ABB Ltd. (ABB)

Updated August 18th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	4.7%	**Market Cap:**	$57.8 B
Fair Value Price:	$22	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	3/27/2023[1]
% Fair Value:	134%	**5 Year Valuation Multiple Estimate:**	-5.7%	**Dividend Payment Date:**	5/10/2023
Dividend Yield:	2.9%	**5 Year Price Target**	$33	**Years Of Dividend Growth:**	3
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

ABB is a global provider of automation technologies and power solutions. The company operates in more than 100 countries and has four business units: Electrification Products, Robotics & Discrete Automation, Motion and Industrial Automation. ABB is incorporated in Switzerland, but domestic investors can initiate an ownership stake in the company through American Depository Receipts that trade with a market capitalization of US$57.8 billion under the ticker ABB on the New York Stock Exchange.

In late July, ABB reported (7/21/22) financial results for the second quarter of fiscal 2022. Comparable revenue and orders grew 6% and 20%, respectively, over the prior year's quarter, with double-digit order growth in all divisions and business areas. ABB was negatively affected by extended lockdowns in China but expects the situation to improve in the second half of the year. It also experienced improvement in supply chain constraints in most areas. The company has fully recovered from the pandemic. Earnings-per-share plunged from $0.37 to $0.20 but only due to the exit of the company from a project and the decision to wind down operations in Russia.

Management expects double-digit growth of comparable revenue in the third quarter and remains confident for improved margin performance in the full year, towards the target of at least 15% in 2023, thanks to positive business momentum and the all-time high backlog of $19.5 billion.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.18	$1.23	$1.13	$0.87	$0.88	$1.25	$1.33	$1.24	$0.98	$2.25	***$1.40***	***$2.06***
DPS	$0.71	$0.72	$0.77	$0.75	$0.75	$0.76	$0.81	$0.79	$0.83	$0.85	***$0.88***	***$1.05***
Shares[2]	2295.9	2300.6	2314.7	2191.6	2138.7	2138.7	2135.0	2135.0	2071.0	2053	***1900***	***1800***

ABB's per-share growth in net income over the last decade has been far from compelling. The company faced a downturn due to the pandemic in 2020 but it has recovered strongly thanks to the massive distribution of vaccines and the fiscal stimulus packages offered by most governments. Moreover, ABB has a number of current growth opportunities that lead us to believe its future performance will be stronger than its historical track record. The Electrification segment, which generates 46% of the total revenues, seems to have the most promising prospects thanks to strong demand in key segments, such as rail, data centers, wind and electric vehicle infrastructure. We thus expect 8% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.9	18.6	20.8	23.1	22.9	23.5	17.3	16.0	23.8	15.0	***21.4***	***16.0***
Avg. Yld.	3.8%	3.1%	3.3%	3.7%	3.7%	3.1%	3.4%	4.0%	3.6%	2.5%	***2.9%***	***3.2%***

[1] Estimated date for annual dividend.
[2] In millions.

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ABB has traded at an average price-to-earnings ratio of 19.7 over the last decade. With that said, this sample includes several years (2014-2017) in which the stock traded with an elevated P/E ratio. We believe that fair value for a company of ABB's caliber lies somewhere around 16 times earnings. The stock is currently trading at a price-to-earnings ratio of 21.4. If it trades at our estimated fair earnings multiple in five years, it will incur a -5.7% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	60.2%	58.5%	68.1%	86.2%	85.2%	73.8%	58.6%	63.7%	84.7%	37.8%	***62.9%***	***50.8%***

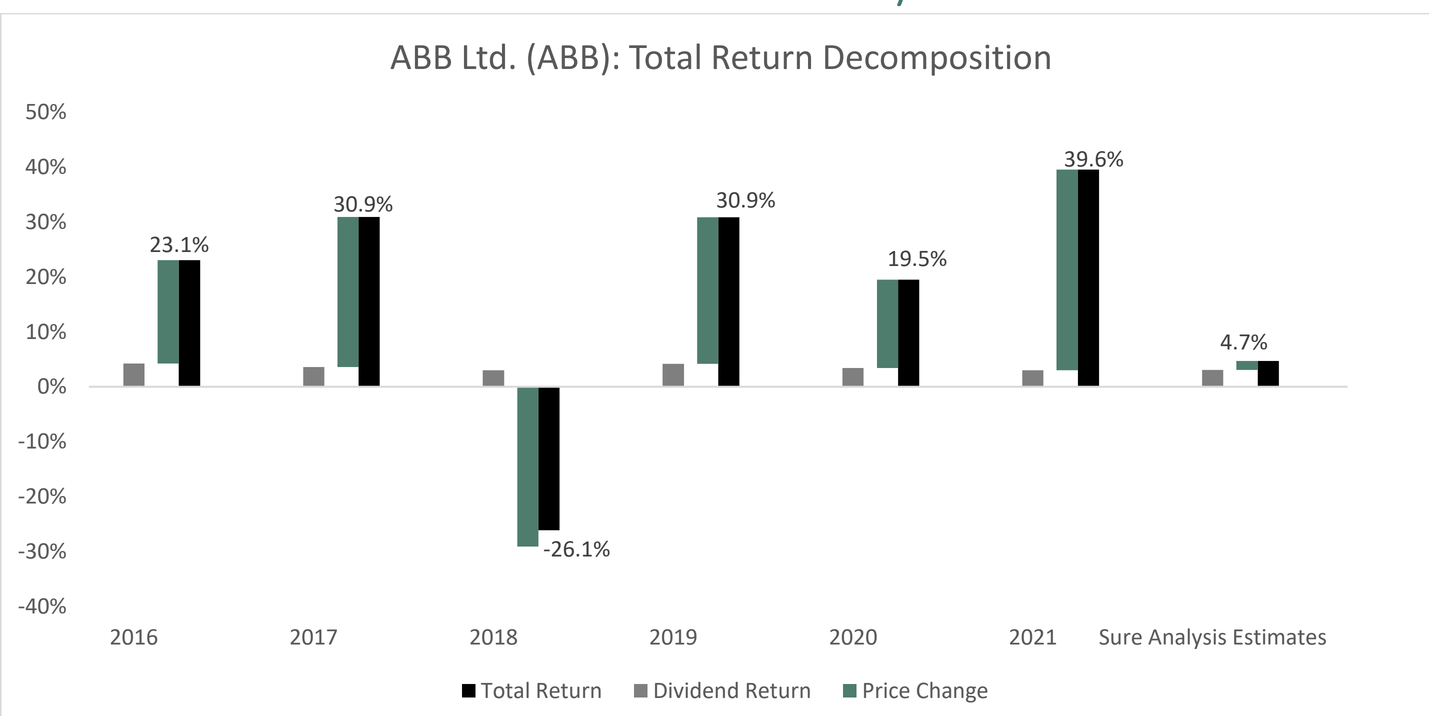
ABB has global businesses that are either the #1 or #2 player in attractive markets, with strong secular growth. The company expects its business markets to grow by 3.5%-4.0% per year on average over the long run. Thanks to its dominant position in its segments, ABB has a strong reputation and thus enjoys a significant competitive advantage over its peers.

