TE Connectivity (TEL)

Updated July 29th, 2022, by Thomas Richmond

Key Metrics

Current Price:	$133	**5 Year CAGR Estimate:**	6.9%	**Market Cap:**	$42.7 B
Fair Value Price:	$130	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	08/18/22
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Dividend Payment Date:**	09/02/22
Dividend Yield:	1.7%	**5 Year Price Target**	$173	**Years Of Dividend Growth:**	14
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

TE Connectivity (TEL) is a company that manufactures and sells connectivity and sensor solutions worldwide. The company operates through 3 segments: Transportation Solutions, Industrial Solutions, and Communications Solutions, which made up 60%, 26%, and 14% of sales, respectively. The Transportation Solutions segment provides sensor and connectivity components for the automotive and commercial transportation industry, the Industrial Solutions segment provides components for industrial sectors like the aerospace, defense, oil & gas, medical, and energy markets, and the Communications Solutions segment supplies components for the data and devices and appliances markets. We expect the business will benefit over the intermediate term from its investments in electric vehicles, factory automation, the cloud, and renewable energy.

On July 27th, 2022, TE Connectivity reported Q3 2022 results for the period ending June 24th, 2022. The business earned $1.86 in adjusted earnings-per-share in the quarter, beating estimates by an impressive $0.11. This translated into earnings-per-share growth of 3.9% year-over-year. Revenue increased 7.9% year-over-year to $4.1 billion, beating consensus estimates by $200 million. For the quarter, sales in the Transportation Solutions segment grew 1.5% year-over-year and saw operating margins fall 240 basis points to 16.7%, sales in the Industrial Solutions segment increased 13.2% year-over-year with a 10 basis point improvement in operating margins to 14.9%, and sales in the Communications Solutions segment increased 14.7%, with operating margins also improving by 220 basis points to 25.2%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$2.86	$3.23	$3.79	$3.60	$4.08	$4.83	$5.61	$5.54	$4.26	$6.52	***$7.20***	***$9.64***
DPS	$0.78	$0.92	$1.08	$1.24	$1.40	$1.54	$1.68	$1.80	$1.88	$1.96	***$2.24***	***$2.73***
Shares	423	412	408	394	355	352	345	335	331	327	***323***	***311***

Over the past 9 years, TE Connectivity has seen earnings-per-share grow at an average annualized rate of 9.6%, and over the past 5 years, the business has seen earnings-per-share grow at 8.3% annually. This quarter, management guided for $4.2 billion in sales and $1.85 in adjusted earnings-per-share for Q4 of 2022, so for the full fiscal year 2022, we expect about $7.20 in earnings per share. We forecast that the business will continue to grow earnings-per-share at 6% annually over the intermediate term, which guides our 2027 earnings-per-share estimate of about $9.64.

Over the past 9 years, the business has grown dividends by 10.8% annually, and over the past 5 years, the business has grown dividends by 7.8% annually. Over the next 5 years, we forecast that the business will grow dividends at 4% annually, which is slightly below our estimated earnings-per-share growth rate and historic dividend growth rate. This guides our 2027 dividend estimate of $2.73 in dividends per share. As a reminder, TE Connectivity has grown dividend payments for 14 consecutive years, which we consider to be a strong track record of growing dividends.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.8	13.0	15.3	18.0	14.9	15.3	17.0	15.3	20.3	19.9	***18.5***	***18.0***
Avg. Yld.	2.3%	2.2%	1.9%	1.9%	2.3%	2.1%	1.8%	2.1%	2.2%	1.5%	***1.7%***	***1.6%***

Over the past 5 years, TE Connectivity has averaged a P/E ratio of 17.6, and over the past 9 years, the business has averaged a P/E of 16.1. We estimate that a P/E ratio of about 18 will be fair for the business over the intermediate term as the business continues to grow earnings-per-share. Today, the stock offers a low but growing 1.7% dividend yield. While this is certainly a low dividend yield for investors that prioritize dividend income, growth investors might be interested in this stock, because earnings-per-share are expected to grow at 6% annually and dividends are expected to grow at 4% annually over the intermediate term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

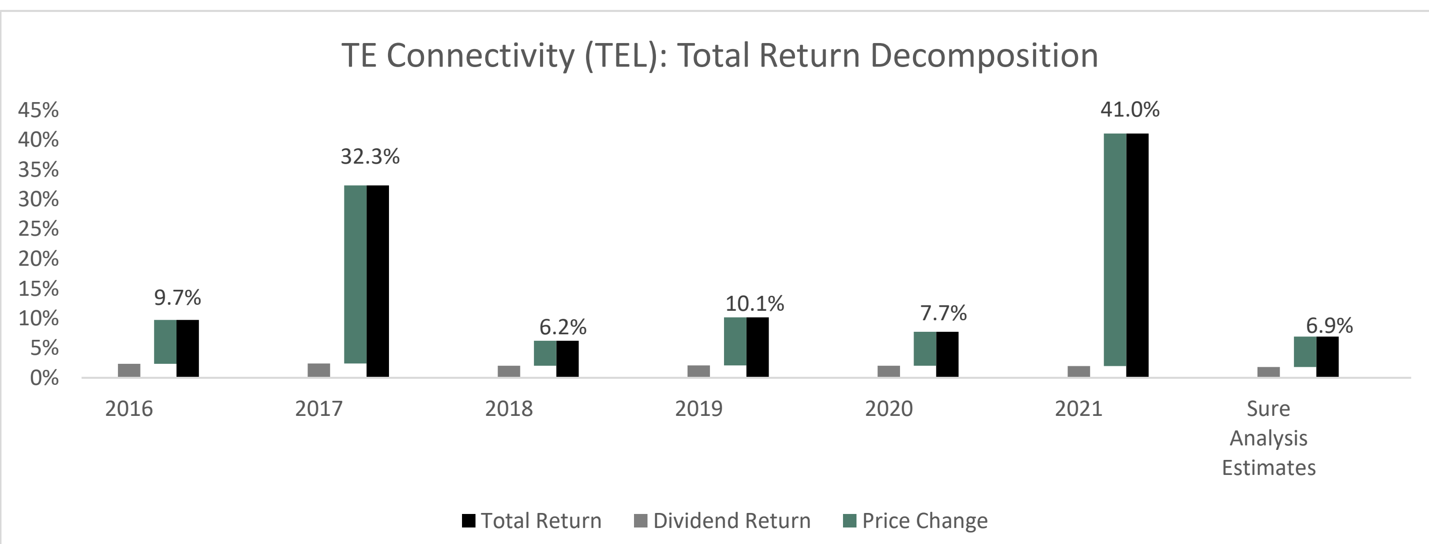
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	27%	28%	28%	34%	34%	32%	30%	32%	44%	30%	***31%***	***28%***

