Autoliv, Inc. (ALV)

Updated May 14th, 2022, by Josh Arnold

Key Metrics

Current Price:	$74	**5 Year CAGR Estimate:**	18.6%	**Market Cap:**	$6.2 B
Fair Value Price:	$98	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	05/23/2022
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.8%	**Dividend Payment Date:**	06/13/2022
Dividend Yield:	3.5%	**5 Year Price Target**	$158	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Buy

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 59,000 employees, about $9.1 billion in revenue this year and a $6.2 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 first quarter earnings on April 22nd, 2022, and results missed estimates badly. Earnings-per-share on an adjusted basis came to 45 cents, which was less than half of the $1.05 expected. Revenue also missed expectations, declining more than 5% year-over-year to $2.12 billion, and missing estimates by $20 million.

The company posted organic sales declines of 1%, as global light vehicle production fell 4%. Autoliv continued its long tradition of outperforming this critical benchmark.

Profitability declined to due significant operating margin headwinds from higher costs related to raw materials, as well as supply chain disruptions, vehicle production volatility, freight costs, and the war in Ukraine. Operating margin declined by 4.2% and adjusted operating margin fell 7.4%.

The company now sees organic sales growth of 12% to 17% for this year, with forex negatively impacting sales by 3%. Operating margin on an adjusted basis is expected to be 5.5% to 7.0%, and Autoliv expects ~$800 million in operating cash flow.

We note that we are using earnings power for this year of $7.00 per share, given there are temporary headwinds that are reducing earnings sharply for 2022. Actual earnings-per-share are estimated at $4.15.

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	***$4.15***	***$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[1]	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. Guidance was reduced sharply after the first quarter of 2022, given there are persistent revenue and margin headwinds. We see these as temporary, but earnings for this year are likely to be much lower than originally expected.

Autoliv is performing well against benchmarks over the long-term, with Q1 showing this once again. 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, and another one in Q1 2022. We note that Autoliv's level of outperformance

[1] Share count in millions

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against LVP has remained strong throughout all portions of the cycle. LVP was quite weak during Q1, and Autoliv outperformed 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	***10.6***	***14.0***
Avg. Yld.	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	0.9%	2.0%	***3.5%***	***2.2%***

Autoliv's price-to-earnings ratio has decreased since our last report to just 10.6 times our earnings power 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 a sizable tailwind to total returns.

The current yield is 3.5%, 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%***

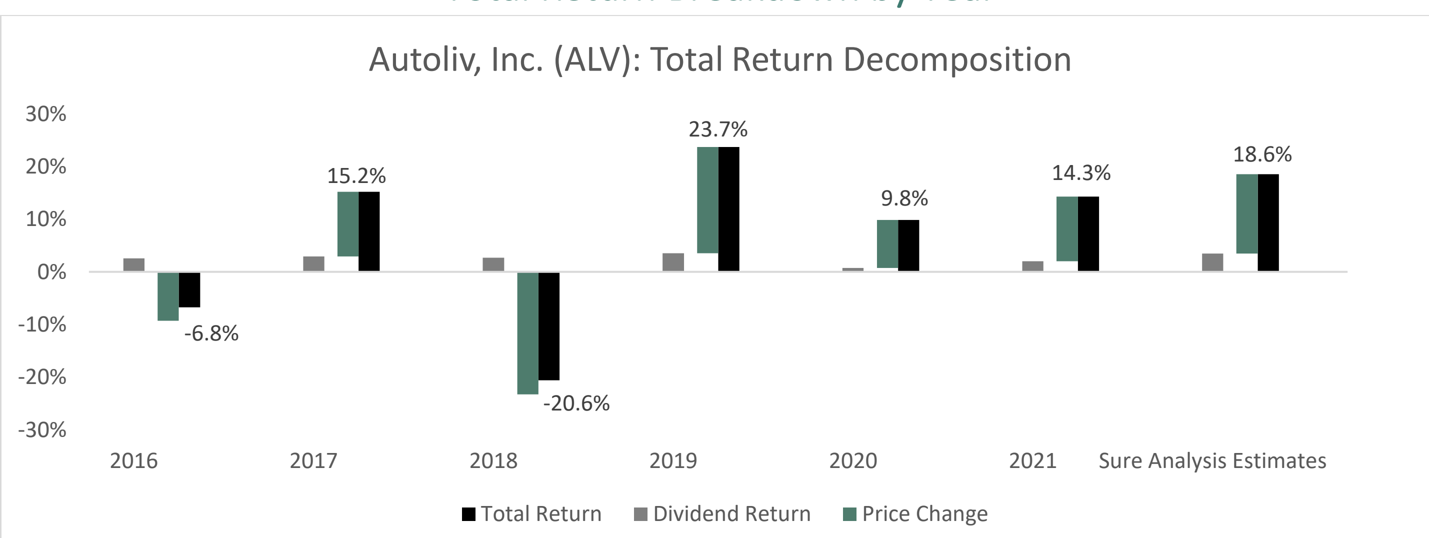
We expect moderate dividend growth given management is likely to be shy about raising it to the point where it may need to be cut again in the future.

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 sharply. Revenue was weak in Q1, 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 18.6% annually based upon earnings power of $7.00 per share, strong projected growth of 10%, and the 3.5% yield. Given the double-digit projected returns, we're reiterating the stock at a buy 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.