Moreover, the company has a rock-solid balance sheet and pays negligible interest expense. On the other hand, the performance of ABB is greatly affected by economic growth and oil prices, which are beyond its control. Due to this vulnerability, the stock tends to underperform the market during sell-offs. Consequently, only investors who can tolerate significant price pressure should consider this stock.

Final Thoughts & Recommendation

ABB has a variety of appealing characteristics. It is a global business with leadership in many segments of the industrial sector. Moreover, the business of ABB is recovering strongly from the pandemic. However, the stock of ABB has more than doubled off its bottom in 2020 and it is now trading at a nearly decade-high price-to-earnings ratio. As a result, it could offer just a 4.7% average annual return over the next five years, as its 8.0% earnings growth and its 2.9% dividend may be offset by a -5.7% annualized valuation drag. The stock receives a hold 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	39336	41848	39830	35481	24929	25196	27662	27978	26,134	28,945
Gross Profit	11378	11992	11215	10134	7533	7846	8544	8906	7,878	9,467
Gross Margin	28.9%	28.7%	28.2%	28.6%	30.2%	31.1%	30.9%	31.8%	30.1%	32.7%
SG&A Exp.	5756	6094	6067	5574	4532	4765	5295	5447	4,895	5,162
D&A Exp.	1182	1318	1305	1160	870	836	916	961	915	893
Operating Profit	4158	4428	3649	3154	2034	2068	2102	2261	1,904	5,718
Op. Margin	10.6%	10.6%	9.2%	8.9%	8.2%	8.2%	7.6%	8.1%	7.3%	19.8%
Net Profit	2704	2787	2594	1933	1899	2213	2173	1439	5,146	4,546
Net Margin	6.9%	6.7%	6.5%	5.4%	7.6%	8.8%	7.9%	5.1%	19.7%	15.7%
Free Cash Flow	2486	2547	2819	2942	3211	3047	2152	1563	999	2,510
Income Tax	1030	1122	1202	788	526	583	544	772	496	1,057

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	49070	48064	44852	41356	39202	43458	44441	46108	41,088	40,260
Cash & Equivalents	6875	6021	5443	4565	3644	4526	3445	3544	3,278	4,159
Acc. Receivable	8233	8360	7715	7197	7293	5553	5970	6434	6,820	6,551
Inventories	6182	6004	5376	4757	4347	3737	4284	4184	4,469	4,880
Goodwill & Int.	13727	13967	12755	12008	11497	11961	13371	13077	12,928	12,043
Total Liabilities	31624	28856	28037	26368	25305	28109	29907	32128	25,089	24,303
Accounts Payable	4992	5112	4765	4342	4446	3736	4424	4353	4,571	4,921
Long-Term Debt	10071	8023	7665	7439	6803	7408	8618	9059	6,121	5,561
Total Equity	16906	18678	16269	14481	13395	14819	13952	13526	15,685	15,579
LTD/E Ratio	0.60	0.43	0.47	0.51	0.51	0.50	0.62	0.67	0.39	0.36

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.1%	5.7%	5.6%	4.5%	4.7%	5.4%	4.9%	3.2%	11.8%	11.2%
Return on Equity	16.5%	15.7%	14.8%	12.6%	13.6%	15.7%	15.1%	10.5%	35.2%	29.1%
ROIC	11.3%	10.2%	10.0%	8.2%	8.8%	10.2%	9.5%	6.2%	22.8%	20.8%
Shares Out.	2295.9	2300.6	2314.7	2191.6	2138.7	2138.7	2135.0	2135.0	2071.0	2053
Revenue/Share	17.14	18.16	17.36	15.91	11.57	11.73	12.93	13.10	12.33	14.34
FCF/Share	1.08	1.11	1.23	1.32	1.49	1.42	1.01	0.73	0.47	1.24

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