



# ABM Industries (ABM)

Updated October 23<sup>rd</sup>, 2022 by Jonathan Weber

## Key Metrics

|                             |      |  |       |                                  |          |
|-----------------------------|------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$42 | <b>5 Year CAGR Estimate:</b>               | 13.4% | <b>Market Cap:</b>               | \$2.8B   |
| <b>Fair Value Price:</b>    | \$58 | <b>5 Year Growth Estimate:</b>             | 5.0%  | <b>Ex-Dividend Date:</b>         | 10/05/22 |
| <b>% Fair Value:</b>        | 72%  | <b>5 Year Valuation Multiple Estimate:</b> | 6.8%  | <b>Dividend Payment Date:</b>    | 11/07/22 |
| <b>Dividend Yield:</b>      | 1.9% | <b>5 Year Price Target</b>                 | \$75  | <b>Years Of Dividend Growth:</b> | 54       |
| <b>Dividend Risk Score:</b> | A    | <b>Retirement Suitability Score:</b>       | B     | <b>Rating:</b>                   | Buy      |

## Overview & Current Events

ABM Industries is a leading provider of facility solutions, which includes janitorial, electrical & lighting, energy solutions, facilities engineering, HVAC & mechanical, landscape & turf, and parking. The company employs about 124,000 people in more than 350 offices throughout the United States and various international locations, primarily in Canada. ABM Industries has increased its dividend for 54 consecutive years, which makes the company a Dividend King. ABM Industries is headquartered in New York, NY.

ABM Industries reported its third quarter earnings results (fiscal 2022) in September. The company announced that its revenues totaled \$1.96 billion during the quarter, which was above the analyst estimate, and which was up 27% versus the previous year's quarter. The revenue performance was in line with the previous quarter, during which revenues had grown by 27% as well. ABM Industries was not able to translate its strong revenue growth rate into a strong earnings growth rate, however. Instead, earnings grew significantly less than revenue.

ABM Industries was able to generate earnings-per-share of \$0.94 during the third quarter, which beat the analyst consensus by \$0.04. ABM Industries' earnings-per-share rose by 4% versus the previous year's quarter. ABM Industries' guidance for the current fiscal year, 2022, was increased. Earnings-per-share are expected in a range of \$3.60 to \$3.70 on an adjusted basis, with some synergies of the recent Able Services acquisition being built into that estimate. Previously, ABM had forecasted slightly lower earnings-per-share for this year. Profits will be up slightly versus 2021, but it should be noted that ABM has a history of beating and raising its guidance throughout the year. ABM Industries also continued its share repurchase program, buying back 0.7 million shares during the quarter.

## Growth on a Per-Share Basis

| Year                      | 2012   | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022          | 2027          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.39 | \$1.52 | \$1.53 | \$1.62 | \$1.74 | \$1.75 | \$1.89 | \$2.05 | \$2.43 | \$3.58 | <b>\$3.65</b> | <b>\$4.66</b> |
| <b>DPS</b>                | \$0.58 | \$0.60 | \$0.62 | \$0.64 | \$0.66 | \$0.68 | \$0.70 | \$0.72 | \$0.74 | \$0.76 | <b>\$0.78</b> | <b>\$0.90</b> |
| <b>Shares<sup>1</sup></b> | 54.4   | 54.4   | 55.8   | 56.1   | 55.6   | 65.5   | 66.0   | 67.2   | 67.6   | 67.6   | <b>66.0</b>   | <b>64.0</b>   |

ABM Industries' earnings-per-share have compounded at 5% over the last decade, which is solid, but not spectacular. ABM Industries' profits have grown very consistently, as profits have risen during every year of the last decade. This is a remarkable feat that underlines how non-cyclical ABM Industries' business model is. The last year during which its profits declined on a year-over-year basis was 2003. ABM Industries was even able to grow its earnings-per-share during the financial crisis. Because of this outstanding recession performance track record, we believe ABM Industries should be able to do well during future economic downturns, too.

The GCA Services acquisition has allowed the company to expand its foothold both within the United States and internationally, which comes with scale advantages for the company. ABM Industries also plans to capture a meaningful amount of synergies over the years, which could be a positive for the company's long-term earnings-per-share growth rate. Since ABM's balance sheet is very solid, ABM Industries could do further acquisitions in the near term if the opportunity arises to do an accretive takeover.

