



# ABM Industries (ABM)

Updated September 14<sup>th</sup>, 2021 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$46	<b>5 Year CAGR Estimate:</b>	12.3%	<b>Market Cap:</b>	\$3.1B
<b>Fair Value Price:</b>	\$61	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	09/30/21
<b>% Fair Value:</b>	75%	<b>5 Year Valuation Multiple Estimate:</b>	5.9%	<b>Dividend Payment Date:</b>	11/02/21
<b>Dividend Yield:</b>	1.7%	<b>5 Year Price Target</b>	\$78	<b>Years Of Dividend Growth:</b>	53
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	2.7%

## Overview & Current Events

ABM Industries is a leading provider of facility solutions, which includes janitorial, electrical & lighting, energy solutions, facilities engineering, HVAC & mechanical, landscape & turf, and parking. The company employs about 114,000 people in more than 350 offices throughout the United States and various international locations, primarily in Canada. ABM Industries has increased its dividend for 53 consecutive years, which makes the company a Dividend King. ABM Industries is headquartered in New York, NY.

ABM Industries reported its third quarter earnings results (fiscal 2021) on September 8. The company announced that its revenues totaled \$1.5 billion during the quarter, which was above the analyst estimate, and which was up 11% versus the previous year's quarter. The revenue performance represents an improvement versus previous quarters, during which revenues had been flat or down due to the impact of the pandemic. ABM Industries was able to translate its solid revenue growth rate into an even better earnings growth rate thanks to the impact of cost-cutting efforts.

ABM Industries was able to generate earnings-per-share of \$0.90 during the third quarter, which beat the analyst consensus easily, by \$0.09. ABM Industries' earnings-per-share grew by a strong 20% versus the previous year's quarter. ABM Industries has announced that it will acquire janitorial services and engineering company Able Services in a deal that values the target at \$900 million, making this a sizeable acquisition for ABM, at around one-third of its market cap. Management indicates that this transaction, which is expected to close this fall, will be immediately accretive to earnings-per-share. It is expected that ABM Industries will be highly profitable this year, and management has increased its earnings-per-share guidance to \$3.45 to \$3.55.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$1.39	\$1.39	\$1.52	\$1.53	\$1.62	\$1.74	\$1.75	\$1.89	\$2.05	\$2.43	<b>\$3.50</b>	<b>\$4.47</b>
<b>DPS</b>	\$0.56	\$0.58	\$0.60	\$0.62	\$0.64	\$0.66	\$0.68	\$0.70	\$0.72	\$0.74	<b>\$0.76</b>	<b>\$0.88</b>
<b>Shares<sup>1</sup></b>	53.3	54.4	54.4	55.8	56.1	55.6	65.5	66.0	67.2	67.6	<b>67.8</b>	<b>68.0</b>

ABM Industries' earnings-per-share have compounded at 5% over the last decade, which is solid, but not spectacular. ABM Industries' profits have grown very consistently, as profits have risen during every year of the last decade. This is a remarkable feat that underlines how non-cyclical ABM Industries' business model is. The last year during which its profits declined on a year-over-year basis was 2003. ABM Industries was even able to grow its earnings-per-share during the financial crisis. Because of this outstanding recession performance track record, we believe ABM Industries should be able to do well during future economic downturns, too.

The GCA Services acquisition has allowed the company to expand its foothold both within the United States and internationally, which comes with scale advantages for the company. ABM Industries also plans to capture a meaningful amount of synergies over the years, which could be a positive for the company's long-term earnings-per-share growth rate. As leverage has come down a lot over the last couple of quarters, ABM Industries could do another acquisition in the near term if the opportunity arises to do an accretive takeover.

<sup>1</sup> In Millions

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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>Avg. P/E</b>	16.7	15.0	15.3	17.7	18.8	19.2	24.0	16.4	17.6	14.4	<b>13.1</b>	<b>17.5</b>
<b>Avg. Yld.</b>	2.4%	2.8%	2.6%	2.3%	2.1%	2.0%	1.5%	2.3%	2.0%	2.1%	<b>1.7%</b>	<b>1.1%</b>

ABM Industries trades at 13 times this year's forecasted earnings right now. This is below ABM Industries' valuation during most of the last couple of years. We believe that shares are trading well below fair value right now, which is why multiple expansion will likely be a tailwind for total returns going forward. ABM Industries' dividend yield stands at just 1.7% right now, however, which is below the historic average.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>Payout</b>	40.3%	41.7%	39.5%	40.5%	39.5%	37.9%	38.9%	37.0%	35.1%	30.5%	<b>21.7%</b>	<b>19.7%</b>

