



BorgWarner Inc. (BWA)

Updated November 6th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	3.8%	Market Cap:	\$11.2 billion
Fair Value Price:	\$42	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/30/2021 ¹
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	12/15/2021 ²
Dividend Yield:	1.4%	5 Year Price Target	\$53	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	21.4% (2017)

Overview & Current Events

BorgWarner supplies highly engineered components and systems for automotive powertrain applications. The company supplies products to some of the top names in vehicle manufacturing, including Ford and Volkswagen. BorgWarner has four operating segments, including Air Management, which makes turbochargers and emissions systems, E-propulsion & Drivetrain Group, which makes transmission components and control modules, Fuel Injection Group and Aftermarket. The company generated revenues of just over \$10 billion last year.

BorgWarner released third quarter earnings results on 11/3/2021. Revenue grew 35% to \$3.42 billion, beating analysts' estimates by \$40 million. Adjusted earnings-per-share of \$0.80 compared unfavorably to \$0.88 in the prior year, but topped expectations by \$29 million.

Organic sales fell more than 7%. E-propulsion & Drivetrain, Air Management and Fuel Injection had an organic sales decline of 8.2%, 7.4% and 0.5%, respectively. Aftermarket, the lone business to show year-over-year growth, was up 15.9%. BorgWarner's purchase of Delphi in October of 2020 added more than \$1 billion to quarterly sales.

BorgWarner guided towards revenue of \$14.4 billion to \$14.7 billion for 2021, down from \$15.2 billion to \$15.6 billion previously. Adjusted earnings-per-share are now expected to be \$3.65 to \$3.95 for the year, down from \$4.15 to \$4.40.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.23	\$2.49	\$2.89	\$3.25	\$3.02	\$3.27	\$3.89	\$4.49	\$4.13	\$2.69	\$3.80	\$4.85
DPS	---	---	\$0.25	\$0.51	\$0.52	\$0.53	\$0.59	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68
Shares³	217	231	228	226	219	212	211	208	206	239	241	241

BorgWarner have been on a roller coaster ride over the last decade. Earnings-per-share barely budged from 2011 through 2020, equating to a compound annual growth rate of just 1.9% during this period of time. The five-year CAGR is even worse at -3.8%. Of course, the both the long- and medium-term growth rates were impacted by COVID-19. The previous 10 years had seen an annual growth rate of nearly 7%. Achieving the midpoint of company guidance for 2021 would be a 3.6% improvement from pre-pandemic levels. We believe an earnings-per-share growth rate of 5% takes into account the demand for the company's highly engineered products from some of the largest automakers in the world with the cyclical nature of its business.

BorgWarner has paid a dividend every year since 2013. After more than doubling its payment in 2014, dividend growth has been minimal and rare. The dividend has a compound annual growth rate of 5% since 2016, but BorgWarner has not raised its dividend since late 2017 even with a very low payout ratio. We do not anticipate the dividend growing in the near term.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ Share count in millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	16.0	14.5	15.5	18.3	17.2	10.6	11.6	10.3	9.6	13	12.4	11.0
Avg. Yld.	---	---	0.6%	0.9%	1.0%	1.5%	1.3%	1.5%	1.5%	1.9%	1.4%	1.3%

Shares of the company have gained \$4, or 9.3%, since our 10/1/2021 report. BorgWarner's valuation has traded with a wide range since 2011, stretching from the low single-digits to the high teens. We believe a multiple of 11 times earnings, near the recent average, is a fair place to start for a 2026 target valuation. Using the midpoint of expected earnings-per-share for the year, BorgWarner currently trades with a price-to-earnings ratio of 12.4. This implies a 2.3% headwind to annual returns through 2026.

The company hasn't raised its dividend in several years, but BorgWarner's current yield is nearly in line with that of the S&P 500 index. The company has also had very low payout ratios stretching back to when the dividend was initiated.

