



Aon Plc (AON)

Updated November 13th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$293	5 Year CAGR Estimate:	9.4%	Market Cap:	\$61 B
Fair Value Price:	\$275	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	01/31/23 ¹
% Fair Value:	107%	5 Year Valuation Multiple Estimate:	-1.3%	Dividend Payment Date:	02/15/23
Dividend Yield:	0.8%	5 Year Price Target	\$443	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Hold

Overview & Current Events

Aon is a professional services firm headquartered in London, United Kingdom. The company provides a variety of services including consulting, risk management, and health plan management. Aon has approximately 500 offices worldwide that serve 120 countries through a workforce that numbers about 50,000. U.S. investors can initiate an ownership stake in Aon through American Depositary Receipts that trade with a market capitalization of \$61 billion on the New York Stock Exchange, under the ticker AON. Aon should generate about \$12.5 billion in revenue this year.

Aon reported third quarter earnings on October 28th, 2022, and results were mixed. Adjusted earnings-per-share came to \$2.02, which was three cents better than expected. Revenue was \$2.7 billion, which was flat year-over-year, and missed expectations by \$110 million. Organic revenue growth was 5%, which was driven by strong retention and net new business generation.

Reinsurance Solutions was the strongest of the company's segments, with a 12% gain year-over-year to \$396 million. Wealth Solutions was down 7% to \$326 million, as assets under management declined.

Operating expenses were down to \$2.11 billion in Q3 from \$3.5 billion in the year-ago period. Free cash flow was \$2.05 billion, nearly double from the \$1.15 billion a year ago.

Operating income was \$590 million, up from a loss of \$801 million a year ago. Operating margin was 21.9% of revenue. The company also repurchased 4.2 million shares for \$1.2 billion.

We estimate \$13.10 in earnings-per-share for this year with one quarter left.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.99	\$3.53	\$4.66	\$4.88	\$5.16	\$6.52	\$8.16	\$9.17	\$9.81	\$12.00	\$13.10	\$21.10
DPS	\$0.62	\$0.68	\$0.92	\$1.15	\$1.29	\$1.41	\$1.56	\$1.72	\$1.78	\$1.99	\$2.24	\$3.77
Shares²	311	301	280	270	262	254	245	237	230	215	200	150

Between 2011 and 2020, Aon compounded its adjusted earnings-per-share at a rate of nearly 15% per year. Looking ahead, we believe that the company's growth is likely to continue to be quite strong, albeit a bit slower than its historical pace. More specifically, we are forecasting 10% annualized earnings growth over a full economic cycle.

Management continues to be bullish, and rightfully so, as Aon's businesses are posting very strong rates of growth, for the most part. We see expense savings as a driver of earnings growth along with the buyback, and organic revenue growth should continue to move the top line higher as well. Given the broad assortment of professional services the company offers as well as its global footprint, we are bullish on Aon's future. We note forex translation has been a sizable headwind in the past, but Aon has thus far been able to overcome that, and then some.

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 72 hours.



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The dividend should continue to rise at roughly the rate of earnings, and we forecast the payout to be at \$3.77 in 2027, up from the current \$2.24. Aon is not a high-yield stock by any means, but its dividend growth potential is strong given the very low payout ratio, and strong earnings growth outlook.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.8	19.2	18.6	19.8	20.4	20.1	17.9	17.7	20.3	21.6	22.4	21.0
Avg. Yld.	1.2%	1.0%	1.1%	1.2%	1.2%	1.1%	1.1%	0.9%	0.9%	0.8%	0.8%	0.9%

Aon has traded at an average price-to-earnings ratio of ~19 over the last decade, and we are using 21 for a fair value estimate as more recent years have seen higher valuations. The company is trading for a price-to-earnings ratio of 22.4 using our 2022 earnings-per-share estimate. That implies a headwind to total returns from the valuation, as Aon is trading above our estimate of fair value. We see the yield staying about where it is for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	21%	19%	20%	24%	25%	22%	19%	19%	18%	17%	17%	18%

