



TE Connectivity (TEL)

Updated February 4th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$134	5 Year CAGR Estimate:	7.0%	Market Cap:	\$42 B
Fair Value Price:	\$119	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	02/16/23
% Fair Value:	113%	5 Year Valuation Multiple Estimate:	-2.4%	Dividend Payment Date:	03/03/23
Dividend Yield:	1.7%	5 Year Price Target	\$175	Years Of Dividend Growth:	15
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Hold

Overview & Current Events

TE Connectivity (TEL) is a company that manufactures and sells connectivity and sensor solutions worldwide. The company operates through 3 segments: Transportation Solutions, Industrial Solutions, and Communications Solutions, which made up 57%, 28%, and 16% of sales, respectively, for the full fiscal year 2022.

The Transportation Solutions segment provides sensor and connectivity components for the automotive and commercial transportation industry. The Industrial Solutions segment provides components for industrial sectors like the aerospace, defense, oil & gas, medical, and energy markets. Lastly, the Communications Solutions segment supplies components for the data and devices and appliances markets. We expect the company will benefit over the intermediate term from its investments in electric vehicles, factory automation, the cloud, and renewable energy.

On January 25th, 2023, TE Connectivity reported first quarter 2023 results for the period ending December 30th, 2022. The company earned \$1.53 in adjusted earnings-per-share for the quarter, which beat analysts' estimates by 2 cents, but represented a 13% year-over-year decrease.

Revenue rose by 1% year-over-year to \$3.8 billion, beating analysts' consensus estimates by \$80 million. For the quarter, sales in the Transportation Solutions segment grew 14% year-over-year to \$2.26 billion, sales in the Industrial Solutions segment increased 7% year-over-year to \$1.06 billion, but sales in the Communications Solutions segment decreased 11% year-over-year to \$522 million. Overall, adjusted operating margins fell by 240 basis points year-over-year from 18.6% to 16.2%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.23	\$3.79	\$3.60	\$4.08	\$4.83	\$5.61	\$5.54	\$4.26	\$6.52	\$7.31	\$6.60	\$9.70
DPS	\$0.92	\$1.08	\$1.24	\$1.40	\$1.54	\$1.68	\$1.80	\$1.88	\$1.96	\$2.12	\$2.24	\$2.86
Shares	412	408	394	355	352	345	335	331	327	321	316.0	305.0

Over the past nine and five years, TE Connectivity has seen earnings-per-share grow at an average annualized rate of 9.5% and 8.6%, respectively. For the next quarter, management expects net sales of about \$3.9 billion and adjusted earnings-per-share for the quarter of about \$1.57. For the full fiscal year 2023, we expect about \$6.60 in earnings per share. We forecast that the company can continue to grow earnings-per-share at about 8% annually over the intermediate term, which guides our 2028 earnings-per-share estimate of about \$9.70.

Over the past nine and five years, TE Connectivity has increased its dividend by 9.7% and 6.6% annually. Over the next five years, we forecast that the company could increase dividends by 5% annually, which is below our EPS growth estimate and the historic dividend growth rate. This guides our 2028 dividend estimate of roughly \$2.86 per share. Of note, TE Connectivity has grown dividend payments for 15 consecutive years, which is a solid track record.

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	13.0	15.3	18.0	14.9	15.3	17.0	15.3	20.3	19.9	17.4	20.3	18.0
Avg. Yld.	2.2%	1.9%	1.9%	2.3%	2.1%	1.8%	2.1%	2.2%	1.5%	1.6%	1.7%	1.6%

Over the trailing nine and five years, TE Connectivity has averaged a P/E ratio of 16.6 and 18.0, respectively. We estimate that a P/E ratio of about 18 could be fair for the business over the intermediate term. Today, the stock offers a low but growing 1.7% dividend yield, which is not likely to entice income-oriented investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	28%	28%	34%	34%	32%	30%	32%	44%	30%	29%	34%	29%