The business has averaged a low payout ratio of 32.3% over the past 9 years, and we expect the dividend to continue to be safe. Additionally, we see no problems with the business's balance sheet in liquidity or solvency ratios, because the business has a current ratio of over 1.5, and the business's shareholders' equity is almost as large as total liabilities. We believe TE Connectivity has a competitive advantage due to its expertise in the field of electronics, components, and networking for aerospace, medicine, defense, and other industries.

Final Thoughts & Recommendation

TE Connectivity offers investors an opportunity to invest in a growing sensor and connectivity business that is likely to benefit from secular trends in electric vehicles, factory automation, the cloud, and renewable energy. At today's price, we rate the stock as a Hold because total return prospects come in at 6.9% annually over the next five years, which comes in below our 10% threshold to rate this stock a Buy. While this stock doesn't offer the best returns and isn't right for everyone, investors might be interested in this company if they are interested in Electronic Components businesses, or if they are interested in dividend growth investing.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	13,282	11,390	11,973	12,233	11,352	12,185	13,988	13,448	12,172	14,923
Gross Profit	4,046	3,651	3,972	4,087	3,827	4,183	4,745	4,394	3,735	4,887
Gross Margin	30.5%	32.1%	33.2%	33.4%	33.7%	34.3%	33.9%	32.7%	30.7%	32.7%
SG&A Exp.	1,685	1,440	1,534	1,504	1,396	1,543	1,594	1,490	1,392	1,512
D&A Exp.	609	536	551	616	560	611	667	690	711	769
Operating Profit	1,673	1,621	1,855	1,956	1,828	2,029	2,471	2,260	1,730	2,698
Op. Margin	12.6%	14.2%	15.5%	16.0%	16.1%	16.7%	17.7%	16.8%	14.2%	18.1%
Net Profit	1,112	1,276	1,781	2,420	2,009	1,683	2,565	1,844	(241)	2,261
Net Margin	8.4%	11.2%	14.9%	19.8%	17.7%	13.8%	18.3%	13.7%	-2.0%	15.2%
Free Cash Flow	1,414	1,465	1,448	1,330	1,344	1,642	1,516	1,673	1,432	1,986
Income Tax	249	(75)	146	337	(826)	180	(344)	(15)	783	123

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	19,306	18,461	20,152	20,589	17,608	19,403	20,386	19,694	19,242	21,462
Cash & Equivalents	1,589	1,403	2,457	3,329	647	1,218	848	927	945	1,203
Acc. Receivable	2,343	2,323	2,057	2,120	2,046	2,138	2,361	2,320	2,377	2,928
Inventories	1,808	1,762	1,509	1,615	1,596	1,647	1,857	1,836	1,950	2,511
Goodwill & Int.	5,660	5,570	4,813	6,379	7,371	7,492	7,388	7,336	6,817	7,139
Total Liabilities	11,329	10,075	11,139	11,004	9,123	9,652	9,555	9,124	9,747	10,714
Accounts Payable	1,292	1,383	1,230	1,143	1,090	1,387	1,548	1,357	1,276	1,911
Long-Term Debt	3,711	3,014	3,858	3,884	4,070	4,344	4,000	3,965	4,146	4,092
Total Equity	7,971	8,380	9,007	9,585	8,485	9,751	10,831	10,570	9,383	10,634
LTD/E Ratio	0.47	0.36	0.43	0.41	0.48	0.45	0.37	0.38	0.44	0.38

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.0%	6.8%	9.2%	11.9%	10.5%	9.1%	12.9%	9.2%	-1.2%	11.1%
Return on Equity	14.4%	15.6%	20.5%	26.0%	22.2%	18.5%	24.9%	17.2%	-2.4%	22.6%
ROIC	10.2%	11.1%	14.7%	18.4%	15.4%	12.6%	17.7%	12.6%	-1.7%	15.9%
Shares Out.	423	412	408	394	355	352	345	335	331	327
Revenue/Share	30.89	26.93	28.71	29.76	30.76	34.04	39.63	39.55	36.66	44.81
FCF/Share	3.29	3.46	3.47	3.24	3.64	4.59	4.29	4.92	4.31	5.96

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