Eaton Corporation (ETN)

Updated May 4th, 2022 by Nathan Parsh

Key Metrics

Current Price:	$147	**5 Year CAGR Estimate:**	2.2%	**Market Cap:**	$59 B
Fair Value Price:	$120	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	05/12/22
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	05/27/22
Dividend Yield:	2.2%	**5 Year Price Target**	$146	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

Eaton Corporation is a diversified industrial equipment and parts manufacturer. The company's engineered electrical systems and components are used by customers in the industrial, vehicle, commercial, and aerospace markets. The Ireland-based Eaton was founded in 1916 and today has annual sales of about $20 billion. The company employs about 85,000 people. Eaton has 6 divisions: Electrical Americas, Electrical Global, Aerospace, Vehicle, and eMobility.

On August 2nd, 2021, Eaton closed on its $3.3 billion sale of its Hydraulics segment to Danfoss.

On February 23rd, 2022, Eaton raised its quarterly dividend 6.6% to $0.81 for the March 31st, 2022 payment date.

On May 3rd, 2022, Eaton reported first quarter results for the period ending March 31st, 2022. Revenue grew 2.3% to $4.8 billion, which was $20 million ahead of estimates. Adjusted earnings-per-share of $1.62 compared to $1.44 in the prior year and was $0.02 better than expected.

Organic growth was higher by 10% with divestitures reducing results by 12% and currency exchange acting as a 1% headwind. Electrical Americas segment grew 17%, with strength in all markets. Electrical Global was up 15% due, again, to strength in all markets. Aerospace improved 38% due to higher demand in commercial OEM and aftermarket. Electrical Americas, Electrical Global, and Aerospace all had record backlogs at the end of the quarter. The Vehicle segment was up 3% due to gains in North America aftermarket and South America agricultural, bus, and truck markets. eMobility increased 52% as acquisitions have performed well.

Eaton also provided an updated outlook for 2022, with the company expecting adjusted earnings-per-share of $7.32 to $7.72 for the year, up from $7.30 to $7.70 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.96	$4.19	$4.67	$4.30	$4.21	4.60	$5.35	$5.74	$4.24	$6.62	***$7.52***	***$9.15***
DPS	$1.52	$1.68	$1.96	$2.20	$2.28	$2.40	$2.64	$2.84	$2.92	$3.04	***$3.24***	***$3.76***
Shares[1]	471	475	468	459	449	439	433	416	401	398	***402***	***390***

Prior to 2020, Eaton had delivered mid-single-digit organic growth in recent years, though the company's earnings-per-share decreased dramatically during the last recession. The short-term following the pandemic was challenging for the company, but our expect earnings-per-share growth has already returned. We reaffirm our expected growth rate of 4% through 2027.

Eaton paused dividend growth in 2009, as this was prudent given the earnings decline. We expect dividend growth to be slightly below earnings growth.

[1] In millions of shares

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	11.8	15.6	15.2	14.6	14.6	16.3	14.7	14.3	22.7	26.1	***19.5***	***16.0***
Avg. Yld.	3.2%	2.6%	2.8%	3.5%	3.7%	3.2%	3.4%	3.5%	3.0%	1.8%	***2.2%***	***2.6%***

Shares of Eaton have decreased $5, or 3.3%, since our February 7th, 2022 update. Based off of estimates for 2022, the stock now trades with a price-to-earnings multiple of 19.5. Eaton's stock has an average price-to-earnings ratio of 16.6 over the past decade. Given the steep drop in earnings that the company had in 2009, it appears that investors aren't usually willing to pay a high multiple for shares, given that the company is far from recession-proof. We reaffirm our five-year target valuation of 16 times earnings to better reflect the long-term average multiple. If shares were to trade at our target P/E by 2027, then valuation would be a 3.9% headwind to total returns over this time frame. Eaton has a current yield of 2.2%, which is well below the stock's 10-year average of more than 3.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

