



Emerson Electric Company (EMR)

Updated August 19th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$102	5 Year CAGR Estimate:	2.5%	Market Cap:	\$61 B
Fair Value Price:	\$78	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	11/13/21 ¹
% Fair Value:	127%	5 Year Valuation Multiple Estimate:	-5.2%	Dividend Payment Date:	12/10/21
Dividend Yield:	2.0%	5 Year Price Target	\$104	Years Of Dividend Growth:	64
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	1.0%

Overview & Current Events

Emerson Electric was founded in Missouri in 1890 and since that time, it has evolved through organic growth, as well as strategic acquisitions and divestitures, from a regional manufacturer of electric motors and fans into a \$61 billion diversified global leader in technology and engineering. Its global customer base and diverse product and service offerings afford it about \$18 billion in annual revenue. The company's very impressive 64-year dividend increase streak lands it on the prestigious Dividend Kings list.

Emerson reported third quarter earnings on August 4th, 2021, beating expectations on both the top and bottom lines. The company said it is seeing continued strength in its residential businesses, as well as improvements in commercial and industrial end markets. Adjusted earnings-per-share came to \$1.09, ahead of prior guidance, and consensus from analysts. The gains came from ongoing cost reductions and higher volumes combining to produce both higher revenue and better profit margins during the quarter. Gross margin was 42.2% of revenue, up 90bps from the year-ago period, which was primarily due to cost reductions and leverage from higher revenue.

Management said they continue to see improvement in demand in the company's end markets, but that some of this bullishness is tempered by rising supply chain inflation and potential material shortages. Guidance was updated to \$4.06 to \$4.08 in earnings-per-share, which was a meaningful increase over prior expectations of \$3.93. We have updated our estimate to \$4.10 for this year following very strong Q3 results, as well as bullish commentary from management. In addition, Emerson expects revenue growth of 9%-10%, which translates to \$18.29B-\$18.46B, above the company's prior guidance of 6%-9% growth to an implied \$17.79B-\$18.3B as well as \$18.14B consensus.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$3.24	\$2.67	\$3.54	\$3.75	\$3.17	\$2.46	\$2.54	\$3.46	\$3.71	\$3.46	\$4.10	\$5.49
DPS	\$1.38	\$1.60	\$1.66	\$1.72	\$1.88	\$1.90	\$1.92	\$1.94	\$1.96	\$2.00	\$2.02	\$2.34
Shares²	739	724	707	697	655	643	642	641	632	601	600	500

The majority of Emerson's revenue is exposed to the oil and gas industry, where revenue and margins change significantly, introducing risk to forecasts. We're estimating growth at 6% as management has become more bullish, and as there are signs of organic revenue growth improvement, as well as with respect to margins. We note that 2021 results thus far have shown a massive improvement from COVID-19 impairments. We still think low single-digit growth in revenue and a tailwind from the buyback will be the key drivers of earnings-per-share growth in the coming years, and we see Emerson as rebounding. We are now slightly more bullish following solid Q3 results once again.

The dividend is also expected to grow in the low single-digits as recent years have seen Emerson focus more on acquisitions and share repurchases than growing the dividend. Growth rates will likely be unimpressive as the company continues to focus on using its ample cash flow on acquisitions, not above average dividend growth.

¹ Estimated date

² 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	16.8	18.3	15.8	17.6	18.0	20.6	22.9	20.5	17.7	18.8	24.9	19.0
Avg. Yld.	2.5%	3.3%	3.0%	2.6%	3.3%	3.8%	3.3%	2.7%	3.0%	3.1%	2.0%	2.2%

Emerson's price-to-earnings ratio has increased significantly of late due to a rise in the stock. Emerson remains elevated at 24.9 times earnings, despite the higher earnings estimate, which is ahead of our estimate of fair value at 19. We are therefore forecasting a strong headwind from the valuation in the coming years. We see the yield as slightly rising over time, primarily from a lower valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	42%	60%	46%	61%	60%	77%	75%	58%	53%	58%	49%	43%

