



ABM Industries (ABM)

Updated December 31st, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$41	5 Year CAGR Estimate:	14.6%	Market Cap:	\$2.7 B
Fair Value Price:	\$60	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	01/05/22
% Fair Value:	68%	5 Year Valuation Multiple Estimate:	7.9%	Dividend Payment Date:	02/07/22
Dividend Yield:	1.9%	5 Year Price Target	\$77	Years Of Dividend Growth:	54
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	2.6%

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 54 consecutive years, which makes the company a Dividend King. ABM Industries is headquartered in New York, NY.

ABM Industries reported its fourth quarter earnings results (fiscal 2021) on December 15. The company announced that its revenues totaled \$1.7 billion during the quarter, which was above the analyst estimate, and which was up 14% versus the previous year's quarter. The revenue performance represents an improvement versus previous quarters, during which revenues had been flat or up slightly. 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 \$0.85 during the fourth quarter, which beat the analyst consensus by \$0.04. ABM Industries' earnings-per-share grew by a strong 23% versus the previous year's quarter. ABM Industries closed the acquisition of janitorial services and engineering company Able Services in a deal that valued the target at \$900 million, making this a sizeable acquisition for ABM. ABM Industries' guidance for the current fiscal year, 2022, suggests earnings-per-share in a range of \$3.30 to \$3.55 on an adjusted basis, with some synergies of the Able Services acquisition being built into that estimate already. This implies a decline versus 2021's earnings-per-share of \$3.58, but it should be noted that ABM has a history of beating and raising its guidance throughout the year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.39	\$1.52	\$1.53	\$1.62	\$1.74	\$1.75	\$1.89	\$2.05	\$2.43	\$3.58	\$3.43	\$4.38
DPS	\$0.58	\$0.60	\$0.62	\$0.64	\$0.66	\$0.68	\$0.70	\$0.72	\$0.74	\$0.76	\$0.78	\$0.90
Shares¹	54.4	54.4	55.8	56.1	55.6	65.5	66.0	67.2	67.6	67.6	67.8	68.0

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.

¹ 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.0	15.3	17.7	18.8	19.2	24.0	16.4	17.6	14.4	12.3	12.0	17.5
Avg. Yld.	2.8%	2.6%	2.3%	2.1%	2.0%	1.5%	2.3%	2.0%	2.1%	1.7%	1.9%	1.2%

ABM Industries trades at 12 times this year's forecasted earnings right now. This is significantly below ABM Industries' valuation during most of the last decade. 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 1.9% right now, which is below the historic average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	41.7%	39.5%	40.5%	39.5%	37.9%	38.9%	37.0%	35.1%	30.5%	21.2%	22.7%	20.7%

