



BorgWarner Inc. (BWA)

Updated February 15th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	7.6%	Market Cap:	\$10.8 billion
Fair Value Price:	\$48	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	2/27/2022
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	3/14/2022
Dividend Yield:	1.5%	5 Year Price Target	\$61	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 generates annual revenue of about \$16.5 billion.

BorgWarner reported fourth quarter and full year earnings results on 2/15/2022. For the quarter, revenue decreased 6.9% to \$3.66 billion, but was \$156 million above expectations. Adjusted earnings-per-share of \$1.06 compared unfavorably to adjusted earnings-per-share of \$1.18 in the prior year, but topped estimates by \$0.26. For the year, revenue improved 46% to \$14.8 billion while adjusted earnings-per-share of \$4.15 compared favorably to adjusted earnings-per-share of \$2.69 in the prior year.

Organic sales were lower by 6.5% year-over-year. E-propulsion & Drivetrain, Air Management, and Fuel Injection had an organic sales decline of 6.6%, 9.3%, and 5.8%, respectively. Aftermarket, once again the lone business to show year-over-year growth, was up 4.6%. BorgWarner's purchase of Delphi in October of 2020 added \$2.6 billion to sales for the year.

BorgWarner provided an outlook for 2022 as well, with the company expecting revenue of \$15.9 billion to \$16.5 billion and organic sales in a range of 10% to 14%. Adjusted earnings-per-share are expected to be between \$4.15 to \$4.60 for the year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.49	\$2.89	\$3.25	\$3.02	\$3.27	\$3.89	\$4.49	\$4.13	\$2.69	\$4.15	\$4.38	\$5.59
DPS	---	\$0.25	\$0.51	\$0.52	\$0.53	\$0.59	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68
Shares¹	231	228	226	219	212	211	208	206	239	240	240	240

BorgWarner have been on a roller coaster ride over the last decade. Earnings-per-share barely budged from 2011 through 2020, though this was mostly due to the impact of COVID-19 on the business. The earnings growth rate over the last decade is 5.2%. 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 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.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.5	15.5	18.3	17.2	10.6	11.6	10.3	9.6	13	10.9	10.3	11.0
Avg. Yld.	---	0.6%	0.9%	1.0%	1.5%	1.3%	1.5%	1.5%	1.9%	1.5%	1.5%	1.1%

Shares of the company have fallen \$2, or 4.3%, since our 11/6/2021 report. BorgWarner's valuation has traded with a wide range since 2012, 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 2027 target valuation. Using the midpoint of expected earnings-per-share for the year, BorgWarner currently trades with a price-to-earnings ratio of 10.3. This implies a 1.4% addition to annual returns through 2027.

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

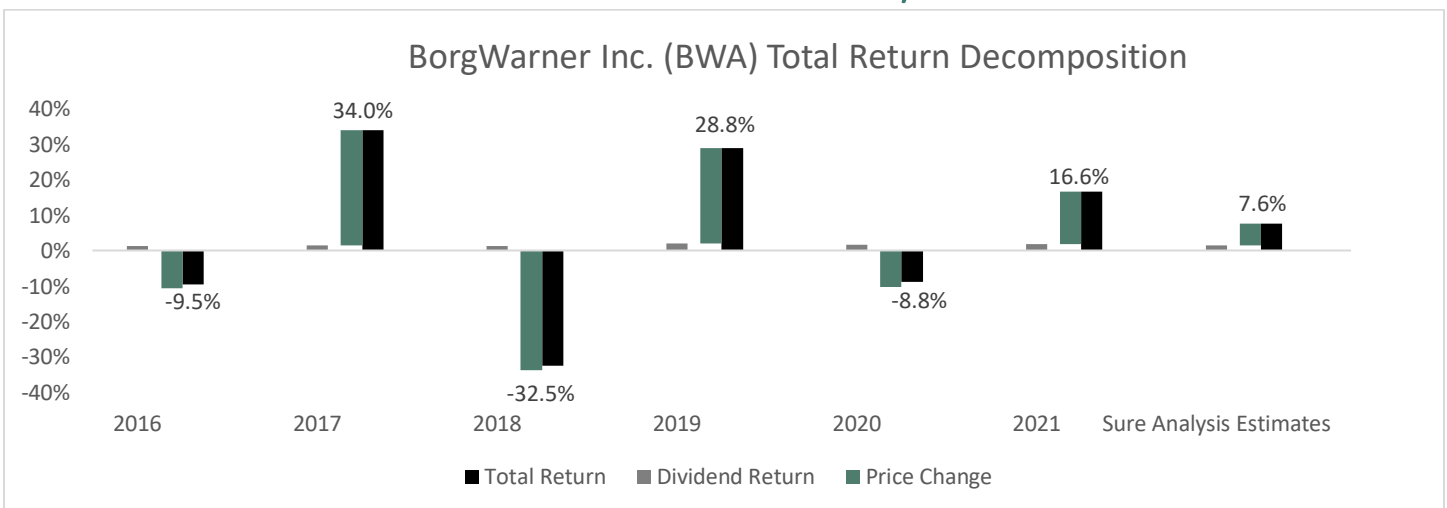
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	9%	16%	17%	16%	15%	15%	16%	25%	16%	16%	12%

