Avnet, Inc. (AVT)

Updated June 27th, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	$43.7	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$4.24B
Fair Value Price:	$55.2	**5 Year Growth Estimate:**	1.5%	**Ex-Dividend Date:**	06/07/2022
% Fair Value:	79.2%	**5 Year Valuation Multiple Estimate:**	4.8%	**Dividend Payment Date:**	06/22/2022
Dividend Yield:	2.4%	**5 Year Price Target**	$59.4	**Years Of Dividend Growth:**	8
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Avnet is a global distributor of electronic components and technology solutions, connecting semiconductors and other components suppliers to customers in 140 countries. Avnet is the third-largest semiconductor distributor in the world and the largest for European chip distribution. The company has two main operating segments: the Electronic Components segment, which sells electrical components, semiconductors, interconnect, passive and electromechanical components, and the Farnell segment, which sells kits, tools, test measurement, and electronic components. The Electronic Components segment is the primary segment of the company, constituting 92% of 2021 sales, while the Farnell segment's contribution to the sales in 2021 was 8%. The company operates across the Americas, Europe, Middle East, Africa (EMEA), and Asia/Pacific regions.

On April 27th, 2022, Avnet Inc. announced Q3 2022 results reporting adjusted diluted EPS of $2.15 for the quarter, up 190.5% from Q3 2022 and beating market consensus EPS of $1.54 by $0.61. In addition, the company reported revenue of $6.49 billion, up 31.9% YoY from $4.91 billion during the same period last year. The reported revenue by the company during Q4 2022 also surpassed the consensus revenue estimate by $780 million. The management noted that strong growth in revenue and EPS was driven by robust sales across all regions and continued market strength. The Electronic Components segment grew revenues to 33.2% YoY to $6.0 billion, driven by increased demand creation and IP&E revenue, as well as new supply chain orchestration engagements. The management highlighted that both Americas and EMEA benefited from the growing supply chain engagements. Farnell segment sales were also up 18.4% YoY, driven by the company's investments, which have enhanced the segment's value proposition and bolstered financial performance.

The company's adjusted operating margin improved 4.7% during the quarter, up 243 bps YoY. The management highlighted that the improvement in margins is primarily driven by the stronger pricing power of the company and effective management of operating expenses during this period of high growth. Moreover, the company's Investments in FAEs and online tools, a wide breadth of suppliers, and enhanced focus on the distribution capabilities have resulted in the 7th consecutive quarter of adjusted operating margin improvement. The company also gave the forward guidance for Q4 2022 with sales ranging between $6.0-$6.4 billion and adjusted EPS to the range of $1.90-$2.00. In addition, management highlighted that they continue to see strength in the Automotive, Transportation, and Industrial segments and expect the Aerospace and Defense segments to remain elevated over the coming quarters.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.79	$3.21	$4.24	$4.49	$4.22	$3.24	$3.55	$4.11	$2.02	$2.70	***$6.90***	***$7.43***
DPS	-	-	$0.60	$0.64	$0.68	$0.70	$0.74	$0.80	$0.84	$0.85	***$1.04***	***$1.49***
Shares	142.6	137.1	138.3	134.5	127.4	123.1	115.8	104.0	98.8	99.6	***97.0***	***80.2***

Avnet has suffered some recent setbacks that have hurt its profitability and EPS growth. Starting in 2016, the company suffered from a failed implementation of a new ERP system in North America that has prolonged impacted the firm's profitability and efficiency. Management's mistakes and poor execution is reflected in the nine-year EPS growth, which has reported a negative CAGR of -3.7%. However, the company has experienced significant growth in EPS and profitability in 2022. We expect the company to continue its growth but at a much moderate pace since we believe that

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despite the operational challenges, the company has a robust business model and will continue to do well in the coming years. Consequentially, we forecast a moderate single-digit EPS annual growth rate of 1.5% over the next five years, leading to our estimated EPS of $7.43 by the end of the fiscal year 2027. Finally, we expect the company to maintain a healthy dividend distribution in the future and forecast a dividend payment of $1.49 in 2027 by the company.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	8.2	10.0	9.8	9.7	10.0	13.2	11.4	10.5	18.1	12.9	***6.3***	***8.0***
Avg. Yld.	-	-	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.9%	2.1%	***2.4%***	***2.5%***

Avnet currently trades at a forward P/E of 6.3, significantly lower than its long-term 9-year average P/E of 11.4 and five-year average P/E of 13.2. Even though the company operates in cyclical sector and earnings don't maintain consistent growth, we believe it will continue to benefit from robust demand for its products in the communication and defense market. Hence, a P/E ratio of 8.0 would be a fair reflection of the business, in our view, which will result in a fair value price of $59.4, putting the stock at 79% fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