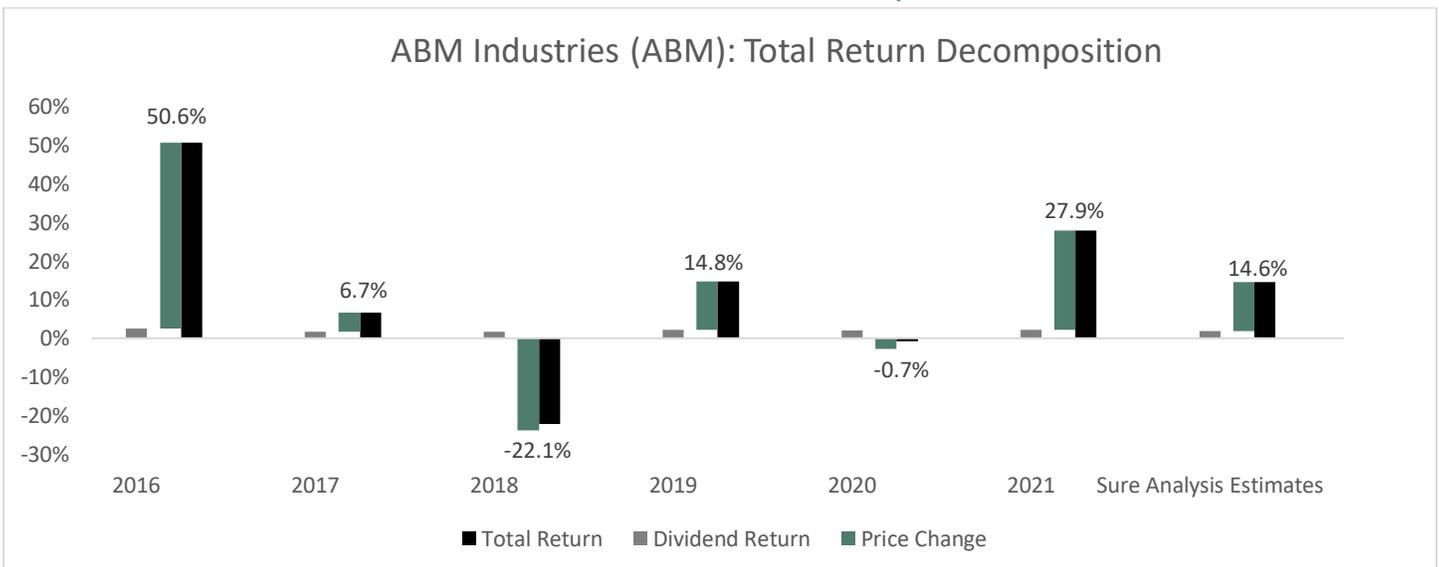
ABM Industries has increased its dividend consistently for decades, but not at a high growth rate. This has made its dividend payout ratio decline slightly throughout the last decade, as earnings growth outpaced ABM Industries' dividend growth. Due to the low dividend payout ratio and its very stable, 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,300	4,428	4,650	4,898	5,145	5,454	6,442	6,499	5,988	6,229
SG&A Exp.	328	331	348	395	410	437	438	453	506	719
D&A Exp.	51	59	56	57	58	70	113	107	96	90
Operating Profit	97	105	115	86	106	104	191	220	276	206
Operating Margin	2.2%	2.4%	2.5%	1.8%	2.1%	1.9%	3.0%	3.4%	4.6%	3.3%
Net Profit	63	73	76	76	57	4	98	127	0	126
Net Margin	1.5%	1.6%	1.6%	1.6%	1.1%	0.1%	1.5%	2.0%	0.0%	2.0%
Free Cash Flow	123	103	84	120	40	(52)	270	203	420	280
Income Tax	30	36	44	18	(10)	9	(8)	33	53	54

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,851	2,119	2,193	2,131	2,279	3,813	3,628	3,693	3,777	4,436
Cash & Equivalents	43	33	37	56	54	63	39	59	394	63
Accounts Receivable	561	691	687	743	804	1,038	1,014	1,013	854	1,137
Goodwill & Int. Ass.	861	1,017	982	979	1,017	2,294	2,190	2,133	1,911	2,654
Total Liabilities	1,001	1,202	1,224	1,123	1,305	2,437	2,173	2,151	2,277	2,827
Accounts Payable	130	157	174	179	174	231	222	281	273	289
Long-Term Debt	215	315	320	158	268	1,178	939	802	720	884
Shareholder's Equity	850	918	969	1,008	974	1,376	1,455	1,542	1,500	1,609
LTD/E Ratio	0.25	0.34	0.33	0.16	0.28	0.86	0.65	0.52	0.48	0.55

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.4%	3.7%	3.5%	3.5%	2.6%	0.1%	2.6%	3.5%	0.0%	3.1%
Return on Equity	7.6%	8.2%	8.0%	7.7%	5.8%	0.3%	6.9%	8.5%	0.0%	8.1%
ROIC	5.8%	6.3%	6.0%	6.2%	4.8%	0.2%	4.0%	5.4%	0.0%	5.4%
Shares Out.	54.4	54.4	55.8	56.1	55.6	65.5	66.0	67.2	67.6	67.6
Revenue/Share	78.33	78.93	81.43	85.33	90.42	93.54	97.02	97.14	88.97	91.60
FCF/Share	2.23	1.83	1.47	2.09	0.69	(0.89)	4.07	3.04	6.23	4.12

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

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