<sup>1</sup> In Millions

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## Valuation Analysis

| Year      | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now         | 2027        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E  | 15.0 | 15.3 | 17.7 | 18.8 | 19.2 | 24.0 | 16.4 | 17.6 | 14.4 | 12.3 | <b>11.5</b> | <b>16.0</b> |
| Avg. Yld. | 2.8% | 2.6% | 2.3% | 2.1% | 2.0% | 1.5% | 2.3% | 2.0% | 2.1% | 1.7% | <b>1.9%</b> | <b>1.2%</b> |

ABM Industries trades at less than 12 times this year's forecasted earnings right now. This is significantly below ABM Industries' valuation during most of the last decade. We believe that shares are trading well below fair value right now, which is why multiple expansion will likely be a major tailwind for total returns going forward. ABM Industries' dividend yield stands at 1.9% right now, which is below the historic average.

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

| Year   | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022         | 2027         |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 41.7% | 39.5% | 40.5% | 39.5% | 37.9% | 38.9% | 37.0% | 35.1% | 30.5% | 21.2% | <b>21.4%</b> | <b>19.4%</b> |

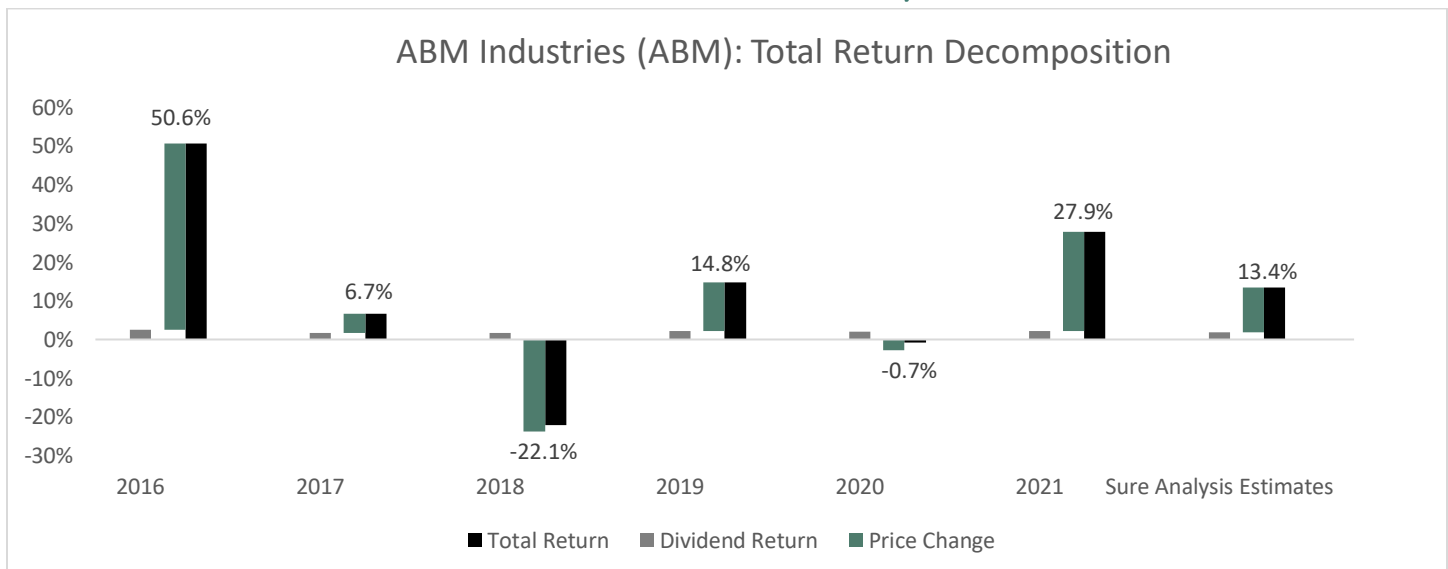
ABM Industries has increased its dividend consistently for decades, but not at a high growth rate. This has made its dividend payout ratio decline slightly throughout the last decade, as earnings growth outpaced ABM Industries' dividend growth. Due to the low dividend payout ratio and its very stable, recession-resilient business model, ABM Industries' dividend looks very safe. ABM Industries would likely not be harmed during a recession in a meaningful way, which is why we believe it is a low-risk investment from that perspective.

ABM Industries is one of the biggest companies in its industry, and its history of making acquisitions has enhanced its scale advantages further. It is likely that the company will continue to make acquisitions to increase its size further whenever the company finds a valuable target that can be acquired at a fair price.

## Final Thoughts & Recommendation

ABM Industries is active in a somewhat unspectacular industry, but this does not mean that the stock is a bad investment. ABM Industries has been a great low-risk dividend growth investment in the past. We believe that the company will continue to grow its profits over the coming years, and the company has weathered the pandemic extremely well. Based on attractive forecasted total returns and a discount to fair value, we rate ABM a buy.

