Autoliv, Inc. (ALV)

Updated October 24th, 2021, by Josh Arnold

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	7.2%	**Market Cap:**	$8.1 B
Fair Value Price:	$71	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	11/27/2021[1]
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date:**	12/14/2021
Dividend Yield:	2.7%	**5 Year Price Target**	$115	**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 $8.3 billion in revenue this year and an $8.1 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 third quarter earnings on October 22nd, 2021, and results were somewhat worse than expected. Total revenue was $1.85 billion, which was a -9.3% decline year-over-year, and missed expectations by $80 million. The company reported a -12% organic sales decline, which was due to a massive decline in global light vehicle production, or LVP. Global LVP was off -20% year-over-year, so while Autoliv once again outperformed the benchmark, results were quite weak. The company said product launches and positive vehicle mix effects, as well as negative geographical mix effects. All regions outperformed global LVP by at least 6%.

Operating margin was 5.4% on a reported basis, and 5.6% on an adjusted basis. This was a massive decline against the 10.1% operating margin in the year-ago period, which was driven by lower volumes and higher input costs. Earnings-per-share were down from 75 cents in the year-ago period to 73 cents in this year's Q3.

Autoliv said it still expects full-year growth of 11% in revenue, about 8% of which is slated to come on an organic basis. Adjusted operating margin is also expected to be about 8% of revenue. We've cut our estimate of earnings-per-share for this year to $5.10.

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	***$5.10***	***$8.22***
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. 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. We note that weakness in Q3 was palpable, but guidance for this year remains strong from management, so we still see these issues as temporary.

Autoliv is performing well against benchmarks, as was evidenced again by Q3 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

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

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Autoliv's level of outperformance against LVP has remained strong throughout all portions of the cycle. LVP was very weak in Q3, so investors need to keep an eye on that in Q4 and beyond.

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	***18.0***	***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%***	***2.9%***

Autoliv's price-to-earnings ratio has increased since our last report to 18 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 decline in expected earnings, we now expect a modest headwind to total returns in the coming years.

The current yield is 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%	***49%***	***40%***

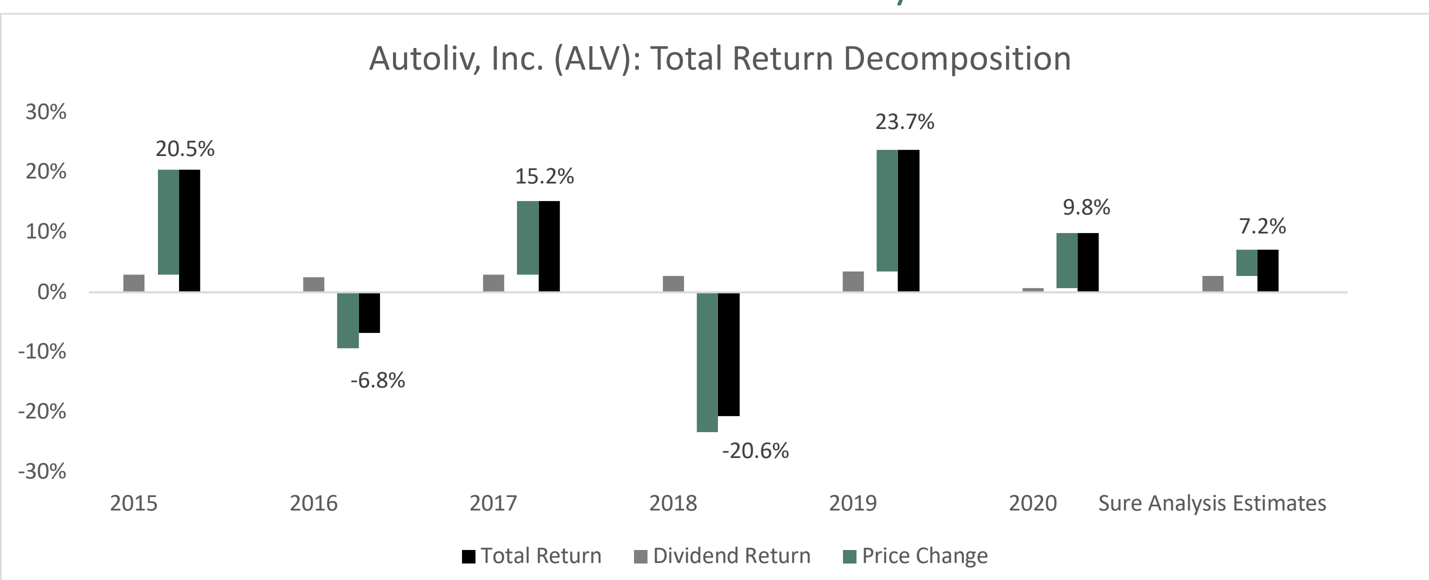
We expect moderate dividend growth given management is likely to be shy about raising it to the point where it may need to be cut again in the future.

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. Revenue was very weak in Q3, but we still believe the cause for this weakness to be temporary. The dividend is back, and we see Autoliv's total return outlook as decent at 7.2% annually. Lower earnings estimates have us moving the stock from buy to hold, which has also elevated the 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	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.