Avnet, Inc. (AVT)

Updated October 31st, 2022, by Yiannis Zourmpanos

Key Metrics

Current Price:	$40	**5 Year CAGR Estimate:**	10.6%	**Market Cap:**	$3.9 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	1.5%	**Ex-Dividend Date:**	11/30/2022
% Fair Value:	76%	**5 Year Valuation Multiple Estimate:**	5.7%	**Dividend Payment Date:**	11/15/2022
Dividend Yield:	2.7%	**5 Year Price Target**	$57	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Avnet is a global distributor of electronic components and technology solutions, connecting semiconductors and other components suppliers to customers in 140 countries. Avnet is the third-largest semiconductor distributor in the world and the largest for European chip distribution. The company has two main operating segments: the Electronic Components segment, which sells electrical components, semiconductors, interconnect, passive and electromechanical components, and the Farnell segment, which sells kits, tools, test measurement, and electronic components. The Electronic Components segment is the primary segment of the company, constituting 92.6% of 2022 sales, while the Farnell segment's contribution to sales in 2021 was 7.4%. The company operates across the Americas, Europe, Middle East, Africa (EMEA), and Asia/Pacific regions.

On October 26th, 2022, Avnet Inc. announced Q1 2023 results reporting non-GAAP adjusted diluted EPS of $2.0 for the quarter, beating the market consensus by $0.09. Moreover, the company reported revenue of $6.75 billion during the quarter, up 21.0% year-over-year from $5.5 billion during the same period last year. The reported revenue by the company during Q1 2023 also surpassed the consensus revenue estimate by $390 million.

The management noted that demand remained strong globally in key vertical segments of the company, like transportation, industrial, aerospace, and defense. The Electronic Components segment grew revenues by 31.4% YoY in constant currency to $6.23 billion in the quarter from $5.13 billion in Q1 2022. Farnell segment sales remained flat at $0.43 billion, up 1.6% year-over-year in constant currency. The management believes that the company is well-positioned to continue to deliver value to our customers, suppliers, and shareholders, even in the face of a more challenging and uncertain operating environment.

The management also provided guidance for the second quarter of fiscal 2023, with expected sales to be in the range of $6.35 billion to $6.65 billion and adjusted diluted EPS in the range of $1.80 to $1.90.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.21	$4.24	$4.49	$4.22	$3.24	$3.55	$4.11	$2.02	$2.70	$6.93	***$6.61***	***$7.12***
DPS	-	$0.60	$0.64	$0.68	$0.70	$0.74	$0.80	$0.84	$0.85	$1.00	***$1.29***	***$1.98***
Shares	137.1	138.3	134.5	127.4	123.1	115.8	104.0	98.8	99.6	97.3	***93.7***	***77.4***

Avnet has suffered some recent setbacks that have hurt its profitability and EPS growth. Starting in 2016, the company suffered from a failed implementation of a new ERP system in North America that has prolonged impacted the firm's profitability and efficiency. Management's mistakes and poor execution is reflected in the financials as the EPS dropped from $4.49 in 2015 to $2.02 in 2020. However, the company experienced significant EPS and profitability growth in 2022. We expect the company to continue its growth but at a moderate pace since we believe that despite the operational challenges, the company has a robust business model and will continue to do well in the coming years. Therefore, we forecast a moderate single-digit EPS annual growth rate of 1.5% over the next five years, leading to our estimated EPS of $7.12 by the end of the fiscal year 2028. Finally, we expect the company to maintain a healthy dividend distribution in the future and forecast a dividend payment of $1.98 in 2028.

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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	10.0	9.8	9.7	10.0	13.2	11.4	10.5	18.1	12.9	6.2	***6.1***	***8.0***
Avg. Yld.	-	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.9%	2.1%	2.3%	***3.2%***	***3.5%***

Avnet currently trades at a forward P/E of 6.1, significantly lower than its long-term 10-year average P/E of 11.2 and five-year average P/E of 11.8. Even though the company operates in a cyclical sector and earnings typically haven't maintained consistent growth, we believe the company will continue to benefit from robust demand for its products in the communication and defense market. Hence, a P/E ratio of 8.0 would be a fair reflection of the business, in our view, which will result in a fair value price of $52.9, putting the stock at 75.8% fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