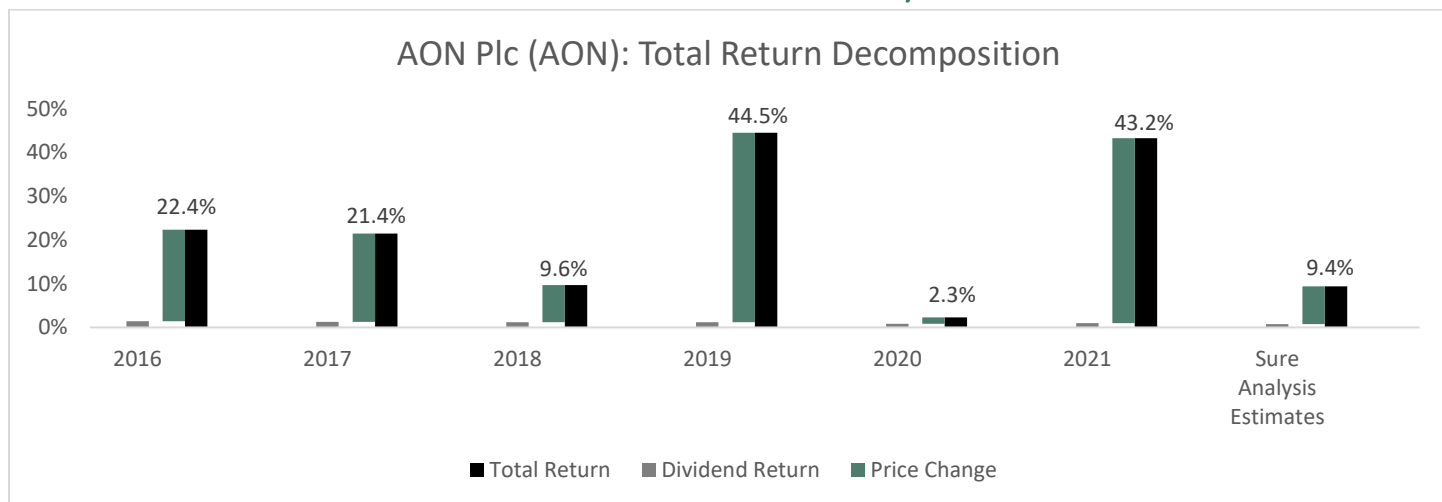
Aon's payout ratio is still very low, consistent with the company's historical practices, and we do not believe that will change. We see the dividend remaining around one-sixth of total earnings, so the payout is extremely safe. However, this means Aon is highly unlikely to have a meaningful yield anytime soon. Management has stated that it plans to protect the dividend during periods of uncertainty, and we see no reasonable scenario where Aon's dividend would be at risk.

Aon was resilient during the Great Recession, and that was certainly the case again during the COVID crisis, the product of its very diversified revenue streams. This is also a competitive advantage for the firm, along with its world-class client list and reputation.

Final Thoughts & Recommendation

We are forecasting 9.4% total annual returns, consisting of the 0.8% yield, 10% EPS growth, and a 1.3% headwind from the valuation. We're reiterating the stock at a hold rating on slightly weaker total return potential. Aon offers dividend growth potential, but also a long runway for earnings-per-share growth with a slight overvaluation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	11,514	11,815	12,045	9,480	9,409	9,998	10,770	11,013	11,066	12,193
SG&A Exp.	4,805	4,870	5,031	3,875	3,895	3,995	4,667	4,959	5,161	5,455
D&A Exp.	41.7%	41.2%	41.8%	40.9%	41.4%	40.0%	43.3%	45.0%	46.6%	44.7%
Operating Profit	3,209	3,199	3,065	1,951	1,765	2,039	2,354	2,226	1,967	3,039
Operating Margin	655	635	594	338	319	891	769	564	413	326
Net Profit	1,596	1,671	1,966	1,587	1,811	1,065	1,544	2,169	2,781	2,090
Net Margin	13.9%	14.1%	16.3%	16.7%	19.2%	10.7%	14.3%	19.7%	25.1%	17.1%
Free Cash Flow	993	1,113	1,397	1,385	1,396	1,226	1,134	1,532	1,969	1,255
Income Tax	8.6%	9.4%	11.6%	14.6%	14.8%	12.3%	10.5%	13.9%	17.8%	10.3%

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	30,486	30,251	29,772	26,883	26,615	26,088	26,422	29,405	32,114	31,928
Cash & Equivalents	291	477	374	384	426	756	656	790	884	544
Acc. Receivable	3,101	2,896	2,815	2,564	2,106	2,478	2,760	3,112	3,070	3,094
Goodwill & Int.	11,918	11,575	11,380	10,628	9,300	10,091	9,320	8,948	9,306	8,926
Total Liabilities	22,681	22,056	23,141	20,824	21,083	21,440	22,203	25,956	28,531	30,770
Accounts Payable	1,853	1,931	1,805	1,772	1,604	1,961	1,943	1,939	2,016	2,192
Long-Term Debt	4,165	4,389	5,582	5,700	6,205	5,966	6,244	7,339	7,729	9,392
Total Equity	7,762	8,145	6,571	6,002	5,475	4,583	4,151	3,375	3,495	1,061
LTD/E Ratio	0.54	0.54	0.85	0.95	1.13	1.30	1.50	2.17	2.21	8.85

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.3%	3.7%	4.7%	4.9%	5.2%	4.7%	4.3%	5.5%	6.4%	3.9%
Return on Equity	12.5%	14.0%	19.0%	22.0%	24.3%	24.4%	26.0%	40.7%	57.3%	55.1%
ROIC	8.1%	9.1%	11.3%	11.6%	11.9%	11.0%	10.8%	14.4%	17.8%	11.5%
Shares Out.	311	301	280	270	262	254	245	237	230	215
Revenue/Share	34.62	37.46	40.20	33.40	34.81	38.35	43.60	45.77	47.47	53.93
FCF/Share	3.46	4.83	5.19	6.37	8.03	2.11	5.85	6.69	11.33	9.04

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

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