Hubbell Incorporated (HUBB)

Updated February 3rd, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$241	**5 Year CAGR Estimate:**	2.5%	**Market Cap:**	$13 B
Fair Value Price:	$185	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	02/27/23
% Fair Value:	130%	**5 Year Valuation Multiple Estimate:**	-5.2%	**Dividend Payment Date:**	03/15/23
Dividend Yield:	1.9%	**5 Year Price Target**	$247	**Years Of Dividend Growth:**	16
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

Hubbell Incorporated (HUBB) designs, manufactures, and sells electrical and electronic products in the United States and internationally. The business operates through its Utility Solutions and Electrical Solutions segments, where in 2022, Utility Solutions made up 59% of sales and Electrical Solutions made 41% of sales. Hubbell's main focus is to own a good collection of businesses which can grow organic sales.

On January 31st, 2023, Hubbell Inc reported Q4 and FY 2022 results for the period ending December 31st, 2022. The company reported fourth quarter sales of $1.22 billion, which missed estimates by $20 million and represented a nearly 11% year-over-year increase.

The company saw its adjusted operating margin reach 16.0%, up 210 basis points year-over-year, and adjusted diluted earnings-per-share of $2.60 beat analysts' estimates by an impressive $0.20, up 26% from the year-ago period.

These results were driven by 17% year-over-year revenue growth in Utility Solutions with adjusted operating margins increasing by 310 basis points year-over-year to 17.2%. The Electrical Solutions segment grew revenue by 3% annually to just over $500 million for the fourth quarter, and this segment saw adjusted operating margins grow by 60 basis points year-over-year to 14.3%.

Hubbell initiated fiscal 2023 guidance, seeing total sales growth of 5% to 7% and organic sales growth of 4% to 6%. Adjusted earnings-per-share are anticipated to come in between $10.00 and $10.50, for a $10.25 midpoint.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$5.47	$5.48	$5.07	$5.66	$5.93	$7.29	$8.12	$7.58	$8.05	$10.62	***$10.25***	***$13.72***
DPS	$1.85	$2.06	$2.31	$2.59	$2.87	$3.15	$3.43	$3.71	$3.99	$4.27	***$4.48***	***$5.45***
Shares	58	59	58	56	55	55	55	54	55	54	***54***	***52***

While earnings have ebbed and flowed in the last decade, they have moved steadily higher over the long-term. Over the past nine and five years, Hubbell has seen earnings-per-share grow at an average annualized rate of 7.7% and 7.1%, respectively.

Moving forward, we expect the company will benefit from organic sales growth from their recent acquisitions as the company continues to capitalize on megatrends like Grid Modernization, the move to upgrade the power grid to accommodate tech changes, and Electrification, where businesses are looking to replace technologies on fossil fuels with electric technologies.

Over the past nine years, dividend payments have grown at 9.7% annually, and over the past 5 years, dividends have grown at 7.3% annually. We forecast that dividends will grow at 4% annually over the next 5 years, just below our estimated earnings growth rate. Hubbell has a 16-year track record of increasing its dividend payments.

For 2023, we are using the midpoint of management's guidance, $10.25, along with a 6.0% expected annual growth rate over the intermediate term.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.4	21.3	20.4	18.4	20.0	16.2	15.7	18.1	22.5	19.5	***23.5***	***18.0***
Avg. Yld.	1.8%	1.8%	2.2%	2.5%	2.4%	2.7%	2.7%	2.7%	2.1%	1.9%	***1.9%***	***2.2%***

Over the past 9 years, Hubbell has averaged a P/E ratio of 19.0 and has averaged a P/E of 18.4 over the past 5 years. Based on the steady history of valuation multiples, we estimate that an 18 P/E ratio is fair for the business. Today, the stock offers a 1.9% dividend yield, which may be low for income-oriented investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

