



Emerson Electric Company (EMR)

Updated February 8th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$96	5 Year CAGR Estimate:	7.4%	Market Cap:	\$57 B
Fair Value Price:	\$94	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/10/22
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Dividend Payment Date:	03/10/22
Dividend Yield:	2.1%	5 Year Price Target	\$126	Years Of Dividend Growth:	65
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	2.0%

Overview & Current Events

Emerson Electric was founded in Missouri in 1890 and since that time, it has evolved through organic growth, as well as strategic acquisitions and divestitures, from a regional manufacturer of electric motors and fans into a \$57 billion diversified global leader in technology and engineering. Its global customer base and diverse product and service offerings afford it about \$19 billion in annual revenue. The company's very impressive 65-year dividend increase streak lands it on the prestigious Dividend Kings list.

Emerson reported first quarter earnings on February 2nd, 2022, and results were better than expected on both the top and bottom lines. Earnings-per-share came to \$1.05 for the quarter, which was four cents ahead of estimates. Revenue beat by \$20 million, gaining 8% year-over-year to \$4.5 billion.

Net income was \$896 million for the quarter, up from \$445 million a year ago. Cost of sales rose 8% year-over-year, but Emerson noted this was lower than the 10% increase from Q4, indicating those pressures may be moderating somewhat. Trailing-three-months underlying orders were up 17%, indicating good end-user demand despite cost pressures and supply constraints.

Operating cash flow was down -35% to \$523 million, while free cash flow declined -41% to \$407 million. This was due to higher inventory levels, which resulted from supply chain constraints, but Emerson said this would not impact full-year results.

Q2 guidance is for earnings-per-share of \$1.15 to \$1.20, roughly in line with expectations. Revenue growth is now expected to come to ~5%, which was below consensus, disappointing investors.

We forecast \$4.95 in earnings-per-share for this year following Q1 results.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.67	\$3.54	\$3.75	\$3.17	\$2.46	\$2.54	\$3.46	\$3.71	\$3.46	\$4.10	\$4.95	\$6.62
DPS	\$1.60	\$1.66	\$1.72	\$1.88	\$1.90	\$1.92	\$1.94	\$1.96	\$2.00	\$2.04	\$2.06	\$2.39
Shares¹	724	707	697	655	643	642	641	632	601	595	594	550

The majority of Emerson's revenue is exposed to the oil and gas industry, where revenue and margins change significantly, introducing risk to forecasts. We're estimating growth at 6% as management has become more bullish, and as there are signs of organic revenue growth improvement, as well as with respect to margins. We still think low single-digit growth in revenue and a tailwind from the buyback will be the key drivers of earnings-per-share growth in the coming years, and we see Emerson as rebounding. We see fiscal 2022 as a defining year for Emerson given the guidance on supply chain constraints, but we'll see how that plays out; guidance remains strong.

The dividend is also expected to grow in the low single-digits as recent years have seen Emerson focus more on acquisitions and share repurchases than growing the dividend. Growth rates will likely be unimpressive as the company continues to focus on using its ample cash flow on acquisitions, not above average dividend growth.

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	18.3	15.8	17.6	18.0	20.6	22.9	20.5	17.7	18.8	18.2	19.4	19.0
Avg. Yld.	3.3%	3.0%	2.6%	3.3%	3.8%	3.3%	2.7%	3.0%	3.1%	2.3%	2.1%	1.9%

Emerson's price-to-earnings ratio is unchanged since our last update, at 19.4 times earnings, which is nearly in line with our estimate of fair value at 19. We are therefore forecasting essentially no impact from the valuation in the coming years on total returns. We see the yield as declining slightly over time, primarily from small dividend increases. If free cash flow weakens, growth rates in the dividend could moderate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	60%	46%	61%	60%	77%	75%	58%	53%	58%	50%	42%	36%

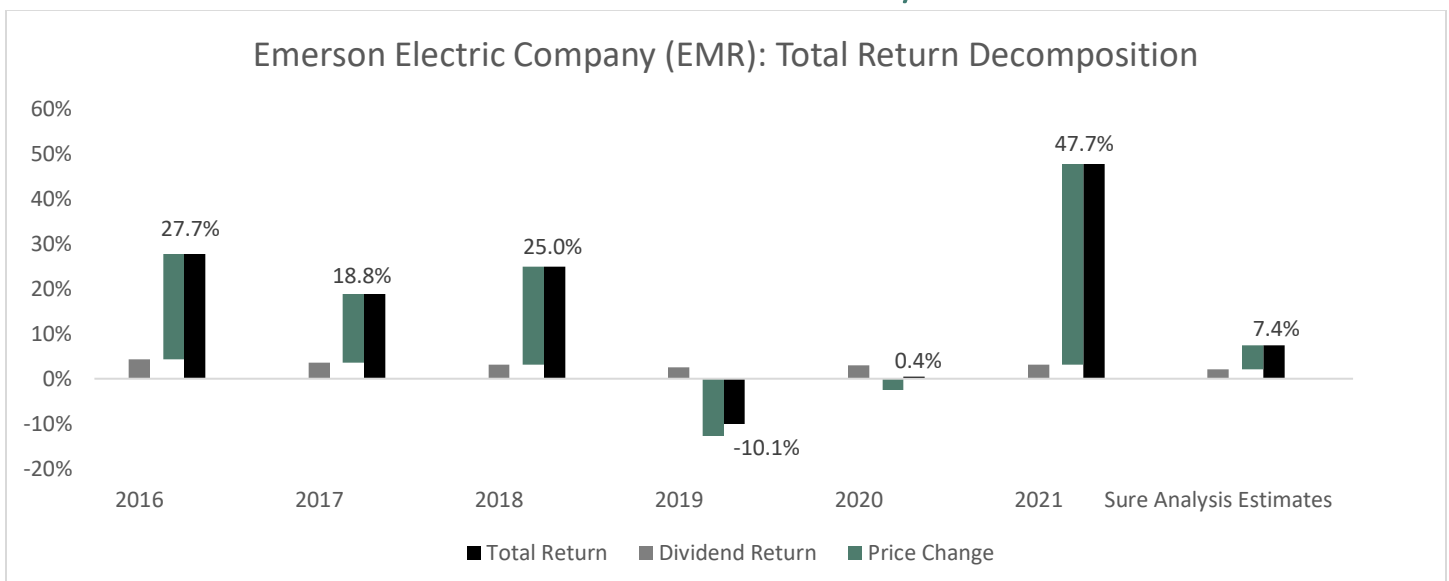
Emerson's payout ratio is just under half of earnings, and we believe it will continue to drift lower over time as Emerson focuses on acquisitions instead of boosting the payout by large amounts. The dividend is very safe as it is well covered by free cash flow, and the yield is decent, so it is a suitable dividend stock. We also note that Emerson likes to buy back its stock, which puts a natural cap on how much the company is willing to use for dividend payments.

