ABB Ltd. (ABB)

Updated February 9th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	1.6%	**Market Cap:**	$67.7 B
Fair Value Price:	$22	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	3/28/2022
% Fair Value:	156%	**5 Year Valuation Multiple Estimate:**	-8.5%	**Dividend Payment Date:**	5/13/2022
Dividend Yield:	2.5%	**5 Year Price Target**	$33	**Years Of Dividend Growth:**	3
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	4.7%

Overview & Current Events

ABB is a global provider of automation technologies and power solutions. The company operates in more than 100 countries and has four business units: Electrification Products, Robotics & Discrete Automation, Motion and Industrial Automation. ABB is incorporated in Switzerland, but domestic investors can initiate an ownership stake in the company through American Depository Receipts that trade with a market capitalization of US$67.7 billion under the ticker ABB on the New York Stock Exchange.

In early February, ABB reported (2/3/22) financial results for the fourth quarter of fiscal 2021. Orders grew strongly in machine builders and food & beverage segments. Comparable revenue and orders grew 8% and 21%, respectively, over the prior year's quarter, with strong order growth in all divisions and regions. ABB has fully recovered from the pandemic. The growth in orders is impressive but it is important to note that some customers of ABB place orders earlier than usual in order to secure future deliveries amid supply chain disruptions due to the pandemic. In other words, orders could decelerate somewhat when concerns over supply chain issues ease.

Management expects the supply chain issues to persist for a while but it remains confident for improved performance this year, partly thanks to the excessive backlog of $16.6 billion, which has increased 16% in the last 12 months.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.18	$1.23	$1.13	$0.87	$0.88	$1.25	$1.33	$1.24	$0.98	$2.25	***$1.40***	***$2.06***
DPS	$0.71	$0.72	$0.77	$0.75	$0.75	$0.76	$0.81	$0.79	$0.83	$0.85	***$0.89***	***$1.05***
Shares[1]	2295.9	2300.6	2314.7	2191.6	2138.7	2138.7	2135.0	2135.0	2071.0	2053	***2000***	***1900***

ABB's per-share growth in net income over the last decade has been far from compelling. The company faced a downturn due to the pandemic in 2020 but it has recovered strongly thanks to the massive distribution of vaccines and the fiscal stimulus packages offered by most governments. Moreover, ABB has a number of current growth opportunities that lead us to believe its future performance will be stronger than its historical track record. The Electrification segment, which generates 46% of the total revenues, seems to have the most promising prospects thanks to strong demand in key segments, such as rail, data centers, wind and electric vehicle infrastructure. We thus expect 8% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.9	18.6	20.8	23.1	22.9	23.5	17.3	16.0	23.8	15.0	***25.0***	***16.0***
Avg. Yld.	3.8%	3.1%	3.3%	3.7%	3.7%	3.1%	3.4%	4.0%	3.6%	2.5%	***2.5%***	***3.2%***

ABB has traded at an average price-to-earnings ratio of 19.7 over the last decade. With that said, this sample includes several years (2014-2017) in which the stock traded with an elevated P/E ratio. We believe that fair value for a company

[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.

of ABB's caliber lies somewhere around 16 times earnings. The stock is currently trading at a nearly decade-high price-to-earnings ratio of 25.0. If the stock were to trade at our estimated fair earnings multiple of 16.0 in five years, it would incur an -8.5% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	60.2%	58.5%	68.1%	86.2%	85.2%	73.8%	58.6%	63.7%	84.7%	37.8%	***63.6%***	***51.1%***

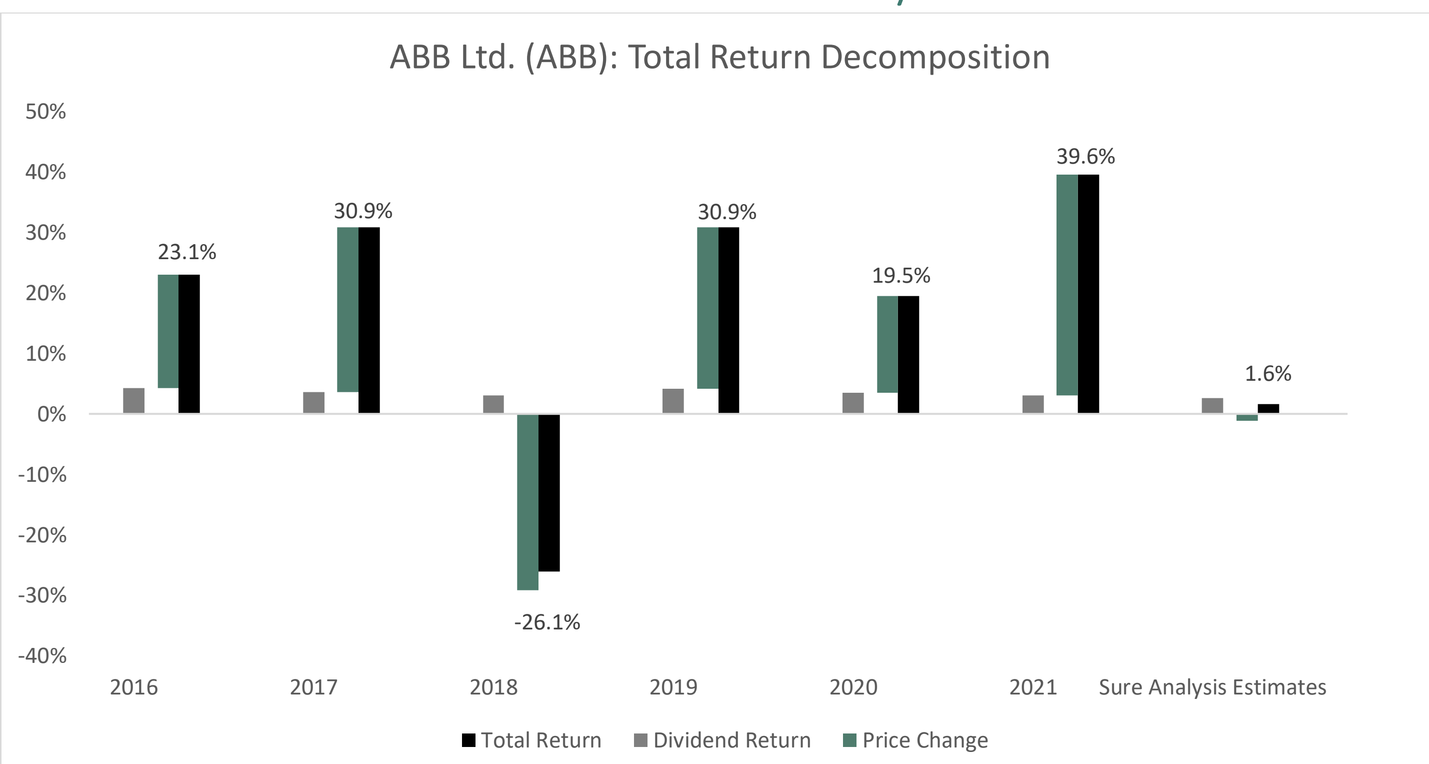
ABB has global businesses that are either the #1 or #2 player in attractive markets, with strong secular growth. The company expects its business markets to grow by 3.5%-4.0% per year on average over the long run. Thanks to its dominant position in its segments, ABB has a strong reputation and thus enjoys a significant competitive advantage over its peers.

