



# BorgWarner Inc. (BWA)

Updated August 3<sup>rd</sup>, 2022 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$40	<b>5 Year CAGR Estimate:</b>	9.3%	<b>Market Cap:</b>	\$9.5 billion
<b>Fair Value Price:</b>	\$46	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	08/31/2022
<b>% Fair Value:</b>	87%	<b>5 Year Valuation Multiple Estimate:</b>	2.9%	<b>Dividend Payment Date:</b>	09/15/2022
<b>Dividend Yield:</b>	1.7%	<b>5 Year Price Target</b>	\$59	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

BorgWarner supplies highly engineered components and systems for automotive powertrain applications. The company supplies products to some of the top names in vehicle manufacturing, including Ford and Volkswagen. BorgWarner has four operating segments, including Air Management, which makes turbochargers and emissions systems, E-propulsion & Drivetrain Group, which makes transmission components and control modules, Fuel Injection Group, and Aftermarket. The company generates annual revenue of about \$16 billion.

On August 3<sup>rd</sup>, 2022, BorgWarner released second quarter results for the period ending June 30<sup>th</sup>, 2022. Revenue of \$3.76 billion was flat compared to the prior year, but was \$60 million better than expected. Adjusted earnings-per-share of \$1.05 compared unfavorably to \$1.08 in the prior year, but beat estimated by \$0.19.

Organic sales increased 7% year-over-year. E-propulsion & Drivetrain and Air Management had an organic sales improvement of 12.4% and 9.2%, respectively. Fuel Injection fell 5.5% while Aftermarket was down 5.1%.

BorgWarner provided an updated outlook for 2022 as well, with the company still expecting revenue of \$15.5 billion to \$16 billion for the year. Adjusted earnings-per-share are now expected in a range of \$4.00 to \$4.40, compared to \$3.90 to \$4.25 and \$4.15 to \$4.60 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
<b>EPS</b>	\$2.49	\$2.89	\$3.25	\$3.02	\$3.27	\$3.89	\$4.49	\$4.13	\$2.69	\$4.15	<b>\$4.20</b>	<b>\$5.36</b>
<b>DPS</b>	---	\$0.25	\$0.51	\$0.52	\$0.53	\$0.59	\$0.68	\$0.68	\$0.68	\$0.68	<b>\$0.68</b>	<b>\$0.68</b>
<b>Shares<sup>1</sup></b>	231	228	226	219	212	211	208	206	239	240	<b>239</b>	<b>239</b>

BorgWarner have been on a roller coaster ride over the last decade. Earnings-per-share barely budged from 2011 through 2020, though this was mostly due to the impact of COVID-19 on the business. The earnings growth rate over the last decade is 5.2%. We believe an earnings-per-share growth rate of 5% takes into account the demand for the company's highly engineered products from some of the largest automakers in the world with the cyclical nature of its business.

BorgWarner has paid a dividend every year since 2013. After more than doubling its payment in 2014, dividend growth has been minimal and rare. The dividend has a compound annual growth rate of 5% since 2016, but BorgWarner has not raised its dividend since late 2017 even with a very low payout ratio. We do not anticipate the dividend growing in the near term.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
<b>Avg. P/E</b>	14.5	15.5	18.3	17.2	10.6	11.6	10.3	9.6	13	10.9	<b>9.5</b>	<b>11.0</b>
<b>Avg. Yld.</b>	---	0.6%	0.9%	1.0%	1.5%	1.3%	1.5%	1.5%	1.9%	1.5%	<b>1.7%</b>	<b>1.2%</b>

<sup>1</sup> Share count in millions

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Shares of the company have increased \$2, or 5.3%, since our May 7<sup>th</sup>, 2022 report. BorgWarner's valuation has traded with a wide range since 2012, stretching from the low single-digits to the high teens. We believe a multiple of 11 times earnings, near the recent average, is a fair place to start for a 2027 target valuation. Using the midpoint of expected earnings-per-share for the year, BorgWarner currently trades with a price-to-earnings ratio of 9.5. This implies a 2.9% contribution from multiple expansion to annual returns through 2027.