Safety, Quality, Competitive Advantage, & Recession Resiliency

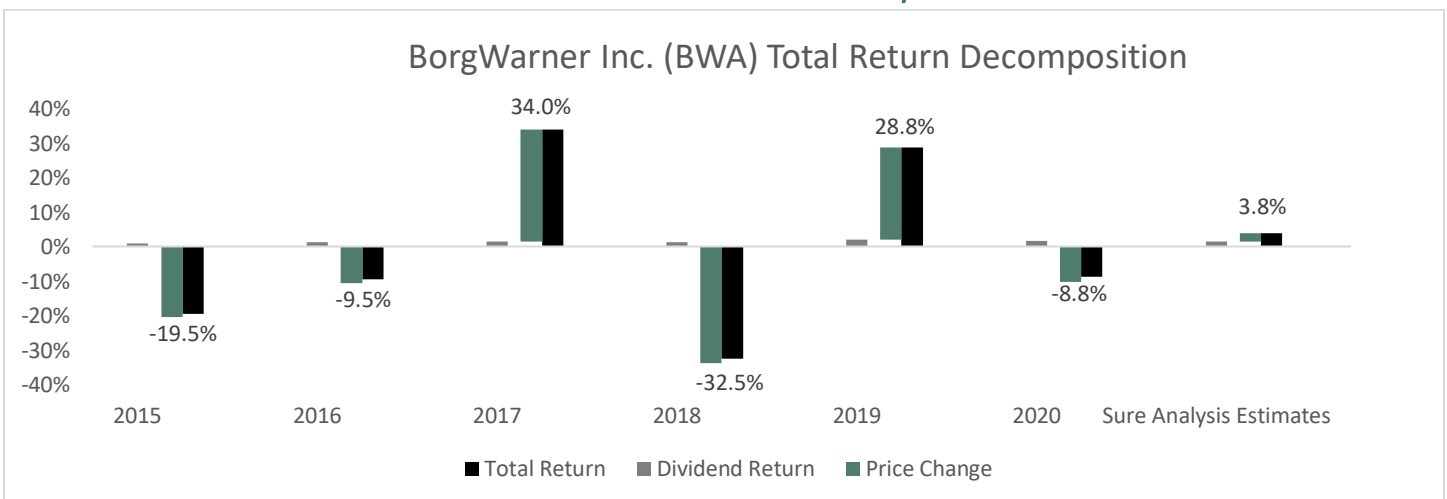
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	9%	16%	17%	16%	15%	15%	16%	25%	18%	14%

BorgWarner may not be a household name in the auto-parts industry, but the company's products are in great demand. Ford, which accounts for 13% of annual sales, and Volkswagen, which contributes 11% of annual sales, are its two largest customers. With some of the world's largest automakers as customers, BorgWarner has a distinct advantage against would-be competitors. The company is also very diversified, with roughly a third of revenues coming from Asia, Europe and North America each. That said, BorgWarner is not immune to the impacts of a recession as seen by the company's 91% decline in earnings-per-share from 2007 to 2009. We would expect a similar decline in the next downturn.

Final Thoughts & Recommendation

BorgWarner is expected to return 3.8% annually through 2026, down from our previous estimate of 8.1%. Our projected return stems from a 5% earnings growth rate and a 1.4% starting yield offset by a low single-digit headwind from multiple expansion. We are intrigued by the BorgWarner's industry position, but would wait for a pullback before purchasing shares of the company. We have lowered our 2026 price target \$7 to \$53 as a result of updated guidance for the year. Shares earn a hold recommendation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	7,115	7,183	7,437	8,305	8,023	9,071	9,799	10,530	10,168	10,165
Gross Profit	1,410	1,467	1,558	1,756	1,703	1,929	2,115	2,230	2,101	1,910
Gross Margin	19.8%	20.4%	20.9%	21.1%	21.2%	21.3%	21.6%	21.2%	20.7%	18.8%
SG&A Exp.	621	647	646	702	688	818	899	946	873	951
Operating Profit	789	820	912	1,054	1,015	1,111	1,216	1,288	1,230	925
Op. Margin	11.1%	11.4%	12.3%	12.7%	12.7%	12.2%	12.4%	12.2%	12.1%	9.1%
Net Profit	550	501	624	656	577	595	440	931	746	500
Net Margin	7.7%	7.0%	8.4%	7.9%	7.2%	6.6%	4.5%	8.8%	7.3%	4.9%
Free Cash Flow	315	471	301	239	291	535	620	580	527	723
Income Tax	195	239	218	293	262	306	580	211	468	397

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5,959	6,401	6,917	7,228	8,826	8,835	9,788	10,095	9,702	16,029
Cash & Equivalents	360	716	940	798	578	444	545	739	832	1,650
Acc. Receivable	1,037	1,015	1,068	1,201	1,424	1,448	1,736	1,728	1,713	2,636
Inventories	454	448	458	506	724	641	766	781	807	1,286
Goodwill & Int.	1,430	1,388	1,367	1,357	2,302	2,166	2,375	2,292	2,244	3,723
Total Liabilities	3,506	3,255	3,285	3,537	5,194	5,533	5,962	5,750	4,858	9,305
Accounts Payable	870	855	935	979	1,226	1,259	1,546	1,485	1,325	2,352
Long-Term Debt	1,329	1,067	1,223	1,340	2,550	2,220	2,188	2,114	1,960	3,787
Total Equity	2,388	3,083	3,561	3,616	3,554	3,218	3,717	4,226	4,706	6,428
D/E Ratio	0.56	0.35	0.34	0.37	0.72	0.69	0.59	0.50	0.42	0.59

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.6%	8.1%	9.4%	9.3%	7.2%	6.7%	4.7%	9.4%	7.5%	3.9%
Return on Equity	23.7%	18.3%	18.8%	18.3%	16.1%	17.6%	12.7%	23.4%	16.7%	9.0%
ROIC	15.1%	12.5%	13.8%	13.3%	10.3%	10.2%	7.6%	14.9%	11.2%	5.8%
Shares Out.	217	231	228	226	219	212	211	208	206	239
Revenue/Share	27.69	29.59	32.15	36.28	35.56	42.13	46.33	50.26	49.17	47.50
FCF/Share	1.22	1.94	1.30	1.04	1.29	2.49	2.93	2.77	2.55	3.38

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

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