Moreover, the company has a strong balance sheet, with its interest expense having consumed only 2% of its operating income in the last 12 months. On the other hand, the performance of ABB is greatly affected by economic growth and oil prices, which are beyond its control. Due to this vulnerability, the stock tends to underperform the market during sell-offs. Consequently, only investors who can tolerate significant price pressure should consider this stock.

Final Thoughts & Recommendation

ABB has a variety of appealing characteristics. It is a global business with leadership in many segments of the industrial sector. Moreover, the business of ABB is recovering strongly from the pandemic. However, the stock of ABB has more than doubled off its bottom in 2020 and it is now trading at a nearly decade-high price-to-earnings ratio. Overall, we expect ABB to offer low returns over the next five years. We thus rate it as a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	39336	41848	39830	35481	24929	25196	27662	27978	26,134	28,945
Gross Profit	11378	11992	11215	10134	7533	7846	8544	8906	7,878	9,467
Gross Margin	28.9%	28.7%	28.2%	28.6%	30.2%	31.1%	30.9%	31.8%	30.1%	32.7%
SG&A Exp.	5756	6094	6067	5574	4532	4765	5295	5447	4,895	5,162
D&A Exp.	1182	1318	1305	1160	870	836	916	961	915	893
Operating Profit	4158	4428	3649	3154	2034	2068	2102	2261	1,904	5,718
Op. Margin	10.6%	10.6%	9.2%	8.9%	8.2%	8.2%	7.6%	8.1%	7.3%	19.8%
Net Profit	2704	2787	2594	1933	1899	2213	2173	1439	5,146	4,546
Net Margin	6.9%	6.7%	6.5%	5.4%	7.6%	8.8%	7.9%	5.1%	19.7%	15.7%
Free Cash Flow	2486	2547	2819	2942	3211	3047	2152	1563	999	2,510
Income Tax	1030	1122	1202	788	526	583	544	772	496	1,057

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	49070	48064	44852	41356	39202	43458	44441	46108	41,088	40,260
Cash & Equivalents	6875	6021	5443	4565	3644	4526	3445	3544	3,278	4,159
Acc. Receivable	8233	8360	7715	7197	7293	5553	5970	6434	6,820	6,551
Inventories	6182	6004	5376	4757	4347	3737	4284	4184	4,469	4,880
Goodwill & Int.	13727	13967	12755	12008	11497	11961	13371	13077	12,928	12,043
Total Liabilities	31624	28856	28037	26368	25305	28109	29907	32128	25,089	24,303
Accounts Payable	4992	5112	4765	4342	4446	3736	4424	4353	4,571	4,921
Long-Term Debt	10071	8023	7665	7439	6803	7408	8618	9059	6,121	5,561
Total Equity	16906	18678	16269	14481	13395	14819	13952	13526	15,685	15,579
LTD/E Ratio	0.60	0.43	0.47	0.51	0.51	0.50	0.62	0.67	0.39	0.36

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.1%	5.7%	5.6%	4.5%	4.7%	5.4%	4.9%	3.2%	11.8%	11.2%
Return on Equity	16.5%	15.7%	14.8%	12.6%	13.6%	15.7%	15.1%	10.5%	35.2%	29.1%
ROIC	11.3%	10.2%	10.0%	8.2%	8.8%	10.2%	9.5%	6.2%	22.8%	20.8%
Shares Out.	2295.9	2300.6	2314.7	2191.6	2138.7	2138.7	2135.0	2135.0	2071.0	2053
Revenue/Share	17.14	18.16	17.36	15.91	11.57	11.73	12.93	13.10	12.33	14.34
FCF/Share	1.08	1.11	1.23	1.32	1.49	1.42	1.01	0.73	0.47	1.24

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