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 7.6% annually through 2027, up from our previous estimate of 3.8%. Our projected return stems from a 5% earnings growth rate, a 1.5% starting yield, and a small contribution from multiple expansion. We are enthused by the BorgWarner's industry position, but would wait for a further pullback before purchasing shares of the company. We have raised our 2027 price target \$8 to \$61 due to company guidance for 2027. Shares continue to earn a hold recommendation due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	7,183	7,437	8,305	8,023	9,071	9,799	10,530	10,168	10,165	14,838
Gross Profit	1,467	1,558	1,756	1,703	1,929	2,115	2,230	2,101	1,910	2,855
Gross Margin	20.4%	20.9%	21.1%	21.2%	21.3%	21.6%	21.2%	20.7%	18.8%	19.2%
SG&A Exp.	647	646	702	688	818	899	946	873	951	1,460
Operating Profit	289	299	330	320	391	408	431			
Op. Margin	820	912	1,054	1,015	1,111	1,216	1,288	1,230	925	1,314
Net Profit	11.4%	12.3%	12.7%	12.7%	12.2%	12.4%	12.2%	12.1%	9.1%	8.9%
Net Margin	501	624	656	577	595	440	931	746	500	537
Free Cash Flow	7.0%	8.4%	7.9%	7.2%	6.6%	4.5%	8.8%	7.3%	4.9%	3.6%
Income Tax	471	301	239	291	535	620	580	527	723	638

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,401	6,917	7,228	8,826	8,835	9,788	10,095	9,702	16,029	16,575
Cash & Equivalents	716	940	798	578	444	545	739	832	1,650	1,841
Acc. Receivable	1,015	1,068	1,201	1,424	1,448	1,736	1,728	1,713	2,636	2,522
Inventories	448	458	506	724	641	766	781	807	1,286	1,534
Goodwill & Int.	1,388	1,367	1,357	2,302	2,166	2,375	2,292	2,244	3,723	4,370
Total Liabilities	3,255	3,285	3,537	5,194	5,533	5,962	5,750	4,858	9,305	9,313
Accounts Payable	855	935	979	1,226	1,259	1,546	1,485	1,325	2,352	2,276
Long-Term Debt	1,067	1,223	1,340	2,550	2,220	2,188	2,114	1,960	3,787	4,327
Total Equity	3,083	3,561	3,616	3,554	3,218	3,717	4,226	4,706	6,428	6,948
LTD/E Ratio	0.35	0.34	0.37	0.72	0.69	0.59	0.50	0.42	0.59	0.62

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.1%	9.4%	9.3%	7.2%	6.7%	4.7%	9.4%	7.5%	3.9%	3.3%
Return on Equity	18.3%	18.8%	18.3%	16.1%	17.6%	12.7%	23.4%	16.7%	9.0%	8.0%
ROIC	12.5%	13.8%	13.3%	10.3%	10.2%	7.6%	14.9%	11.2%	5.8%	4.9%
Shares Out.	231	228	226	219	212	211	208	206	239	240
Revenue/Share	29.59	32.15	36.28	35.56	42.13	46.33	50.26	49.17	47.50	61.88
FCF/Share	1.94	1.30	1.04	1.29	2.49	2.93	2.77	2.55	3.38	2.66

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

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