Autoliv, Inc. (ALV)

Updated February 3rd, 2022, by Josh Arnold

Key Metrics

Current Price:	$101	**5 Year CAGR Estimate:**	11.4%	**Market Cap:**	$8.9 B
Fair Value Price:	$98	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	02/27/2022[1]
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Dividend Payment Date:**	03/14/2022
Dividend Yield:	2.5%	**5 Year Price Target**	$158	**Years Of Dividend Growth:**	1
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	3.2%

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 56,000 employees, about $9.7 billion in revenue this year and an $8.9 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 fourth quarter and full-year earnings on January 28th, 2022, and results were somewhat weak against expectations. Total revenue was $2.1 billion, which represented a -16% decline against the year-ago period and missed estimates by $80 million. Adjusted earnings-per-share came to $1.30 in the fourth quarter, a decline of 89 cents against the same period a year ago.

Organic sales declined by -16% as global light vehicle production, which is Autoliv's primary benchmark, declined -13% from 2020's Q4. For the first time in several quarters, Autoliv underperformed the benchmark in terms of organic sales. The company said geographical mix as well as vehicle mix moved unfavorably.

Adjusted operating margin was 8.3% of revenue, which was due to lower revenue and higher raw material costs. The company produced operating cash flow of $317 million and free cash flow of $164 million. Long-term debt was reduced again in Q4, and now stands at $1.7 billion.

The company guided for 20% organic sales growth for the full-year 2022, and a -3% decline in sales from forex translation. Adjusted operating margin is expected to come in at 9.5% of revenue, and management expects $950 million in operating cash flow. Our initial estimate is for $7.00 in earnings-per-share for 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$5.08	$5.07	$5.06	$5.17	$6.42	$4.87	$6.83	$5.72	$3.15	$5.02	***$7.00***	***$11.29***
DPS	$1.89	$2.00	$2.12	$2.22	$2.30	$2.38	$2.46	$2.48	$0.62	$1.88	***$2.56***	***$3.43***
Shares[2]	96	94	89	88	88	87	87	87	87	88	***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. We see strong growth in 2022 as the world's auto manufacturers see fewer supply constraints amidst soaring demand. Management's guidance for 2022 supports a swift recovery off weak results to end 2021.

Autoliv is performing well against benchmarks over the long-term, although Q4 was an outlier from this. LVP rebounded significantly in the second half of 2020 and is generally back to normalized levels, but there was a sizable decline in late-2021 due to supply constraints globally. We note that Autoliv's level of outperformance against LVP has remained strong

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[1] Estimated date
[2] Share count 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.

throughout all portions of the cycle. LVP was quite weak during Q4, and Autoliv underperformed the benchmark, so that's something investors should keep a close eye on moving forward.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	12.0	15.6	19.6	22.2	17.1	23.1	14.1	13.3	22.7	19.1	***14.4***	***14.0***
Avg. Yld.	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	0.9%	2.0%	***2.5%***	***2.2%***

Autoliv's price-to-earnings ratio has decreased since our last report to 14.4 times our earnings estimate for 2022. 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 move in the valuation, we now see just a small headwind to total returns.

The current yield is 2.5%, so Autoliv is still a respectable income stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	37%	39%	42%	43%	36%	49%	36%	43%	20%	37%	***37%***	***30%***

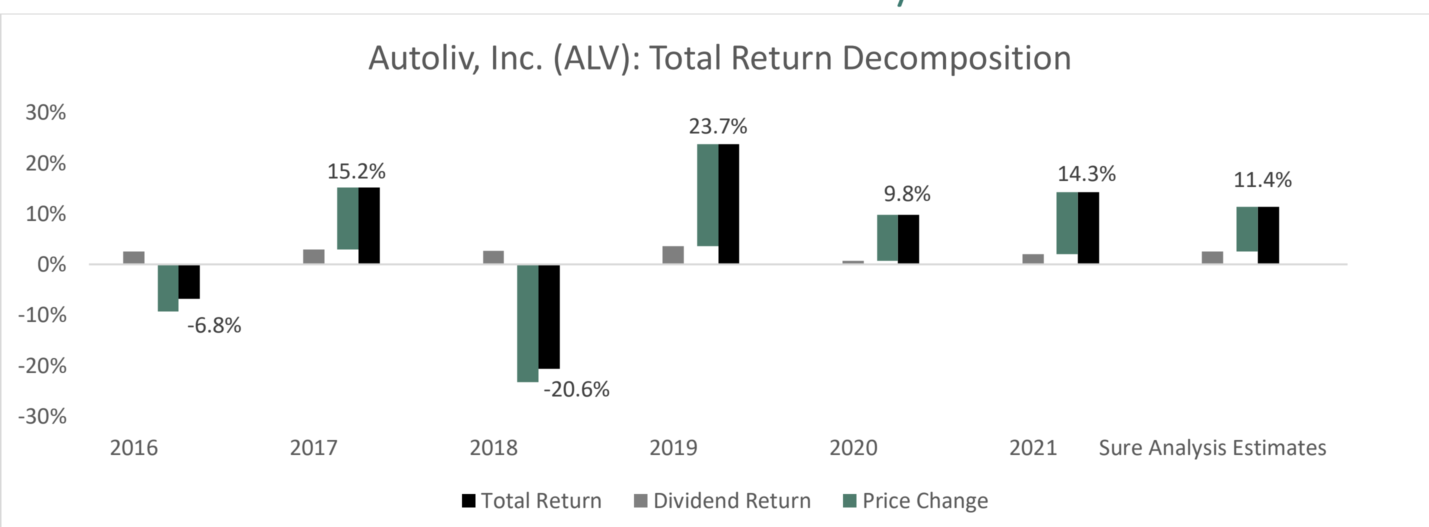
We expect moderate dividend growth given management is likely to be shy about raising it to the point where it may need to be cut again in the future.