The company hasn't raised its dividend in several years, but BorgWarner's current yield is just above that of the S&P 500 index. The company has also had very low payout ratios stretching back to when the dividend was initiated.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

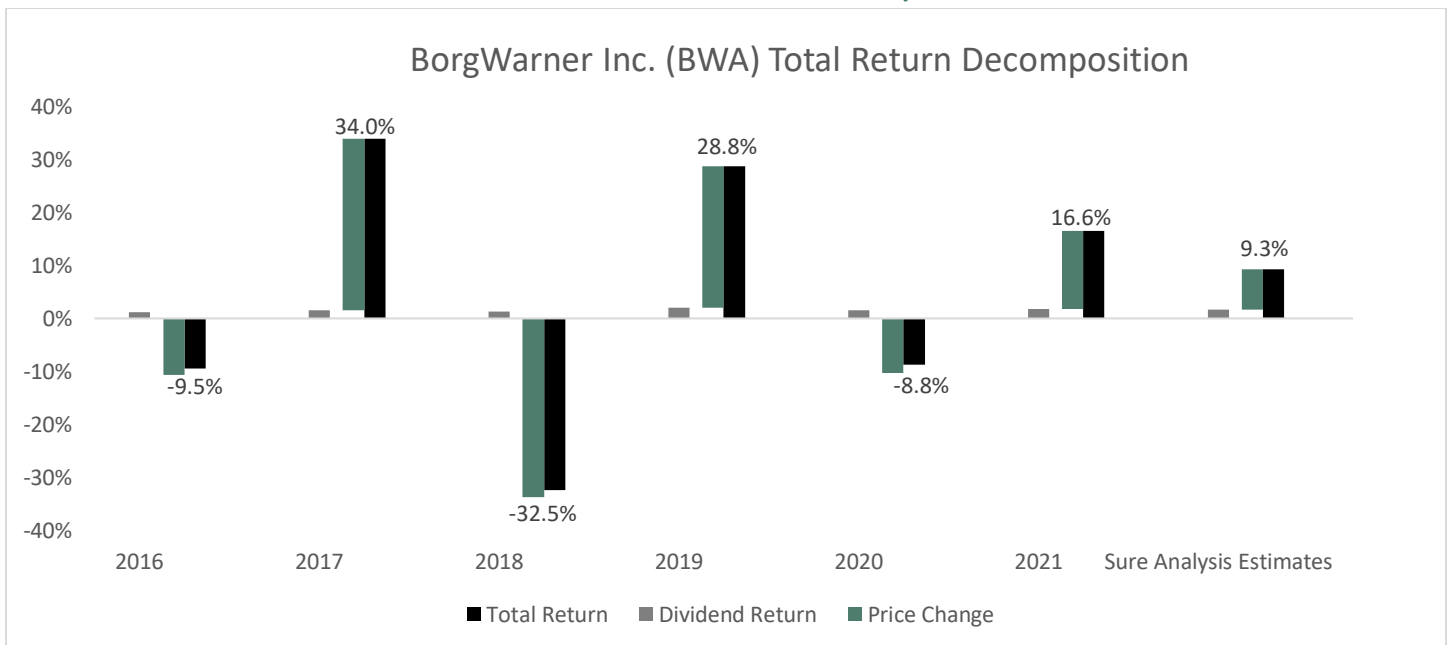
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	9%	165	17%	16%	15%	15%	16%	25%	16%	16%	13%

BorgWarner may not be a household name in the auto-parts industry, but the company's products are in great demand. Ford, which accounts for 13% of annual sales, and Volkswagen, which contributes 11% of annual sales, are its two largest customers. With some of the world's largest automakers as customers, BorgWarner has a distinct advantage against would-be competitors. The company is also very diversified, with roughly a third of revenues coming from Asia, Europe and North America each. That said, BorgWarner is not immune to the impacts of a recession as seen by the company's 91% decline in earnings-per-share from 2007 to 2009. We would expect a similar decline in the next downturn.