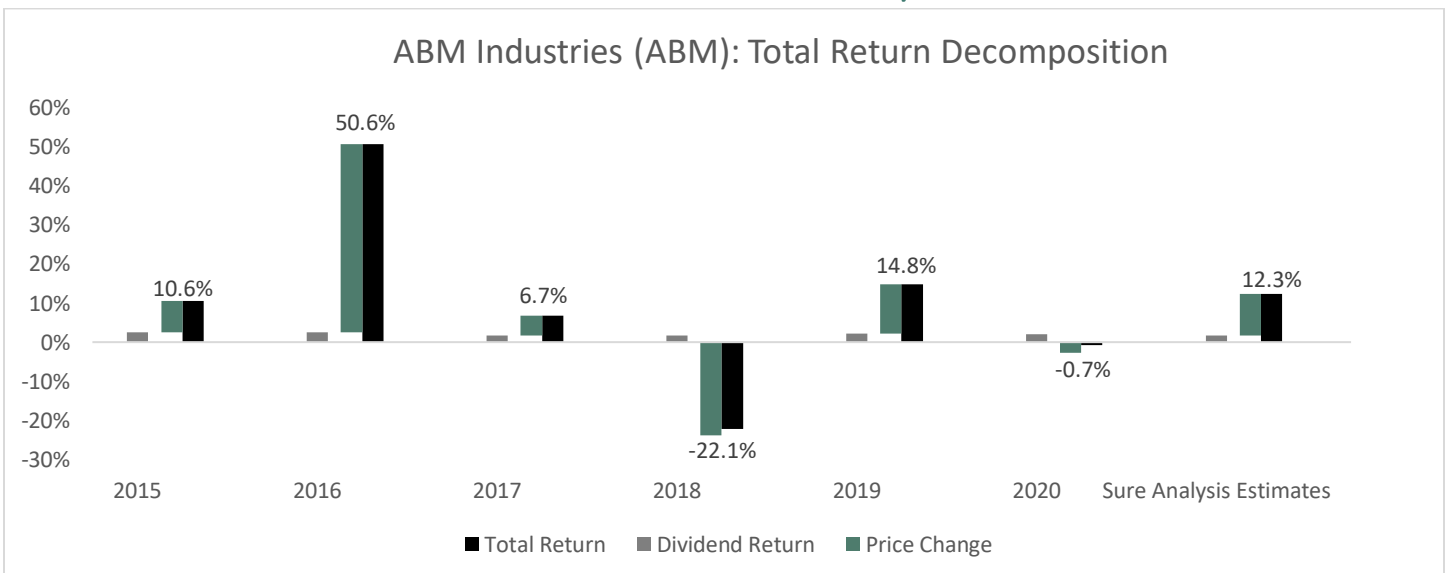
ABM Industries has increased its dividend consistently for decades, but not at a high growth rate. This has made its dividend payout ratio decline slightly throughout the last decade, as earnings growth outpaced ABM Industries' dividend growth. Due to the low dividend payout ratio and its very stable, recession-resilient business model, ABM Industries' dividend looks very safe. ABM Industries would likely not be harmed during a recession in a meaningful way, which is why we believe it is a low-risk investment from that perspective, including during this pandemic.

ABM Industries is one of the biggest companies in its industry, and its history of making acquisitions has enhanced its scale advantages further. It is likely that the company will continue to make acquisitions to increase its size further whenever the company finds a valuable target that can be acquired at a fair price.

## Final Thoughts & Recommendation

ABM Industries is active in a somewhat unspectacular industry, but this does not mean that the stock is a bad investment. ABM Industries has been a great low-risk dividend growth investment in the past. We believe that the company will continue to grow its profits over the coming years, and the company is weathering the current crisis extremely well. Based on attractive forecasted total returns and a discount to fair value, we rate the stock a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	4,247	4,300	4,428	4,650	4,898	5,145	5,454	6,442	6,499	5,988
<b>SG&amp;A Exp.</b>	325	328	331	348	395	410	437	438	453	506
<b>D&amp;A Exp.</b>	53	51	59	56	57	58	70	113	107	96
<b>Operating Profit</b>	118	97	105	115	86	106	104	191	220	276
<b>Operating Margin</b>	2.8%	2.2%	2.4%	2.5%	1.8%	2.1%	1.9%	3.0%	3.4%	4.6%
<b>Net Profit</b>	69	63	73	76	76	57	4	98	127	0
<b>Net Margin</b>	1.6%	1.5%	1.6%	1.6%	1.6%	1.1%	0.1%	1.5%	2.0%	0.0%
<b>Free Cash Flow</b>	138	123	103	84	120	40	(52)	270	203	420
<b>Income Tax</b>	37	30	36	44	18	(10)	9	(8)	33	53

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	1,880	1,851	2,119	2,193	2,131	2,279	3,813	3,628	3,693	3,777
<b>Cash &amp; Equivalents</b>	26	43	33	37	56	54	63	39	59	394
<b>Accounts Receivable</b>	552	561	691	687	743	804	1,038	1,014	1,013	854
<b>Goodwill &amp; Int. Ass.</b>	880	861	1,017	982	979	1,017	2,294	2,190	2,133	1,911
<b>Total Liabilities</b>	1,084	1,001	1,202	1,224	1,123	1,305	2,437	2,173	2,151	2,277
<b>Accounts Payable</b>	130	130	157	174	179	174	231	222	281	273
<b>Long-Term Debt</b>	300	215	315	320	158	268	1,178	939	802	720
<b>Shareholder's Equity</b>	796	850	918	969	1,008	974	1,376	1,455	1,542	1,500
<b>D/E Ratio</b>	0.38	0.25	0.34	0.33	0.16	0.28	0.86	0.65	0.52	0.48

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	4.0%	3.4%	3.7%	3.5%	3.5%	2.6%	0.1%	2.6%	3.5%	0.0%
<b>Return on Equity</b>	8.9%	7.6%	8.2%	8.0%	7.7%	5.8%	0.3%	6.9%	8.5%	0.0%
<b>ROIC</b>	6.9%	5.8%	6.3%	6.0%	6.2%	4.8%	0.2%	4.0%	5.4%	0.0%
<b>Shares Out.</b>	53.3	54.4	54.4	55.8	56.1	55.6	65.5	66.0	67.2	67.6
<b>Revenue/Share</b>	78.50	78.33	78.93	81.43	85.33	90.42	93.54	97.02	97.14	88.97
<b>FCF/Share</b>	2.55	2.23	1.83	1.47	2.09	0.69	(0.89)	4.07	3.04	6.23

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

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