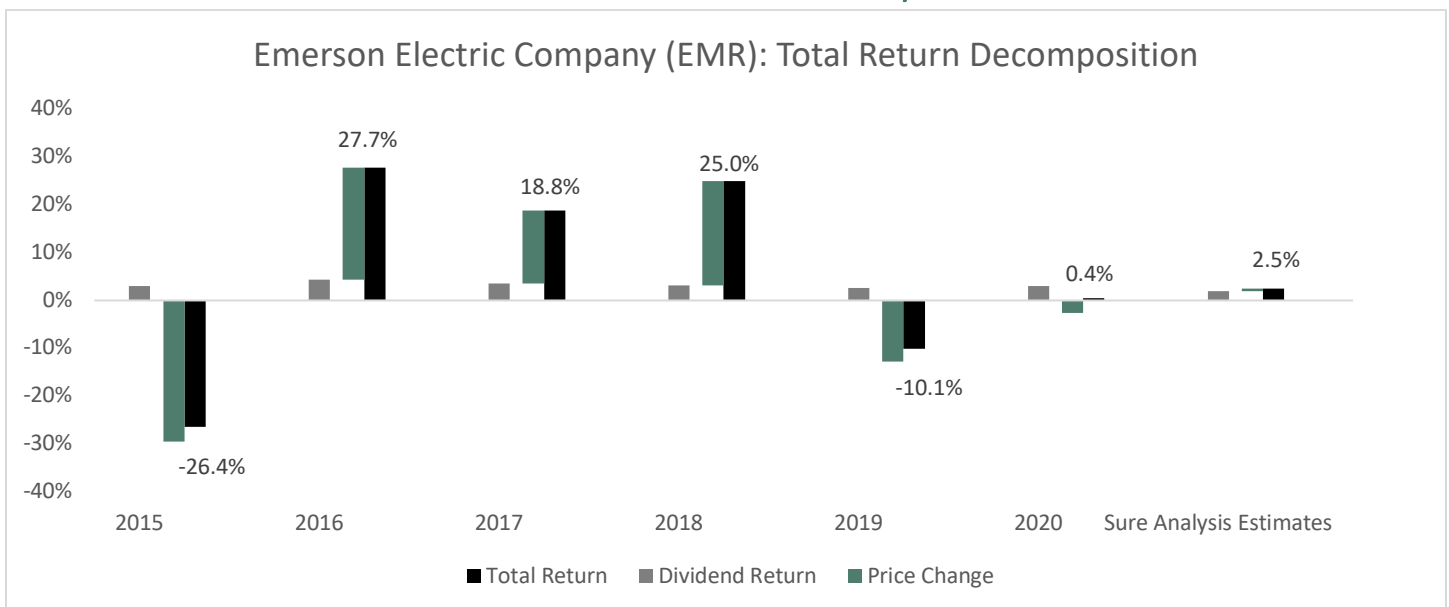
Emerson's payout ratio is just over half of earnings, and we believe it will continue to drift lower over time as Emerson focuses on acquisitions instead of boosting the payout by large amounts. The dividend is very safe as it is well covered by free cash flow, and the yield is decent, so it is a suitable dividend stock.

Emerson's competitive advantage is in its many decades of experience in building customer relationships and engineering excellence. It has a global customer base that is seeing strong economic growth and that underlying sales tailwind should power results going forward. It is very susceptible to recessions given its oil and gas exposure, however, so any signs of economic weakness should put investors on alert, as we saw in 2020. We see first half 2021 results as supporting a recovery for Emerson.

Final Thoughts & Recommendation

With the increase in shares in recent weeks, Emerson appears overvalued. Our growth forecast, combined with shares at 127% of our estimate of fair value, and a lower dividend yield, means we are forecasting just 2.5% total annual returns in the coming years. We are downgrading Emerson to a sell rating from hold given the extremely high valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	24,222	24,412	24,669	17,733	16,249	14,522	15,264	17,408	18,372	16,785
Gross Profit	9,557	9,768	9,952	7,762	7,008	6,262	6,431	7,432	7,815	7,009
Gross Margin	39.5%	40.0%	40.3%	43.8%	43.1%	43.1%	42.1%	42.7%	42.5%	41.8%
SG&A Exp.	5,328	5,436	5,648	4,164	3,735	3,464	3,607	4,269	4,457	3,999
D&A Exp.	867	823	819	569	573	568	636	758	822	854
Operating Profit	3,887	3,972	4,006	3,503	3,179	2,714	2,688	2,952	3,120	2,771
Op. Margin	16.0%	16.3%	16.2%	19.8%	19.6%	18.7%	17.6%	17.0%	17.0%	16.5%
Net Profit	2,480	1,968	2,004	2,147	2,710	1,635	1,518	2,203	2,306	1,965
Net Margin	10.2%	8.1%	8.1%	12.1%	16.7%	11.3%	9.9%	12.7%	12.6%	11.7%
Free Cash Flow	2,586	2,388	2,971	3,041	1,941	2,434	1,436	2,275	2,412	2,545
Income Tax	1,127	1,091	1,130	953	1,267	697	660	443	531	345

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	23,861	23,818	24,711	24,177	22,088	21,732	19,589	20,390	20,497	22,882
Cash & Equivalents	2,052	2,367	3,275	3,149	3,054	3,182	3,062	1,093	1,494	3,315
Acc. Receivable	4,611	4,983	4,808	5,019	2,870	2,701	3,072	3,023	2,985	2,802
Inventories	2,100	2,125	1,895	2,057	1,265	1,208	1,696	1,813	1,880	1,928
Goodwill & Int.	10,740	9,864	9,181	8,871	4,785	4,811	7,206	9,206	9,151	9,202
Total Liabilities	13,310	13,376	13,993	14,010	13,960	14,114	10,819	11,400	12,224	14,435
Accounts Payable	2,677	2,767	2,725	2,951	1,537	1,517	1,776	1,943	1,874	1,715
Long-Term Debt	5,201	5,293	5,642	6,024	6,841	6,635	4,656	4,760	5,721	7,486
Total Equity	10,399	10,295	10,585	10,119	8,081	7,568	8,718	8,947	8,233	8,405
D/E Ratio	0.50	0.51	0.53	0.60	0.85	0.88	0.53	0.53	0.69	0.89

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.6%	8.3%	8.3%	8.8%	11.7%	7.5%	7.3%	11.0%	11.3%	9.1%
Return on Equity	24.6%	19.0%	19.2%	20.7%	29.8%	20.9%	18.6%	24.9%	26.8%	23.6%
ROIC	16.1%	12.5%	12.5%	13.2%	17.4%	11.2%	11.0%	16.2%	16.6%	13.1%
Shares Out.	739	724	707	697	655	643	642	641	632	601
Revenue/Share	32.15	33.23	34.13	25.19	24.02	22.45	23.72	27.40	29.60	27.67
FCF/Share	3.43	3.25	4.11	4.32	2.87	3.76	2.23	3.58	3.89	4.20

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

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