Autoliv, Inc. (ALV)

Updated January 31st, 2023, by Josh Arnold

Key Metrics

Current Price:	$91	**5 Year CAGR Estimate:**	21.6%	**Market Cap:**	$7.9B
Fair Value Price:	$112	**5 Year Growth Estimate:**	15.0%	**Ex-Dividend Date:**	02/23/2023[1]
% Fair Value:	81%	**5 Year Valuation Multiple Estimate:**	4.3%	**Dividend Payment Date:**	03/13/2023
Dividend Yield:	2.9%	**5 Year Price Target**	$226	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**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 $9.9 billion in revenue this year and a $7.9 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 fourth quarter and full-year earnings on January 27th, 2023, and results were quite strong, sending the stock higher on the day. Adjusted earnings-per-share came to $1.83, which was 18 cents better than expected. Revenue was $2.33 billion, up 10.2% year-over-year, but missing estimates by $90 million. Organic sales soared 18% in Q4, as pricing gains and new product launches helped the company overcome forex headwinds.

Adjusted operating margin was 10.0% of sales, despite what management called adverse market conditions. This includes raw material cost increases, inflationary pressures, and volatile new vehicle production.

Operating cash flow was $462 million during the quarter, up from $317 million in the prior year. This was driven by higher earnings and positive working capital impacts. Free cash flow was $297 million, and the company noted its leverage ratio fell to 1.4X from 1.6X a year ago.

The company sees 15% organic sales growth in 2023, and adjusted operating margin of 8.5% to 9.0%. Management noted that cash flow trends support increasing shareholder returns.

We see $6.60 as an initial earnings-per-share estimate for this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$5.07	$5.06	$5.17	$6.42	$4.87	$6.83	$5.72	$3.15	$5.02	$4.50	***$6.60***	***$13.27***
DPS	$2.00	$2.12	$2.22	$2.30	$2.38	$2.46	$2.48	$0.62	$1.88	$2.58	***$2.64***	***$3.53***
Shares[2]	94	89	88	88	87	87	87	87	88	88	***88***	***88***

Autoliv's earnings-per-share has been volatile in the past decade, and the overall trajectory has been flat. 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 from this year's base, which we note is below that of 2018. Initial guidance for 2023 is quite bullish, and we think normalizing trends in new vehicle production will help immensely in the coming quarters.

Autoliv is performing well against benchmarks over the long-term. Light vehicle production is generally back to normalized levels, but there was a sizable decline in late-2021 due to supply constraints globally, and there are signs of continued volatility. We note that Autoliv's level of outperformance against LVP has remained strong throughout all portions of the cycle.

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[1] Estimated date

[2] Share count in millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.6	19.6	22.2	17.1	23.1	14.1	13.3	22.7	19.1	17.0	***13.8***	***17.0***
Avg. Yld.	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	0.9%	2.0%	3.4%	***2.9%***	***1.6%***

Autoliv's price-to-earnings ratio has declined since our last report to 13.8 times our earnings estimate for 2023. 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 sizable tailwind to total returns.

The current yield is 2.9%, so Autoliv is still a respectable income stock at almost two times the yield of the S&P 500.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	39%	42%	43%	36%	49%	36%	43%	20%	37%	57%	***40%***	***27%***

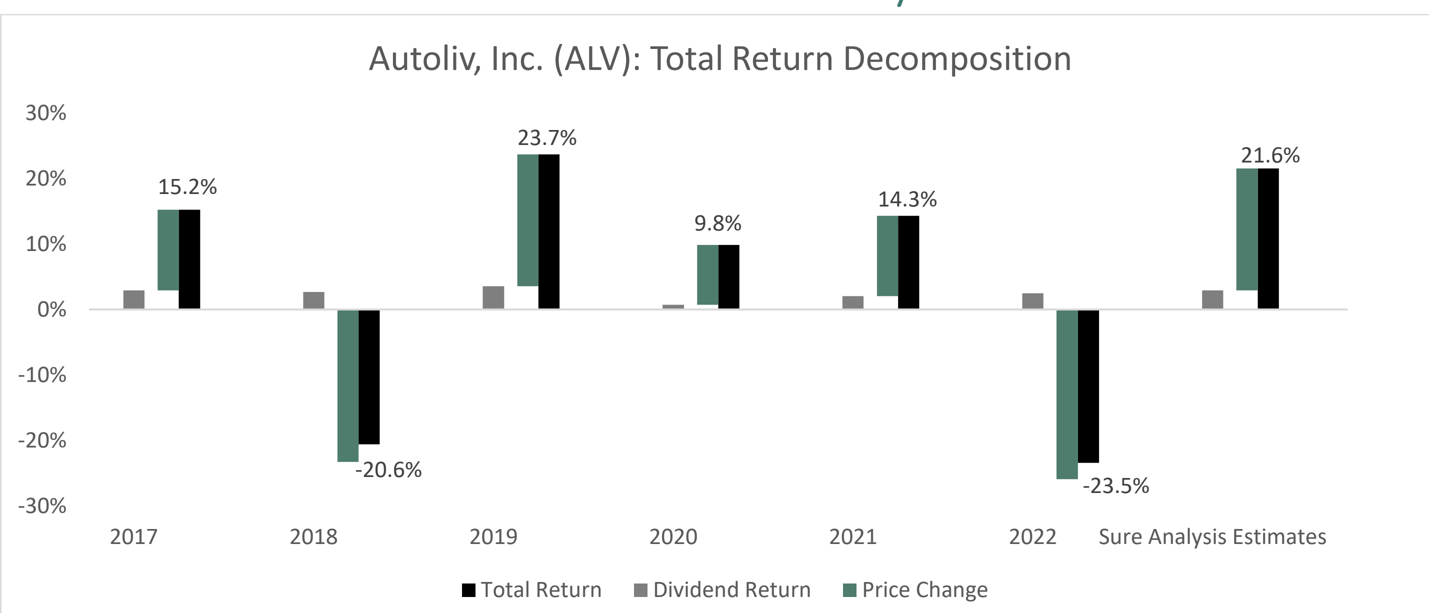
We expect moderate dividend growth given management is likely to be shy about raising it to the point where it may need to be cut again in the future. The current payout ratio of 40% is more than sustainable.

