



ABM Industries (ABM)

Updated January 27th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	10.6%	Market Cap:	\$3.0B
Fair Value Price:	\$56	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	01/04/23
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.0%	Dividend Payment Date:	02/06/23
Dividend Yield:	1.9%	5 Year Price Target	\$71	Years Of Dividend Growth:	55
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	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 55 consecutive years, which makes the company a Dividend King. ABM Industries is headquartered in New York, NY.

ABM Industries reported its fourth quarter earnings results (fiscal 2022) in December. The company announced that its revenues totaled \$2.01 billion during the quarter, which was above the analyst estimate, and which was up 19% versus the previous year's quarter. The revenue performance was weaker than during the previous quarter, in which revenues had grown by 27%. 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 \$0.89 during the fourth quarter, which beat the analyst consensus by \$0.01. ABM Industries' earnings-per-share rose by 5% versus the previous year's quarter. ABM Industries' guidance for the current fiscal year, 2023, was announced. Earnings-per-share are expected in a range of \$3.40 to \$3.60 on an adjusted basis, with some synergies of the recent Able Services acquisition being built into that estimate. That represents a decline of 4% at the midpoint of the guidance range, relative to the earnings-per-share ABM Industries has generated in fiscal 2022. ABM Industries has increased its dividend by 13% in December, lifting the payout to \$0.22 per share per quarter, or \$0.88 per year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.52	\$1.53	\$1.62	\$1.74	\$1.75	\$1.89	\$2.05	\$2.43	\$3.58	\$3.66	\$3.50	\$4.47
DPS	\$0.60	\$0.62	\$0.64	\$0.66	\$0.68	\$0.70	\$0.72	\$0.74	\$0.76	\$0.78	\$0.88	\$1.02
Shares¹	54.4	55.8	56.1	55.6	65.5	66.0	67.2	67.6	67.6	67.5	67.0	64.0

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.

¹ 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.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.3	17.7	18.8	19.2	24.0	16.4	17.6	14.4	12.3	12.4	13.1	16.0
Avg. Yld.	2.6%	2.3%	2.1%	2.0%	1.5%	2.3%	2.0%	2.1%	1.7%	1.7%	1.9%	1.4%

ABM Industries trades at 13 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	39.5%	40.5%	39.5%	37.9%	38.9%	37.0%	35.1%	30.5%	21.2%	21.3%	25.1%	22.8%