Emerson's competitive advantage is in its many decades of experience in building customer relationships and engineering excellence. It has a global customer base that is seeing strong economic growth and that underlying sales tailwind should power results going forward. It is very susceptible to recessions given its oil and gas exposure, however, so any signs of economic weakness should put investors on alert, as we saw in 2020.

Final Thoughts & Recommendation

With recent price action, Emerson appears fairly valued. Our growth forecast, combined with shares at 102% of our estimate of fair value, and a higher dividend yield, means we are forecasting 7.4% total annual returns in the coming years. We are reiterating Emerson at a hold rating given the vast improvement in the valuation. We note there's significant margin uncertainty for this year, but management seems confident at the moment that it's transitory.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	24,412	24,669	17,733	16,249	14,522	15,264	17,408	18,372	16,785	18,236
Gross Profit	9,768	9,952	7,762	7,008	6,262	6,431	7,432	7,815	7,009	7,563
Gross Margin	40.0%	40.3%	43.8%	43.1%	43.1%	42.1%	42.7%	42.5%	41.8%	41.5%
SG&A Exp.	5,436	5,648	4,164	3,735	3,464	3,607	4,269	4,457	3,986	4,179
D&A Exp.	823	819	569	573	568	636	758	822	854	969
Operating Profit	3,972	4,006	3,503	3,179	2,714	2,688	2,952	3,120	2,784	3,084
Op. Margin	16.3%	16.2%	19.8%	19.6%	18.7%	17.6%	17.0%	17.0%	16.6%	16.9%
Net Profit	1,968	2,004	2,147	2,710	1,635	1,518	2,203	2,306	1,965	2,303
Net Margin	8.1%	8.1%	12.1%	16.7%	11.3%	9.9%	12.7%	12.6%	11.7%	12.6%
Free Cash Flow	2,388	2,971	3,041	1,941	2,434	1,436	2,275	2,412	2,545	2,994
Income Tax	1,091	1,130	953	1,267	697	660	443	531	345	585

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	23,818	24,711	24,177	22,088	21,732	19,589	20,390	20,497	22,882	24,715
Cash & Equivalents	2,367	3,275	3,149	3,054	3,182	3,062	1,093	1,494	3,315	2,354
Acc. Receivable	4,983	4,808	5,019	2,870	2,701	3,072	3,023	2,985	2,802	2,971
Inventories	2,125	1,895	2,057	1,265	1,208	1,696	1,813	1,880	1,928	2,050
Goodwill & Int.	9,864	9,181	8,871	4,785	4,811	7,206	9,206	9,151	9,202	10,600
Total Liabilities	13,376	13,993	14,010	13,960	14,114	10,819	11,400	12,224	14,435	14,792
Accounts Payable	2,767	2,725	2,951	1,537	1,517	1,776	1,943	1,874	1,715	2,108
Long-Term Debt	5,293	5,642	6,024	6,841	6,635	4,656	4,760	5,721	7,486	6,665
Total Equity	10,295	10,585	10,119	8,081	7,568	8,718	8,947	8,233	8,405	9,883
D/E Ratio	0.51	0.53	0.60	0.85	0.88	0.53	0.53	0.69	0.89	0.67

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.3%	8.3%	8.8%	11.7%	7.5%	7.3%	11.0%	11.3%	9.1%	9.7%
Return on Equity	19.0%	19.2%	20.7%	29.8%	20.9%	18.6%	24.9%	26.8%	23.6%	25.2%
ROIC	12.5%	12.5%	13.2%	17.4%	11.2%	11.0%	16.2%	16.6%	13.1%	14.2%
Shares Out.	724	707	697	655	643	642	641	632	601	595
Revenue/Share	33.23	34.13	25.19	24.02	22.45	23.72	27.40	29.60	27.67	30.30
FCF/Share	3.25	4.11	4.32	2.87	3.76	2.23	3.58	3.89	4.20	4.98

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

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