Aon Plc (AON)

Updated February 11th, 2022, by Josh Arnold

Key Metrics

Current Price:	$287	**5 Year CAGR Estimate:**	8.9%	**Market Cap:**	$63 B
Fair Value Price:	$264	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	04/30/22[1]
% Fair Value:	109%	**5 Year Valuation Multiple Estimate:**	-1.7%	**Dividend Payment Date:**	05/15/22
Dividend Yield:	0.7%	**5 Year Price Target**	$425	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	10.9%

Overview & Current Events

Aon is a professional services firm headquartered in London, United Kingdom. The company provides a variety of services including consulting, risk management, and health plan management. Aon has approximately 500 offices worldwide that serve 120 countries through a workforce that numbers about 50,000. U.S. investors can initiate an ownership stake in Aon through American Depository Receipts that trade with a market capitalization of $63 billion on the New York Stock Exchange, under the ticker AON. Aon should generate around $13 billion in revenue this year.

Aon reported fourth quarter and full-year earnings on February 4th, 2022, and results were mixed. Aon managed to beat adjusted earnings expectations handily, but revenue came in weak against estimates. Earnings were $3.71 per-share on an adjusted basis, which was well ahead of estimates for $3.34, and up sharply from $2.62 in the year-ago period. Revenue was $3.08 billion, which was up 4% year-over-year; estimates were for $3.16 billion.

Commercial Risk Solutions revenue was $1.85 billion, up 11% on organic growth of 12%. Reinsurance Solutions revenue was $222 million, up 13% on both reported and organic bases. Health Solutions revenue was down -13% to $651 million, but organic growth was +7%. Wealth Solutions revenue rose 2% to $364 million, and +1% organically.

Adjusted operating margin came to 32.8% of revenue, up enormously from 26.9% a year ago. Operating expenses were down -6% year-over-year as compensation and benefits expense was down -5%, while IT investment declined by -1%. Coupled with higher revenue, these expense declines produced a massive gain in profitability.

We're initiating estimates for this year at $13.20 in earnings-per-share, following yet another outstanding record year in 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.99	$3.53	$4.66	$4.88	$5.16	$6.52	$8.16	$9.17	$9.81	$12.00	***$13.20***	***$21.26***
DPS	$0.62	$0.68	$0.92	$1.15	$1.29	$1.41	$1.56	$1.72	$1.78	$1.99	***$2.04***	***$3.44***
Shares[2]	311	301	280	270	262	254	245	237	230	215	***200***	***150***

Between 2011 and 2020, Aon compounded its adjusted earnings-per-share at a rate of nearly 15% per year. Looking ahead, we believe that the company's growth is likely to continue to be quite strong, albeit a bit slower than its historical pace. More specifically, we are forecasting 10% annualized earnings growth over a full economic cycle.

Management continues to be bullish, and rightfully so, as Aon's businesses are posting very strong rates of growth across the board, for the most part. We see expense savings as a driver of earnings growth along with the buyback, and organic revenue growth should continue to move the top line higher as well. Given the broad assortment of professional services the company offers as well as its global footprint, we are bullish on Aon's future. We note forex translation has been a sizable headwind in the past, but Aon has thus far been able to overcome that, and then some.

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[1] Estimated date

[2] Share count in millions

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The dividend should continue to rise at roughly the rate of earnings, and we forecast the payout to be at $3.44 in 2027, up from the current $2.04. Aon is not a high-yield stock by any means, but its dividend growth potential is strong.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.8	19.2	18.6	19.8	20.4	20.1	17.9	17.7	20.3	21.6	***21.7***	***20.0***
Avg. Yld.	1.2%	1.0%	1.1%	1.2%	1.2%	1.1%	1.1%	0.9%	0.9%	0.8%	***0.7%***	***0.8%***

Aon has traded at an average price-to-earnings ratio of ~19 over the last decade, and we are using 20 for a fair value estimate. The company is trading for a price-to-earnings ratio of 21.7 using our 2022 earnings-per-share estimate. That implies a headwind to total returns from the valuation, as Aon is trading above our estimate of fair value. We see the yield staying about where it is for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	21%	19%	20%	24%	25%	22%	19%	19%	18%	17%	***16%***	***16%***

