Amphenol Corporation (APH)

Updated October 29th, 2022, by Ian Bezek

Key Metrics

Current Price:	$76	**5 Year CAGR Estimate:**	9.2%	**Market Cap:**	$46 B
Fair Value Price:	$68	**5 Year Growth Estimate:**	10.5%	**Ex-Dividend Date:**	12/19/22
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date:**	01/11/23
Dividend Yield:	1.1%	**5 Year Price Target**	$113	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Amphenol is an American electronics company primarily involved in the production of fiber optic connectors, coaxial cables, and other such systems. The company was founded in 1932 as American Phenolic Corp; the name was subsequently shortened to Amphenol. Its primary end markets are for IT and data services, industrial, and automotive uses. The company had a highly successful past decade, with its share price rising 400 percent. This, in turn, lifted Amphenol's market cap to more than $40 billion today.

Historically, Amphenol was a growth investment with a minimal dividend. In 2012, however, the company started to put a focus on increasing its dividend, and since then, it has grown its annual payout at a double-digit compound rate.

On October 26th, 2022, Amphenol released its Q3 2022 earnings. The company earned 80 cents per share for the quarter, which topped estimates by five cents. The company's revenue came in at $3.29 billion, which also exceeded expectations and represented 17% year-over-year growth. The company reported particularly strong results in communications solutions, where revenues grew nearly 20% for the quarter.

The company's guidance for the fourth quarter suggests that Amphenol will see a significant slowdown. Currency is becoming a significant drag on results with the stronger dollar, and the company cited rising interest expenses as another headwind in its forward guidance. However, Amphenol easily topped its conservative guidance for Q3, and we expect it may top estimates once again next quarter. Amphenol is meaningfully involved in both the commercial aerospace and military markets, and both of those should remain robust given the current geopolitical landscape and the continuing recovery in international tourism.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.85	$0.96	$1.13	$1.21	$1.36	$1.56	$1.93	$1.88	$1.96	$2.48	***$2.97***	***$4.89***
DPS	$0.11	$0.15	$0.23	$0.27	$0.29	$0.35	$0.44	$0.48	$0.52	$0.64	***$0.84***	***$1.29***
Shares	639	633	620	616	615	611	597	596	599	599	***599***	***599***

Since 2012, Amphenol has grown its earnings at a 12.6% average compounded rate. This growth rate has been steady; Amphenol has averaged a 13.5% earnings growth rate over the past five years, showing the consistency of its operations. Amphenol has boosted its earnings both through organic growth and a series of acquisitions.

Up until 2012, Amphenol paid a minimal dividend. Since then, Amphenol has pivoted to returning a substantially greater portion of its profits to shareholders through its dividend. As a result of this increasing attention to the dividend, Amphenol has managed tremendous dividend growth rates of 18.9% and 21.6% over the past five and nine years, respectively. However, the company's most recent dividend hike, announced October 26th, was a smaller 5% increase. This perhaps signals a slowdown in future dividend growth given the more challenging macroeconomic conditions.

Going forward, we estimate 10.5% annualized earnings growth over the next five years. Amphenol has generated a proven track record of being able to consistently grow its business through a variety of business cycles and economic conditions. The mass deployment of 5G mobile networks and continuing demand for additional data centers should help generate favorable business prospects for Amphenol in coming years.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.0	20.1	21.6	22.8	21.7	24.7	23.1	25.4	26.4	29.0	***25.6***	***23.0***
Avg. Yld.	0.7%	0.8%	0.9%	1.0%	1.0%	0.9%	1.0%	1.0%	1.0%	0.9%	***1.1%***	***1.1%***

A significant portion of Amphenol's exemplary returns over the past decade came due to expansion of its P/E ratio. Amphenol's P/E rose from 17.0 in 2012 all the way to 29.0 in 2021. Amphenol's P/E ratio has dipped to 25.6 this year. With the reset in valuation ratios for the tech industry and many suppliers which sell to these firms, it seems unlikely that Amphenol will support the loftier P/E ratios it saw over the past three years. Rather, we see Amphenol's P/E ratio settling closer to 23.0 over the long term.

Over the years, the company's dividend yield has ticked upward, rising from 0.7% in 2012 to 1.1% now. We expect the company's average yield to continue to move slightly higher in coming years as the company has shown a willingness to increase its payout ratio to a degree.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	13%	16%	20%	22%	21%	22%	23%	26%	27%	26%	***28%***	***26%***

Amphenol operates in highly competitive markets with tons of rival firms. However, its broad product line and superior cost management have given the firm a persistent advantage over peers. The company's exemplary earnings so far in 2022 stand out in stark contrast to many peers in its industry.