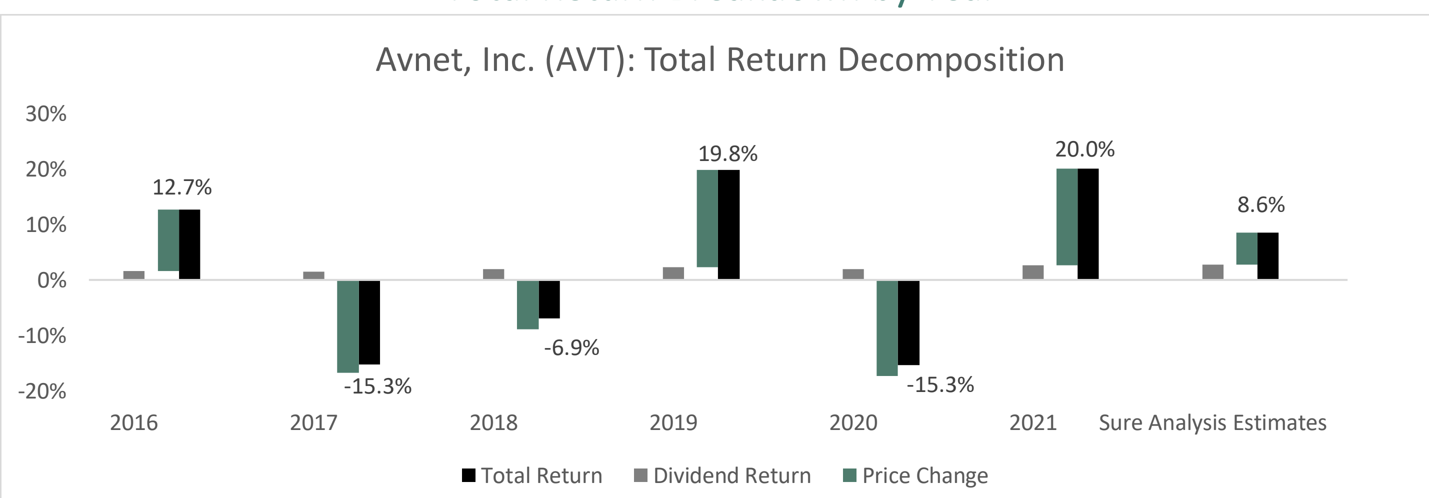
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	-	-	14%	14%	16%	22%	21%	19%	42%	31%	***15%***	***20%***

Avnet has paid increasing dividends over the past eight years, with the payout ratio averaging 22.4% over the past eight years. In addition, the company has been committed to increasing shareholder value through delivering a reliable, increasing dividend and continued share repurchase. On Feb 16th, 2022, Avnet, Inc. declared a $0.26 per share quarterly dividend, an 8.3% increase from the prior dividend of $0.24.

Final Thoughts & Recommendation

Although Avnet has suffered from implementation failures that have impacted its efficiency and profitability, the company remains the third-largest chip distributor globally and it holds the top market share in Europe. Avnet's value proposition is compelling and along with its strong business model, it supports our hold rating. Our hold rating on the stock is premised upon the 8.6% annualized total returns for the medium term, derived from the forecasted earnings-per-share growth of 1.5% and 2.4% dividend yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	25,708	25,459	27,500	17,655	16,741	17,440	19,037	19,519	17,634	19,535
Gross Profit	3,051	2,980	3,226	2,210	2,078	2,369	2,527	2,486	2,063	2,241
Gross Margin	11.9%	11.7%	11.7%	12.5%	12.4%	13.6%	13.3%	12.7%	11.7%	11.5%
SG&A Exp.	2,093	2,204	2,341	1,515	1,460	1,788	1,991	1,875	1,842	1,875
D&A Exp.	101	121	137	82	80	155	235	181	243	189
Operating Profit	958	775	885	695	618	581	536	611	221	366
Op. Margin	3.7%	3.0%	3.2%	3.9%	3.7%	3.3%	2.8%	3.1%	1.3%	1.9%
Net Profit	567	450	546	572	507	525	(156)	176	(31)	193
Net Margin	2.2%	1.8%	2.0%	3.2%	3.0%	3.0%	-0.8%	0.9%	-0.2%	1.0%
Free Cash Flow	400	599	114	451	87	(489)	98	412	657	41
Income Tax	224	99	156	86	87	47	288	60	(99)	(20)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	10,168	10,475	11,251	10,800	11,240	9,700	9,597	8,565	8,105	8,925
Cash & Equivalents	1,007	1,009	929	933	1,031	836	621	546	477	200
Acc. Receivable	4,607	4,869	5,221	5,054	2,770	3,338	3,641	3,168	2,928	3,576
Inventories	2,389	2,264	2,613	2,482	2,560	2,825	3,142	3,008	2,732	3,237
Goodwill & Int.	1,101	1,434	1,533	1,378	644	1,426	1,201	1,020	839	867
Total Liabilities	6,262	6,186	6,360	6,115	6,549	4,518	4,912	4,424	4,379	4,841
Accounts Payable	3,231	3,278	3,402	3,338	1,591	1,862	2,269	1,864	1,754	2,401
Long-Term Debt	2,144	2,045	2,074	1,978	2,492	1,779	1,655	1,720	1,425	1,214
Total Equity	3,906	4,289	4,890	4,685	4,691	5,182	4,685	4,140	3,726	4,084
LTD/E Ratio	0.55	0.48	0.42	0.42	0.53	0.34	0.35	0.42	0.38	0.30

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.6%	4.4%	5.0%	5.2%	4.6%	5.0%	-1.6%	1.9%	-0.4%	2.3%
Return on Equity	14.2%	11.0%	11.9%	11.9%	10.8%	10.6%	-3.2%	4.0%	-0.8%	4.9%
ROIC	9.8%	7.3%	8.2%	8.4%	7.3%	7.4%	-2.4%	2.9%	-0.6%	3.7%
Shares Out.	142.6	137.1	138.3	134.5	127.4	123.1	115.8	104.0	98.8	99.6
Revenue/Share	171.90	181.85	196.26	127.21	125.71	135.56	158.76	176.16	175.51	195.02
FCF/Share	2.68	4.28	0.81	3.25	0.65	(3.80)	0.81	3.72	6.54	0.41

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