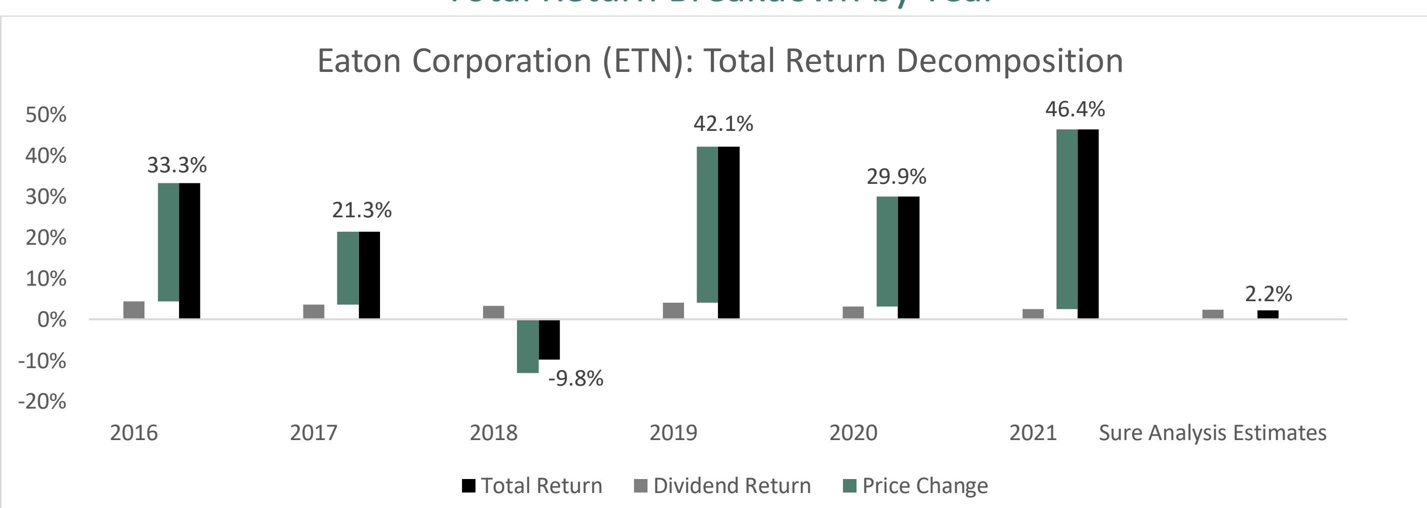
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	38%	40%	42%	51%	54%	52%	49%	49%	69%	46%	***43%***	***41%***

Eaton suffered an extreme decline in earnings during the last recession that forced the company to pause its dividend growth. The company would likely experience a decline in earnings in another recession due to the nature of its business and could pause its dividend increases again. Eaton's key competitive advantages are its expertise and understanding of the businesses that it operates. The company specializes in providing highly engineered products to customers in niche end markets. Switching to a different provider could prove costly and comes with a risk of failure. While Eaton is not recession-proof, the company is likely to do well in an improving economy due to these factors.

Final Thoughts & Recommendation

After first quarter results, Eaton Corporation is expected to return 2.2% annually through 2027, up from our prior estimate of 1.4%. Our projection stems from a 4% earnings growth rate and a 2.2% starting dividend yield that are offset by a low single-digit headwind from multiple compression. Eaton experienced strong organic growth during the quarter as each segment is performing very well. Backlogs are at records in the three largest segments. However, the valuation leaves something to be desired. Eaton continues to be rated as a sell 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	16311	22046	22552	20855	19747	20404	21609	21390	17858	19628
Gross Profit	4863	6677	6906	6551	6351	6648	7098	7052	5450	6335
Gross Margin	29.8%	30.3%	30.6%	31.4%	32.2%	32.6%	32.8%	33.0%	30.5%	32.3%
SG&A Exp.	2894	3886	3810	3596	3464	3526	3548	3583	3075	3256
D&A Exp.	598	997	983	925	929	914	903	884	811	
Operating Profit	1530	2147	2449	2330	2300	2538	2966	2863	1824	2463
Op. Margin	9.4%	9.7%	10.9%	11.2%	11.6%	12.4%	13.7%	13.4%	10.2%	12.5%
Net Profit	1217	1861	1793	1972	1916	2985	2145	2211	1410	2144
Net Margin	7.5%	8.4%	8.0%	9.5%	9.7%	14.6%	9.9%	10.3%	7.9%	10.9%
Free Cash Flow	1071	1671	1246	1903	2073	2146	2093	2864	2555	
Income Tax	31	11	(42)	159	199	382	278	378	331	750

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	35810	35491	33529	30996	30476	32623	31092	32805	31824	34027
Cash & Equivalents	577	915	781	268	543	561	283	370	438	297
Acc. Receivable	3474	3648	3667	3479	3560	3943	3858	3437	2904	3297
Inventories	2336	2382	2428	2323	2346	2620	2785	2805	2109	2969
Goodwill & Int.	22023	21681	20449	19493	18715	18833	18174	18094	17078	20606
Total Liabilities	20632	18628	17690	15765	15478	15333	14950	16672	16851	17576
Accounts Payable	1879	1960	1940	1758	1718	2166	2130	2114	1987	2797
Long-Term Debt	10836	9549	9034	8414	8277	7751	7521	8322	8058	8579
Total Equity	15113	16791	15786	15186	14954	17253	16107	16082	14930	16413
LTD/E Ratio	0.72	0.57	0.57	0.55	0.55	0.45	0.47	0.52	0.54	0.52

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.5%	5.2%	5.2%	6.1%	6.2%	9.5%	6.7%	6.9%	4.4%	6.5%
Return on Equity	10.8%	11.7%	11.0%	12.7%	12.7%	18.5%	12.9%	13.7%	9.1%	13.7%
ROIC	6.5%	7.1%	7.0%	8.1%	8.2%	12.4%	8.8%	9.2%	5.9%	8.9%
Shares Out.	471	475	468	459	449	439	433	416	401	398
Revenue/Share	46.48	46.25	47.30	44.65	43.26	45.65	49.46	50.83	44.20	48.87
FCF/Share	3.05	3.51	2.61	4.07	4.54	4.80	4.79	6.81	6.32	

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