## Final Thoughts & Recommendation

BorgWarner is expected to return 9.3% annually through 2027, down from our previous estimate of 9.8%. Our projected return stems from a 5% earnings growth rate, a 1.7% starting yield, and a low single-digit contribution from multiple expansion. We remain enthused by the BorgWarner's industry position. Organic sales were solid for the company's two largest businesses. We have raised our 2027 price target \$2 to \$59 due to company guidance for 2027. BorgWarner continues to earn a hold recommendation due to projected returns, but a pullback would have us more bullish on the name.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	7,183	7,437	8,305	8,023	9,071	9,799	10,530	10,168	10,165	14,838
<b>Gross Profit</b>	1,467	1,558	1,756	1,703	1,929	2,115	2,230	2,101	1,910	2,855
<b>Gross Margin</b>	20.4%	20.9%	21.1%	21.2%	21.3%	21.6%	21.2%	20.7%	18.8%	19.2%
<b>SG&amp;A Exp.</b>	647	646	702	688	818	899	946	873	951	1,460
<b>Operating Profit</b>	289	299	330	320	391	408	431			
<b>Op. Margin</b>	820	912	1,054	1,015	1,111	1,216	1,288	1,230	925	1,314
<b>Net Profit</b>	11.4%	12.3%	12.7%	12.7%	12.2%	12.4%	12.2%	12.1%	9.1%	8.9%
<b>Net Margin</b>	501	624	656	577	595	440	931	746	500	537
<b>Free Cash Flow</b>	7.0%	8.4%	7.9%	7.2%	6.6%	4.5%	8.8%	7.3%	4.9%	3.6%
<b>Income Tax</b>	471	301	239	291	535	620	580	527	723	638

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	6,401	6,917	7,228	8,826	8,835	9,788	10,095	9,702	16,029	16,575
<b>Cash &amp; Equivalents</b>	716	940	798	578	444	545	739	832	1,650	1,841
<b>Acc. Receivable</b>	1,015	1,068	1,201	1,424	1,448	1,736	1,728	1,713	2,636	2,522
<b>Inventories</b>	448	458	506	724	641	766	781	807	1,286	1,534
<b>Goodwill &amp; Int.</b>	1,388	1,367	1,357	2,302	2,166	2,375	2,292	2,244	3,723	4,370
<b>Total Liabilities</b>	3,255	3,285	3,537	5,194	5,533	5,962	5,750	4,858	9,305	9,313
<b>Accounts Payable</b>	855	935	979	1,226	1,259	1,546	1,485	1,325	2,352	2,276
<b>Long-Term Debt</b>	1,067	1,223	1,340	2,550	2,220	2,188	2,114	1,960	3,787	4,327
<b>Total Equity</b>	3,083	3,561	3,616	3,554	3,218	3,717	4,226	4,706	6,428	6,948
<b>LTD/E Ratio</b>	0.35	0.34	0.37	0.72	0.69	0.59	0.50	0.42	0.59	0.62

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	8.1%	9.4%	9.3%	7.2%	6.7%	4.7%	9.4%	7.5%	3.9%	3.3%
<b>Return on Equity</b>	18.3%	18.8%	18.3%	16.1%	17.6%	12.7%	23.4%	16.7%	9.0%	8.0%
<b>ROIC</b>	12.5%	13.8%	13.3%	10.3%	10.2%	7.6%	14.9%	11.2%	5.8%	4.9%
<b>Shares Out.</b>	231	228	226	219	212	211	208	206	239	240
<b>Revenue/Share</b>	29.59	32.15	36.28	35.56	42.13	46.33	50.26	49.17	47.50	61.88
<b>FCF/Share</b>	1.94	1.30	1.04	1.29	2.49	2.93	2.77	2.55	3.38	2.66

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

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