## 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>          | 4,300 | 4,428 | 4,650 | 4,898 | 5,145 | 5,454 | 6,442 | 6,499 | 5,988 | 6,229 |
| <b>SG&amp;A Exp.</b>    | 328   | 331   | 348   | 395   | 410   | 437   | 438   | 453   | 506   | 719   |
| <b>D&amp;A Exp.</b>     | 51    | 59    | 56    | 57    | 58    | 70    | 113   | 107   | 96    | 90    |
| <b>Operating Profit</b> | 97    | 105   | 115   | 86    | 106   | 104   | 191   | 220   | 276   | 206   |
| <b>Operating Margin</b> | 2.2%  | 2.4%  | 2.5%  | 1.8%  | 2.1%  | 1.9%  | 3.0%  | 3.4%  | 4.6%  | 3.3%  |
| <b>Net Profit</b>       | 63    | 73    | 76    | 76    | 57    | 4     | 98    | 127   | 0     | 126   |
| <b>Net Margin</b>       | 1.5%  | 1.6%  | 1.6%  | 1.6%  | 1.1%  | 0.1%  | 1.5%  | 2.0%  | 0.0%  | 2.0%  |
| <b>Free Cash Flow</b>   | 123   | 103   | 84    | 120   | 40    | (52)  | 270   | 203   | 420   | 280   |
| <b>Income Tax</b>       | 30    | 36    | 44    | 18    | (10)  | 9     | (8)   | 33    | 53    | 54    |

## Balance Sheet Metrics

| Year                            | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Total Assets</b>             | 1,851 | 2,119 | 2,193 | 2,131 | 2,279 | 3,813 | 3,628 | 3,693 | 3,777 | 4,436 |
| <b>Cash &amp; Equivalents</b>   | 43    | 33    | 37    | 56    | 54    | 63    | 39    | 59    | 394   | 63    |
| <b>Accounts Receivable</b>      | 561   | 691   | 687   | 743   | 804   | 1,038 | 1,014 | 1,013 | 854   | 1,137 |
| <b>Goodwill &amp; Int. Ass.</b> | 861   | 1,017 | 982   | 979   | 1,017 | 2,294 | 2,190 | 2,133 | 1,911 | 2,654 |
| <b>Total Liabilities</b>        | 1,001 | 1,202 | 1,224 | 1,123 | 1,305 | 2,437 | 2,173 | 2,151 | 2,277 | 2,827 |
| <b>Accounts Payable</b>         | 130   | 157   | 174   | 179   | 174   | 231   | 222   | 281   | 273   | 289   |
| <b>Long-Term Debt</b>           | 215   | 315   | 320   | 158   | 268   | 1,178 | 939   | 802   | 720   | 884   |
| <b>Shareholder's Equity</b>     | 850   | 918   | 969   | 1,008 | 974   | 1,376 | 1,455 | 1,542 | 1,500 | 1,609 |
| <b>LTD/E Ratio</b>              | 0.25  | 0.34  | 0.33  | 0.16  | 0.28  | 0.86  | 0.65  | 0.52  | 0.48  | 0.55  |

## Profitability & Per Share Metrics

| Year                    | 2012  | 2013  | 2014  | 2015  | 2016  | 2017   | 2018  | 2019  | 2020  | 2021  |
|-------------------------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 3.4%  | 3.7%  | 3.5%  | 3.5%  | 2.6%  | 0.1%   | 2.6%  | 3.5%  | 0.0%  | 3.1%  |
| <b>Return on Equity</b> | 7.6%  | 8.2%  | 8.0%  | 7.7%  | 5.8%  | 0.3%   | 6.9%  | 8.5%  | 0.0%  | 8.1%  |
| <b>ROIC</b>             | 5.8%  | 6.3%  | 6.0%  | 6.2%  | 4.8%  | 0.2%   | 4.0%  | 5.4%  | 0.0%  | 5.4%  |
| <b>Shares Out.</b>      | 54.4  | 54.4  | 55.8  | 56.1  | 55.6  | 65.5   | 66.0  | 67.2  | 67.6  | 67.6  |
| <b>Revenue/Share</b>    | 78.33 | 78.93 | 81.43 | 85.33 | 90.42 | 93.54  | 97.02 | 97.14 | 88.97 | 91.60 |
| <b>FCF/Share</b>        | 2.23  | 1.83  | 1.47  | 2.09  | 0.69  | (0.89) | 4.07  | 3.04  | 6.23  | 4.12  |

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

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