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 it will remain highly reliant upon global light vehicle production.

Final Thoughts & Recommendation

Autoliv's valuation has moved lower since our last update. Revenue was strong in Q4, and guidance was positive for 2023. The dividend is growing, and we see Autoliv's total return outlook as strong at 21.6% annually, based on strong projected growth of 15%, a 4.3% tailwind from the valuation, and the 2.9% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	8,803	9,241	9,170	7,922	8,137	8,678	8,548	7,447	8,230	8,842
Gross Profit	1,705	1,804	1,844	1,628	1,680	1,711	1,584	1,247	1,511	1,396
Gross Margin	19.4%	19.5%	20.1%	20.6%	20.6%	19.7%	18.5%	16.7%	18.4%	15.8%
SG&A Exp.	390	415	412	394	407	390	399	389	432	437
D&A Exp.	286	305	319	383	426	397	351	371	394	363
Operating Profit	761	723	728	831	860	686	726	382	675	659
Operating Margin	8.6%	7.8%	7.9%	10.5%	10.6%	7.9%	8.5%	5.1%	8.2%	7.5%
Net Profit	486	468	457	567	427	190	462	187	435	423
Net Margin	5.5%	5.1%	5.0%	7.2%	5.2%	2.2%	5.4%	2.5%	5.3%	4.8%
Free Cash Flow	450	255	260	361	356	31	165	509	296	128
Income Tax	244	198	218	224	204	235	186	103	177	178

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,983	7,443	7,526	8,234	8,550	6,722	6,771	8,157	7,537	7,717
Cash & Equivalents	1,118	1,529	1,334	1,227	960	616	445	1,178	969	594
Accounts Receivable	1,688	1,706	1,788	1,960	1,697	1,652	1,627	1,822	1,699	1,907
Inventories	662	676	711	773	704	758	741	798	777	969
Goodwill & Int. Ass.	1,687	1,661	1,794	2,083	1,440	1,423	1,410	1,412	1,395	1,382
Total Liabilities	2,983	4,001	4,057	4,308	4,381	4,825	4,649	5,734	4,889	5,091
Accounts Payable	1,200	1,092	1,170	1,197	957	978	951	1,254	1,144	1,693
Long-Term Debt	619	1,601	1,539	1,543	1,330	2,230	2,094	2,411	2,008	1,765
Shareholder's Equity	3,981	3,427	3,456	3,677	4,035	1,884	2,109	2,409	2,633	2,613
LTD/E Ratio	0.16	0.47	0.45	0.42	0.33	1.18	0.99	1.00	0.76	0.68

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.2%	6.5%	6.1%	7.2%	5.1%	2.5%	6.8%	2.5%	5.5%	5.5%
Return on Equity	12.6%	12.6%	13.3%	15.9%	11.1%	6.4%	23.1%	8.3%	17.3%	16.1%
ROIC	10.8%	9.7%	9.1%	10.8%	7.8%	4.0%	11.1%	4.1%	9.2%	9.4%
Shares Out.	94	89	88	88	87	87	87	87	88	87.2
Revenue/Share	91.80	100.01	103.73	89.61	92.78	99.41	97.91	85.11	93.84	101.40
FCF/Share	4.70	2.76	2.94	4.08	4.06	0.35	1.89	5.82	3.38	1.47

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