Autoliv, Inc. (ALV)

Updated October 29th, 2022, by Josh Arnold

Key Metrics

Current Price:	$80	**5 Year CAGR Estimate:**	15.7%	**Market Cap:**	$7.0B
Fair Value Price:	$75	**5 Year Growth Estimate:**	15.0%	**Ex-Dividend Date:**	11/23/2022[1]
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.3%	**Dividend Payment Date:**	12/13/2022
Dividend Yield:	3.2%	**5 Year Price Target**	$150	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**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 61,000 employees, about $9 billion in revenue this year and a $7 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 third quarter earnings on October 21st, 2022, and results were worse than expected on both the top and bottom lines. Adjusted earnings-per-share came to $1.23, which was two cents light against expectations. Revenue was up 24% year-over-year to $2.3 billion, but was $60 million short of estimates.

Sales were up 32.5% organically year-over-year, outperforming global light vehicle production, or LVP, by about 4%. The company noted improved profitability, driven by successful execution of price increases, LVP recovery and cost reduction activities. Operating income was up 72% and operating margin rose to 7.4% from 5.4%. Adjusted operating margin was 7.5%.

Operating cash flow was $232 million, driven by higher net income and positive working capital effects, while free cash flow declined to $68 million. The company repurchased 260k shares of common stock during the quarter.

The company said it expects to see sequential margin improvement in the fourth quarter, which is due to positive seasonal effects, pricing increases, and cost reduction activities. Operating income was down 28% year-over-year as rising costs more than offset higher revenue.

We now see $4.40 in earnings-per-share this year with one quarter to go.

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 Q3 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-2021 due to supply constraints globally, and another one in Q3 2022. We note that Autoliv's level of outperformance

[1] Estimated date
[2] Share count in millions

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.

against LVP has remained strong throughout all portions of the cycle. LVP was up sharply in Q3, and Autoliv outperformed the benchmark by a strong 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	***18.2***	***17.0***
Avg. Yld.	3.1%	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	0.9%	2.0%	***3.2%***	***2.3%***

Autoliv's price-to-earnings ratio has declined since our last report to 18.2 times our earnings estimate for 2022. We see fair value at 17 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 3.2%, 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%***

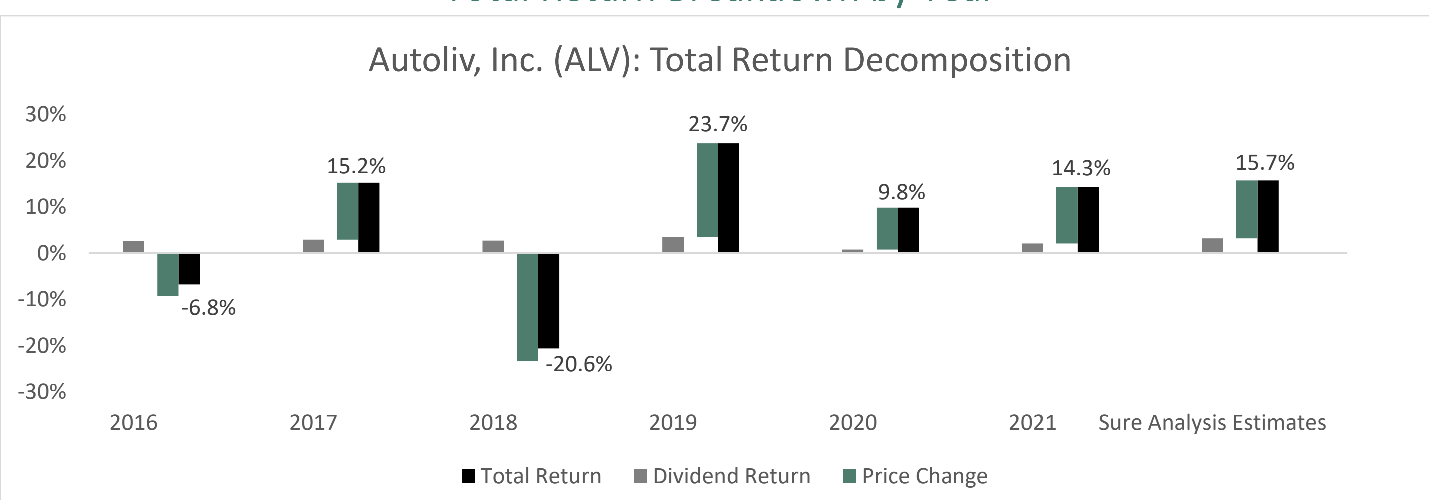
We expect moderate dividend growth given management is likely to be shy about raising it to the point where it may need to be cut again in the future.

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 Q3, and guidance was positive for Q4. The dividend is growing, and we see Autoliv's total return outlook as strong at 15.7% annually, based on strong projected growth of 15%, a 1.3% headwind from the valuation, and the 3.2% 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.