Autoliv, Inc. (ALV)

Updated July 28th, 2022, by Josh Arnold

Key Metrics

Current Price:	$86	**5 Year CAGR Estimate:**	12.8%	**Market Cap:**	$7.4 B
Fair Value Price:	$70	**5 Year Growth Estimate:**	15.0%	**Ex-Dividend Date:**	08/23/2022[1]
% Fair Value:	122%	**5 Year Valuation Multiple Estimate:**	-3.9%	**Dividend Payment Date:**	09/13/2022
Dividend Yield:	3.0%	**5 Year Price Target**	$142	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**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 58,000 employees, about $9 billion in revenue this year and a $7.4 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 second quarter earnings on July 22nd, 2022, and results were better than expected on both the top and bottom lines. Revenue was up 3% year-over-year to $2.08 billion, which was $40 million better than expected. Adjusted earnings-per-share came to 90 cents, which was more than double the 36 cents expected.

Sales were up 8% organically, which was far better than the +1% for global LVP. The company's outperformance was due primarily to price increases, and new product launches.

Profitability did decline due to higher raw material costs, currency fluctuations, and lockdowns in China. Operating margin declined 220bps as a result of these factors.

Operating cash flow was -$51 million in Q2 and free cash flow was -$190 million, impacted by adverse impacts from working capital changes.

The company now expects full-year organic sales growth of 13% to 16%, narrowed from prior guidance of +12% to +17%. In addition, operating margin is expected to be 6% to 7% of revenue, up slightly from 5.5% to 7.0% prior. We note these are still very sharp reductions from initial guidance for this year.

We now expect $4.40 in earnings-per-share for the full year.

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	***$4.40***	***$8.85***
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[2]	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 15% 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 Q2 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-

[1] Estimated date

[2] Share count in millions

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2021 due to supply constraints globally, and another one in Q2 2022. We note that Autoliv's level of outperformance against LVP has remained strong throughout all portions of the cycle. LVP was essentially flat in Q2, and Autoliv outperformed the benchmark by a wide margin, 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	***19.5***	***16.0***
Avg. Yld.	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	0.9%	2.0%	***3.0%***	***2.4%***

Autoliv's price-to-earnings ratio has increased since our last report to 19.5 times our earnings estimate for 2022. We see fair value at 16 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 small headwind to total returns.

The current yield is 3%, so Autoliv is still a respectable income stock at about two times the yield of the S&P 500.

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%	***58%***	***39%***

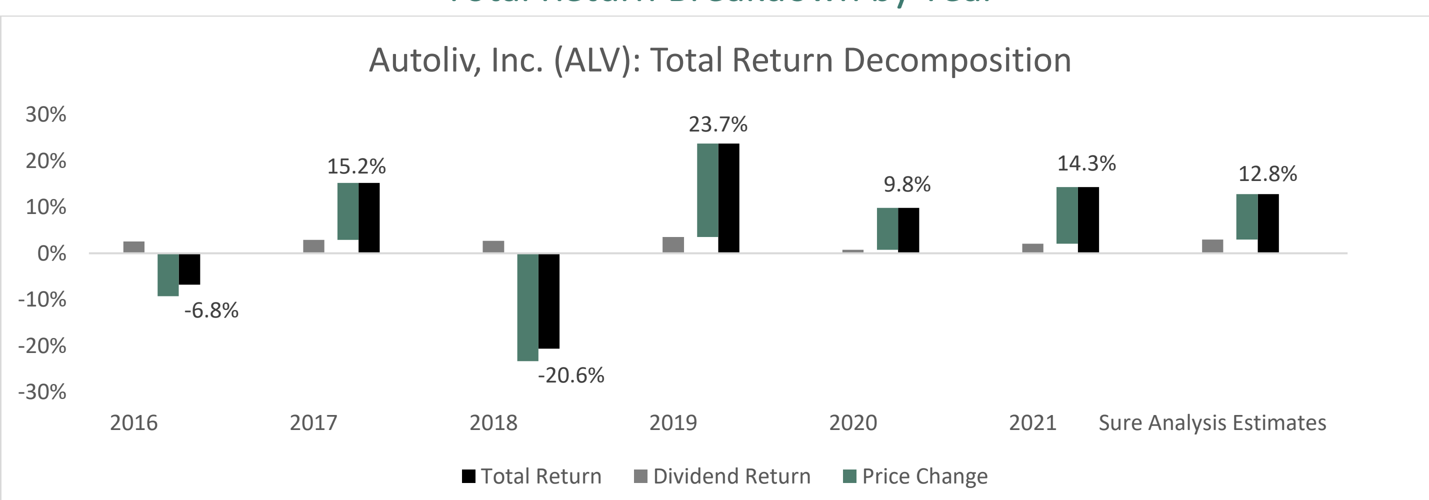
We expect moderate dividend growth given management is likely to be shy about raising it to the point where it may need to be cut again in the future.

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 higher since our last update. Revenue was strong in Q2, and guidance was raised. The dividend is growing, and we see Autoliv's total return outlook as strong at 12.8% annually, based on strong projected growth of 15%, and the 3% 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.