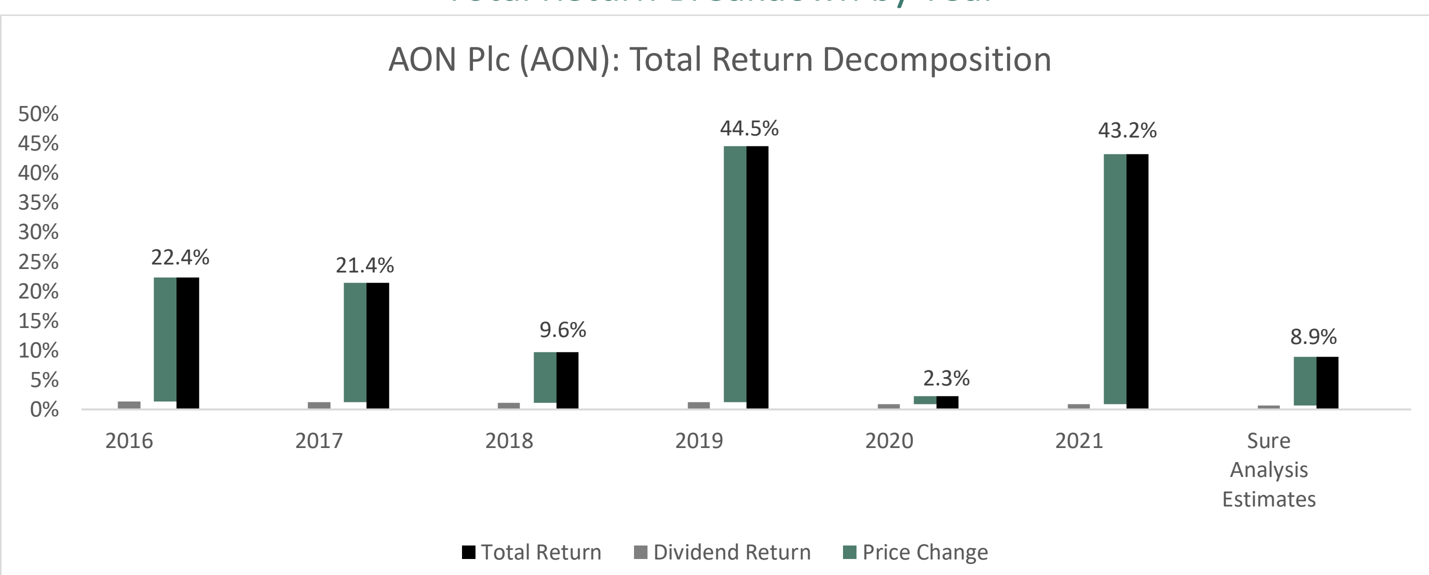
Aon's payout ratio is still very low, consistent with the company's historical practices, and we do not believe that will change. We see the dividend remaining around one-sixth of total earnings, so the payout is extremely safe. However, this means Aon is highly unlikely to have a meaningful yield anytime soon. Management has stated that it plans to protect the dividend during periods of uncertainty.

Aon was resilient during the Great Recession, and that was certainly the case again during the COVID crisis, the product of its very diversified revenue streams. This is also a competitive advantage for the firm, along with its world-class client list and reputation.

Final Thoughts & Recommendation

We are forecasting 8.9% total annual returns, consisting of the 0.7% yield, 10% EPS growth, and a headwind from the valuation. We're reiterating the stock at a hold rating. Aon offers dividend growth potential, but also a long runway for earnings-per-share growth.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	11,514	11,815	12,045	9,480	9,409	9,998	10,770	11,013	11,066	12,193
SG&A Exp.	4,805	4,870	5,031	3,875	3,895	3,995	4,667	4,959	5,161	5,455
D&A Exp.	41.7%	41.2%	41.8%	40.9%	41.4%	40.0%	43.3%	45.0%	46.6%	44.7%
Operating Profit	3,209	3,199	3,065	1,951	1,765	2,039	2,354	2,226	1,967	3,039
Operating Margin	655	635	594	338	319	891	769	564	413	326
Net Profit	1,596	1,671	1,966	1,587	1,811	1,065	1,544	2,169	2,781	2,090
Net Margin	13.9%	14.1%	16.3%	16.7%	19.2%	10.7%	14.3%	19.7%	25.1%	17.1%
Free Cash Flow	993	1,113	1,397	1,385	1,396	1,226	1,134	1,532	1,969	1,255
Income Tax	8.6%	9.4%	11.6%	14.6%	14.8%	12.3%	10.5%	13.9%	17.8%	10.3%

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	30,486	30,251	29,772	26,883	26,615	26,088	26,422	29,405	32,114	31,928
Cash & Equivalents	291	477	374	384	426	756	656	790	884	544
Acc. Receivable	3,101	2,896	2,815	2,564	2,106	2,478	2,760	3,112	3,070	3,094
Goodwill & Int.	11,918	11,575	11,380	10,628	9,300	10,091	9,320	8,948	9,306	8,926
Total Liabilities	22,681	22,056	23,141	20,824	21,083	21,440	22,203	25,956	28,531	30,770
Accounts Payable	1,853	1,931	1,805	1,772	1,604	1,961	1,943	1,939	2,016	---
Long-Term Debt	4,165	4,389	5,582	5,700	6,205	5,966	6,244	7,339	7,729	9,392
Total Equity	7,762	8,145	6,571	6,002	5,475	4,583	4,151	3,375	3,495	1,061
LTD/E Ratio	0.54	0.54	0.85	0.95	1.13	1.30	1.50	2.17	2.21	8.85

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.3%	3.7%	4.7%	4.9%	5.2%	4.7%	4.3%	5.5%	6.4%	3.9%
Return on Equity	12.5%	14.0%	19.0%	22.0%	24.3%	24.4%	26.0%	40.7%	57.3%	55.1%
ROIC	8.1%	9.1%	11.3%	11.6%	11.9%	11.0%	10.8%	14.4%	17.8%	11.5%
Shares Out.	311	301	280	270	262	254	245	237	230	215
Revenue/Share	34.62	37.46	40.20	33.40	34.81	38.35	43.60	45.77	47.47	53.93
FCF/Share	3.46	4.83	5.19	6.37	8.03	2.11	5.85	6.69	11.33	9.04

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