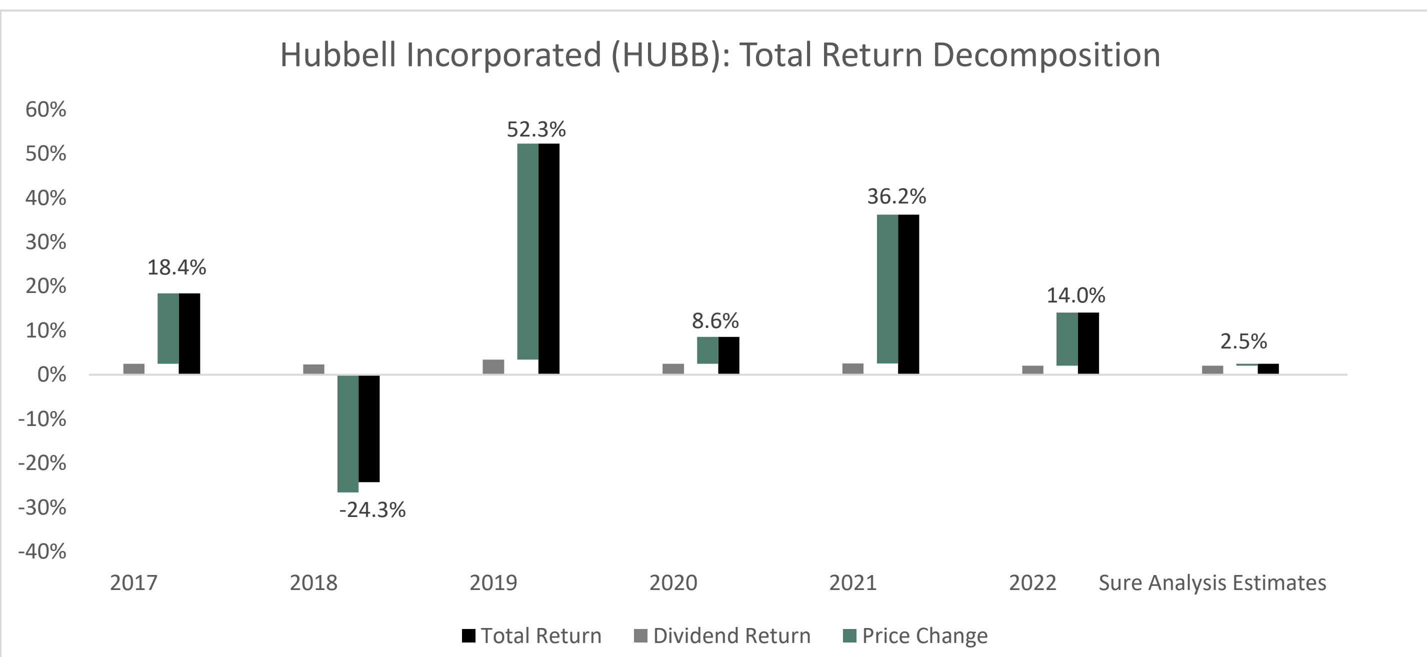
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34%	38%	46%	46%	48%	43%	42%	49%	50%	40%	***44%***	***40%***

Hubbell has averaged a payout ratio of 44% over the past 9 years. We consider this to be a conservative payout ratio, where dividends are well supported by earnings, and this should moderate in the future as earnings growth outpace dividend growth. Additionally, the company has a strong balance sheet, with about $2.0 billion in current assets compared to about $1.1 billion in current liabilities, $3.0 billion in total liabilities, and $2.4 billion in shareholders' equity. This company has a proven track record of strong organic growth and growth through acquisitions. Hubbell saw a small dip in earnings-per-share in 2020 but has since grown strongly. The company appears to possess some recession resiliency.

Final Thoughts & Recommendation

Hubbell is a leader in the Utility and Electrical Solutions space and is poised to see organic growth over the intermediate term from Grid Modernization and Electrification tailwinds. The stock could offer 2.5% in annualized total returns over the next five years, comprised of 6.0% earnings-per-share growth and the starting 1.9% dividend yield, offset by a moderate valuation headwind. We are downgrading Hubbell from hold to sell on lower total return prospects.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,184	3,359	3,390	3,505	3,669	4,482	3,947	3,683	4,194	4,948
Gross Profit	1,071	1,109	1,092	1,105	1,155	1,300	1,172	1,086	1,152	1,472
Gross Margin	33.6%	33.0%	32.2%	31.5%	31.5%	29.0%	29.7%	29.5%	27.5%	29.7%
SG&A Exp.	563	592	617	615	636	744	645	591	619	763
D&A Exp.	71	79	85	91	98	148	138	145	149	149
Operating Profit	508	517	475	490	519	557	527	495	532	709
Op. Margin	15.9%	15.4%	14.0%	14.0%	14.1%	12.4%	13.3%	13.4%	12.7%	14.3%
Net Profit	327	325	277	293	243	360	362	330	365	511
Net Margin	10.3%	9.7%	8.2%	8.4%	6.6%	8.0%	9.2%	9.0%	8.7%	10.3%
Free Cash Flow	323	331	262	344	299	421	505	565	454	454
Income Tax	144	158	137	133	193	101	101	90	88	140

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,187	3,320	3,209	3,525	3,721	4,872	4,903	5,085	5,282	5,403
Cash & Equivalents	741	654	344	438	375	189	182	259	286	441
Acc. Receivable	461	494	492	566	576	739	697	574	696	742
Inventories	386	442	540	532	635	651	633	527	662	741
Goodwill & Int.	1,087	1,198	1,301	1,423	1,549	2,604	2,593	2,644	2,553	2,640
Total Liabilities	1,272	1,384	1,460	1,922	2,073	3,073	2,943	3,000	3,041	3,032
Accounts Payable	226	244	290	292	327	394	348	339	533	530
Long-Term Debt	598	596	644	994	1,055	1,793	1,571	1,590	1,445	1,443
Total Equity	1,906	1,927	1,741	1,593	1,634	1,781	1,947	2,070	2,230	2,361
LTD/E Ratio	0.31	0.31	0.37	0.62	0.65	1.01	0.81	0.77	0.65	0.61

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	10.6%	10.0%	8.5%	8.7%	6.7%	8.4%	7.4%	6.6%	7.0%	9.6%
Return on Equity	18.3%	17.0%	15.1%	17.6%	15.1%	21.1%	19.4%	16.4%	17.0%	22.3%
ROIC	13.7%	12.9%	11.3%	11.7%	9.2%	11.4%	10.1%	9.2%	9.9%	13.6%
Shares Out.	58	59	58	56	55	55	55	54	52	54
Revenue/Share	53.42	56.75	58.46	62.93	66.58	81.63	72.15	67.57	76.67	91.46
FCF/Share	5.42	5.59	4.52	6.17	5.43	7.67	9.23	10.37	8.29	8.39

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