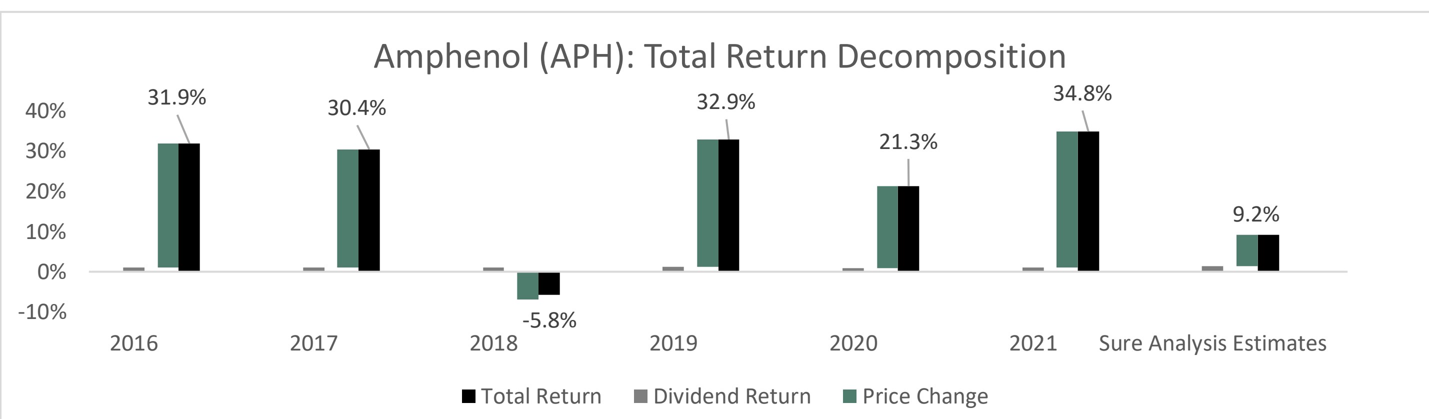
In theory, Amphenol might seem to face significant risk during economic downturns. But the company has developed durable relationships with key customers, insulating it from the technology industry's boom and bust cycle. Additionally, while the company's payout ratio has ticked up slightly in decent years, it remains at a low level overall.

Amphenol's balance sheet is in fine shape. It had $6.3 billion of current assets against $2.7 billion of current liabilities as of last report. The company's $4.8 billion of long-term debt is manageable compared to its $15.1 billion of total assets.

Final Thoughts & Recommendation

Amphenol shares currently have a 9.2% annualized total return outlook over the next five years. Earnings growth will drive nearly all that total return. Amphenol faces some near-term risks due to supply chain issues, inflation, and a slowdown in the technology industry. However, the overall picture is positive. Shares earn a hold 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	4,292	4,615	5,346	5,569	6,286	7,011	8,202	8,225	8,599	10,876
Gross Profit	1,343	1,451	1,694	1,780	2,040	2,310	2,655	2,616	2,664	3,402
Gross Margin	31.3%	31.4%	31.7%	32.0%	32.5%	32.9%	32.4%	31.8%	31.0%	31.3%
SG&A Exp.	513	548	645	669	798	878	960	971	1,014	1,226
D&A Exp.	122	137	168	172	217	227	300	312	308	396
Operating Profit	830	903	1,049	1,110	1,242	1,432	1,695	1,645	1,650	2,176
Op. Margin	19.3%	19.6%	19.6%	19.9%	19.8%	20.4%	20.7%	20.0%	19.2%	20.0%
Net Profit	555	636	709	764	823	651	1,205	1,155	1,203	1,591
Net Margin	12.9%	13.8%	13.3%	13.7%	13.1%	9.3%	14.7%	14.0%	14.0%	14.6%
Free Cash Flow	546	611	672	858	887	918	802	1,207	1,315	1,180
Income Tax	219	208	257	281	309	692	372	332	313	409

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	5,215	6,168	6,986	7,458	8,499	10,004	10,045	10,816	12,327	14,678
Cash & Equivalents	691	887	969	1,737	1,035	1,719	1,279	891	1,702	1,197
Acc. Receivable	911	1,001	1,124	1,105	1,349	1,599	1,792	1,736	1,952	2,455
Inventories	734	793	866	852	929	1,107	1,234	1,310	1,462	1,894
Goodwill & Int.	2,073	2,454	2,852	2,909	4,153	4,484	4,501	5,309	5,430	7,134
Total Liabilities	2,773	3,288	4,048	4,180	4,776	5,961	5,981	6,219	6,875	8,299
Accounts Payable	497	550	618	588	678	876	891	867	1,121	1,312
Long-Term Debt	1,706	2,133	2,656	2,814	3,011	3,543	3,571	3,607	3,867	4,800
Total Equity	2,430	2,860	2,907	3,239	3,675	3,990	4,017	4,530	5,385	6,302
LTD/E Ratio	0.70	0.75	0.91	0.87	0.82	0.89	0.89	0.80	0.72	0.76

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	11.5%	11.2%	10.8%	10.6%	10.3%	7.0%	12.0%	11.1%	10.4%	11.8%
Return on Equity	24.1%	24.0%	24.6%	24.8%	23.8%	17.0%	30.1%	27.0%	24.3%	27.2%
ROIC	14.4%	13.9%	13.4%	13.1%	12.8%	9.1%	15.8%	14.6%	13.7%	15.5%
Shares Out.	639	633	620	616	615	611	597	596	599	599
Revenue/Share	6.54	7.11	8.34	8.80	9.97	11.08	13.12	13.36	13.98	17.39
FCF/Share	0.83	0.94	1.05	1.36	1.41	1.45	1.28	1.96	2.14	1.89

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