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, but late-2021 results highlight its complete reliance upon global light vehicle production.

Final Thoughts & Recommendation

Autoliv's valuation has moved lower since our last update as the stock has pulled back. Revenue was very weak in Q4, but we still believe the cause for this weakness to be temporary. The dividend is growing, and we see Autoliv's total return outlook as strong at 11.4% annually. Given the double-digit projected returns, we're moving Autoliv back to buy from our previous hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	8,267	8,803	9,241	9,170	7,922	8,137	8,678	8,548	7,447	8,230
Gross Profit	1,646	1,705	1,804	1,844	1,628	1,680	1,711	1,584	1,247	1,511
Gross Margin	19.9%	19.4%	19.5%	20.1%	20.6%	20.6%	19.7%	18.5%	16.7%	18.4%
SG&A Exp.	367	390	415	412	394	407	390	399	389	432
D&A Exp.	273	286	305	319	383	426	397	351	371	394
Operating Profit	705	761	723	728	831	860	686	726	382	675
Operating Margin	8.5%	8.6%	7.8%	7.9%	10.5%	10.6%	7.9%	8.5%	5.1%	8.2%
Net Profit	483	486	468	457	567	427	190	462	187	435
Net Margin	5.8%	5.5%	5.1%	5.0%	7.2%	5.2%	2.2%	5.4%	2.5%	5.3%
Free Cash Flow	323	450	255	260	361	356	31	165	509	296
Income Tax	183	244	198	218	224	204	235	186	103	177

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,570	6,983	7,443	7,526	8,234	8,550	6,722	6,771	8,157	7,537
Cash & Equivalents	978	1,118	1,529	1,334	1,227	960	616	445	1,178	969
Accounts Receivable	1,509	1,688	1,706	1,788	1,960	1,697	1,652	1,627	1,822	1,699
Inventories	611	662	676	711	773	704	758	741	798	777
Goodwill & Int. Ass.	1,707	1,687	1,661	1,794	2,083	1,440	1,423	1,410	1,412	1,395
Total Liabilities	2,794	2,983	4,001	4,057	4,308	4,381	4,825	4,649	5,734	4,889
Accounts Payable	1,056	1,200	1,092	1,170	1,197	957	978	951	1,254	1,144
Long-Term Debt	633	619	1,601	1,539	1,543	1,330	2,230	2,094	2,411	2,008
Shareholder's Equity	3,759	3,981	3,427	3,456	3,677	4,035	1,884	2,109	2,409	2,633
LTD/E Ratio	0.17	0.16	0.47	0.45	0.42	0.33	1.18	0.99	1.00	0.76

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.6%	7.2%	6.5%	6.1%	7.2%	5.1%	2.5%	6.8%	2.5%	5.5%
Return on Equity	13.6%	12.6%	12.6%	13.3%	15.9%	11.1%	6.4%	23.1%	8.3%	17.3%
ROIC	11.5%	10.8%	9.7%	9.1%	10.8%	7.8%	4.0%	11.1%	4.1%	9.2%
Shares Out.	96	94	89	88	88	87	87	87	87	88
Revenue/Share	86.93	91.80	100.01	103.73	89.61	92.78	99.41	97.91	85.11	93.84
FCF/Share	3.40	4.70	2.76	2.94	4.08	4.06	0.35	1.89	5.82	3.38

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