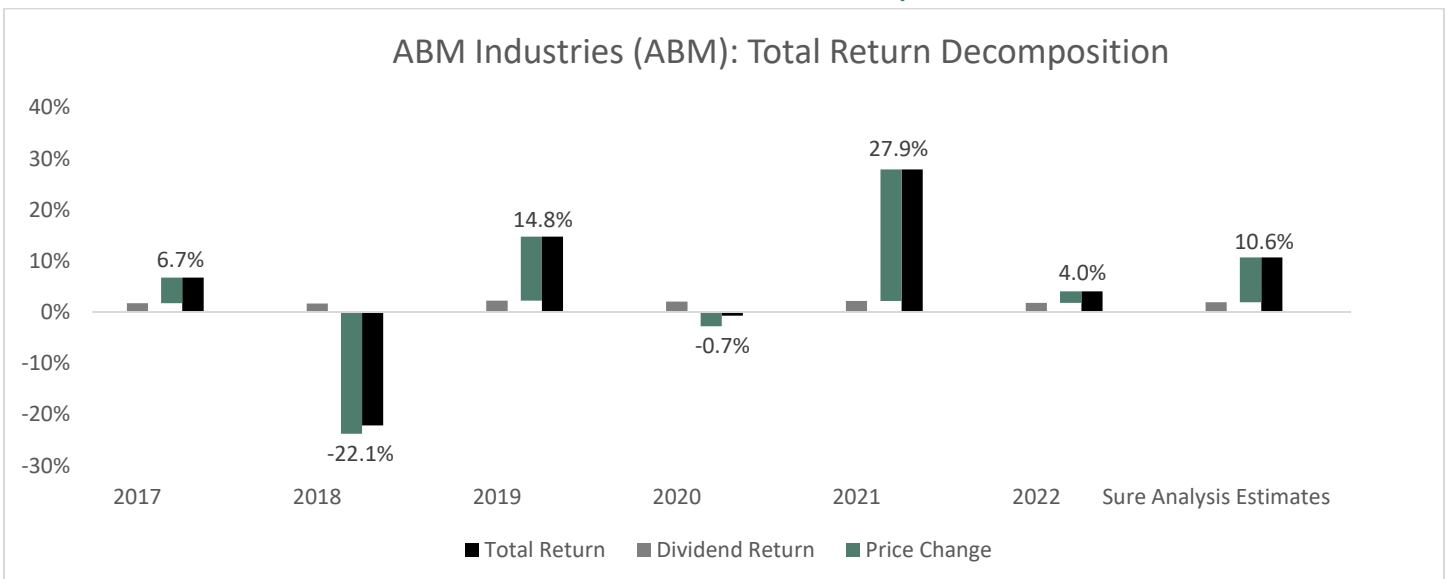
ABM Industries has increased its dividend consistently for decades, but not at a high growth rate. This has made its dividend payout ratio decline slightly throughout the last decade, as earnings growth outpaced ABM Industries' dividend growth. Due to the low dividend payout ratio and its very stable, 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 in the long run, despite an expected small earnings decline in 2023. 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,428	4,650	4,898	5,145	5,454	6,442	6,499	5,988	6,229	7,807
SG&A Exp.	331	348	395	410	437	438	453	506	719	628
D&A Exp.	59	56	57	58	70	113	107	96	90	112
Operating Profit	105	115	86	106	104	191	220	276	206	349
Operating Margin	2.4%	2.5%	1.8%	2.1%	1.9%	3.0%	3.4%	4.6%	3.3%	4.5%
Net Profit	73	76	76	57	4	98	127	0	126	230
Net Margin	1.6%	1.6%	1.6%	1.1%	0.1%	1.5%	2.0%	0.0%	2.0%	3.0%
Free Cash Flow	103	84	120	40	(52)	270	203	420	280	(30)
Income Tax	36	44	18	(10)	9	(8)	33	53	54	80

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2,119	2,193	2,131	2,279	3,813	3,628	3,693	3,777	4,436	4,869
Cash & Equivalents	33	37	56	54	63	39	59	394	63	73
Accounts Receivable	691	687	743	804	1,038	1,014	1,013	854	1,137	1,279
Goodwill & Int. Ass.	1,017	982	979	1,017	2,294	2,190	2,133	1,911	2,654	2,864
Total Liabilities	1,202	1,224	1,123	1,305	2,437	2,173	2,151	2,277	2,827	3,152
Accounts Payable	157	174	179	174	231	222	281	273	289	316
Long-Term Debt	315	320	158	268	1,178	939	802	720	884	1,268
Shareholder's Equity	918	969	1,008	974	1,376	1,455	1,542	1,500	1,609	1,717
LTD/E Ratio	0.34	0.33	0.16	0.28	0.86	0.65	0.52	0.48	0.55	0.74

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.7%	3.5%	3.5%	2.6%	0.1%	2.6%	3.5%	0.0%	3.1%	5.0%
Return on Equity	8.2%	8.0%	7.7%	5.8%	0.3%	6.9%	8.5%	0.0%	8.1%	13.9%
ROIC	6.3%	6.0%	6.2%	4.8%	0.2%	4.0%	5.4%	0.0%	5.4%	8.4%
Shares Out.	54.4	55.8	56.1	55.6	65.5	66.0	67.2	67.6	67.6	67.5
Revenue/Share	78.93	81.43	85.33	90.42	93.54	97.02	97.14	88.97	91.60	115.65
FCF/Share	1.83	1.47	2.09	0.69	(0.89)	4.07	3.04	6.23	4.12	(0.45)

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

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