this year's Q2.

Autoliv stated LVP estimates for this year are now for 9% to 11% growth, and that it now expects 20% to 22% sales growth this year, down from 23% prior. Adjusted operating margins should be around 9% to 9.5% for 2021.

We've reduced our estimate of earnings-per-share for this year to $6.20 following lackluster Q2 results. Autoliv also reinstated its quarterly dividend at the prior rate of $2.48 annually.

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	***$6.20***	***$10.00***
DPS	$1.78	$1.89	$2.00	$2.12	$2.22	$2.30	$2.38	$2.46	$2.48	$0.62	***$2.48***	***$3.32***
Shares[2]	89	96	94	89	88	88	87	87	87	87	***88***	***88***

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 10% annually. This is up from our prior estimate of 8% because Autoliv has rebounded from COVID-19 shutdowns much quicker than expected. With LVP booming globally, we see the future as bright. In addition,

[1] Estimated date
[2] Share count in millions

slower sales growth in 1H 2021 is due largely to supply chain constraints, not lack of demand, and we therefore expect that to be temporary.

Autoliv is performing well against benchmarks, as was evidenced again by Q2 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 throughout all portions of the cycle.

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	***15.0***	***14.0***
Avg. Yld.	2.7%	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	0.9%	***2.7%***	***2.4%***

Autoliv's price-to-earnings ratio has declined since our last report to 15 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.

The current yield is back to 2.7%, so Autoliv is once again a decent income stock.

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%	***40%***	***33%***

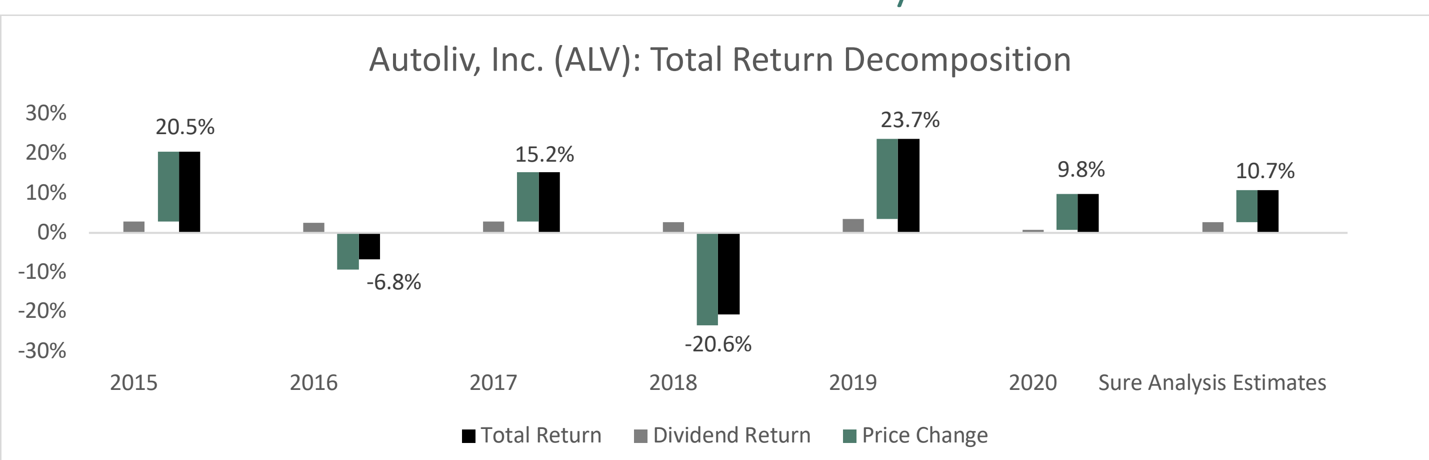
We expect moderate dividend growth given management is likely to be shy about raising it to the point where it may need to be cut again in the future.

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 lower since our last update as the stock has pulled back. However, we see higher earnings for the company this year, along with a stronger long-term growth rate. The dividend is back, and we see Autoliv's total return outlook as strong at 10.7% annually. Given that the dividend is back, LVP is rebounding, and that Autoliv's growth outlook remains strong, we are upgrading Autoliv from hold to buy.

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	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.