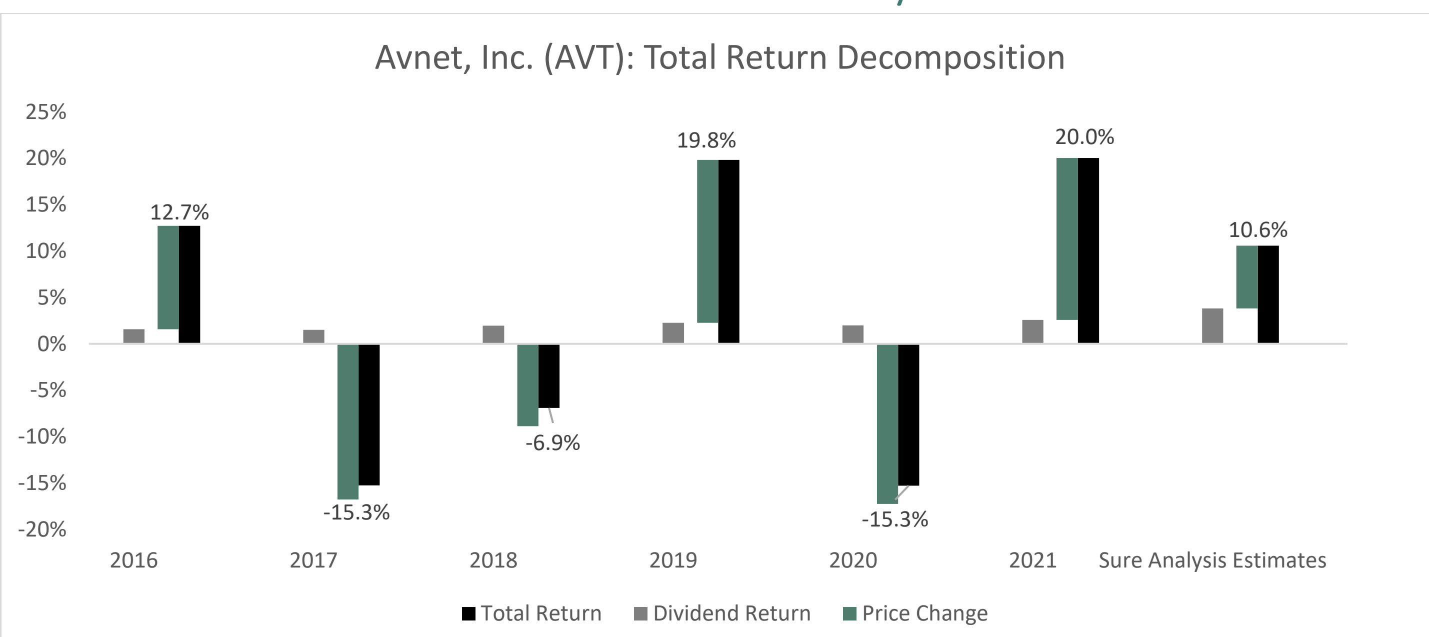
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	-	14%	14%	16%	22%	21%	19%	42%	31%	14%	***20%***	***20%***

Avnet has paid increasing dividends over the past nine years, with the payout ratio averaging 21.0% over the past ten years. In addition, the company has been committed to increasing shareholder value through delivering a reliable, increasing dividend and continued share repurchase. On August 31st, 2022, Avnet, Inc. declared a $0.29 per share quarterly dividend, raising the quarterly dividend by 11.5%.

Final Thoughts & Recommendation

Although Avnet has suffered from implementation failures that have impacted its efficiency and profitability, the company remains the third-largest chip distributor globally. Moreover, it holds the top market share in Europe. Avnet's value proposition is compelling, and its robust business model supports our hold rating. Our hold rating on the stock is premised upon the 10.6% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 1.5%, 2.7% dividend yield, and multiple expansion.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	25,459	27,500	17,655	16,741	17,440	19,037	19,519	17,634	19,535	24,310
Gross Profit	2,980	3,226	2,210	2,078	2,369	2,527	2,486	2,063	2,241	2,965
Gross Margin	11.7%	11.7%	12.5%	12.4%	13.6%	13.3%	12.7%	11.7%	11.5%	12.2%
SG&A Exp.	2,204	2,341	1,515	1,460	1,788	1,991	1,875	1,842	1,875	1,995
D&A Exp.	121	137	82	80	155	235	181	243	189	155
Operating Profit	775	885	695	618	581	536	611	221	366	971
Op. Margin	3.0%	3.2%	3.9%	3.7%	3.3%	2.8%	3.1%	1.3%	1.9%	4.0%
Net Profit	450	546	572	507	525	(156)	176	(31)	193	692
Net Margin	1.8%	2.0%	3.2%	3.0%	3.0%	-0.8%	0.9%	-0.2%	1.0%	2.8%
Free Cash Flow	599	114	451	87	(489)	98	412	657	41	(268)
Income Tax	99	156	86	87	47	288	60	(99)	(20)	141

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	10,475	11,251	10,800	11,240	9,700	9,597	8,565	8,105	8,925	10,390
Cash & Equivalents	1,009	929	933	1,031	836	621	546	477	200	154
Acc. Receivable	4,869	5,221	5,054	2,770	3,338	3,641	3,168	2,928	3,576	4,301
Inventories	2,264	2,613	2,482	2,560	2,825	3,142	3,008	2,732	3,237	4,244
Goodwill & Int.	1,434	1,533	1,378	644	1,426	1,201	1,020	839	867	771
Total Liabilities	6,186	6,360	6,115	6,549	4,518	4,912	4,424	4,379	4,841	6,196
Accounts Payable	3,278	3,402	3,338	1,591	1,862	2,269	1,864	1,754	2,401	3,432
Long-Term Debt	2,045	2,074	1,978	2,492	1,779	1,655	1,720	1,425	1,214	1,612
Total Equity	4,289	4,890	4,685	4,691	5,182	4,685	4,140	3,726	4,084	4,193
LTD/E Ratio	0.48	0.42	0.42	0.53	0.34	0.35	0.42	0.38	0.30	0.38

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.4%	5.0%	5.2%	4.6%	5.0%	-1.6%	1.9%	-0.4%	2.3%	7.2%
Return on Equity	11.0%	11.9%	11.9%	10.8%	10.6%	-3.2%	4.0%	-0.8%	4.9%	16.7%
ROIC	7.3%	8.2%	8.4%	7.3%	7.4%	-2.4%	2.9%	-0.6%	3.7%	12.5%
Shares Out.	137.1	138.3	134.5	127.4	123.1	115.8	104.0	98.8	99.6	99.8
Revenue/Share	181.85	196.26	127.21	125.71	135.56	158.76	176.16	175.51	195.02	243.55
FCF/Share	4.28	0.81	3.25	0.65	(3.80)	0.81	3.72	6.54	0.41	(2.69)

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

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