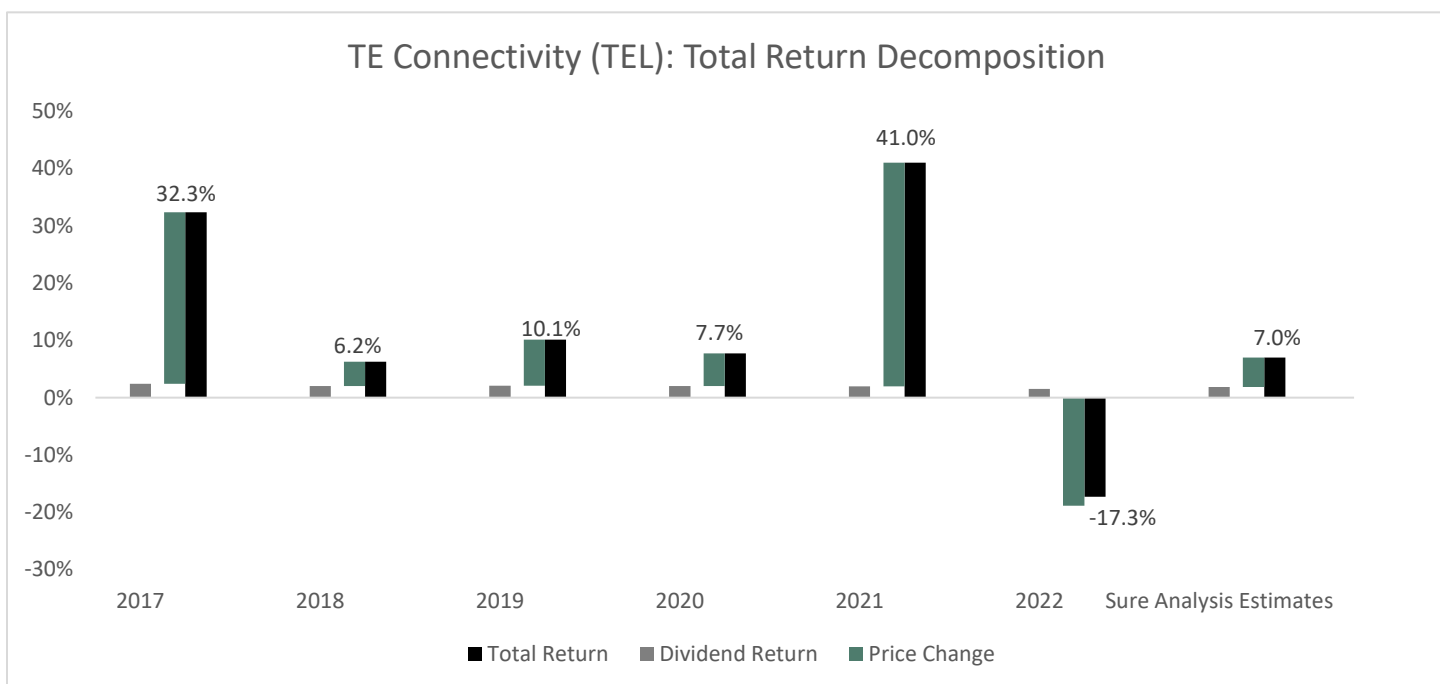
The business has averaged a low payout ratio of 32.3% over the past 9 years, and we expect the dividend to continue to be safe. We believe TE Connectivity has a competitive advantage due to its expertise in the field of electronics, components, and networking for aerospace, medicine, defense, and other industries.

As of the most recent quarterly report, TE Connectivity held \$793 million in cash, \$7.3 billion in current assets and \$21.4 billion in total assets against \$4.4 billion in current liabilities and \$9.9 billion in total liabilities. Additionally, long-term debt stood at \$3.4 billion.

Final Thoughts & Recommendation

TE Connectivity is a growing sensor and connectivity company that is likely to benefit from secular trends in electric vehicles, factory automation, the cloud, and renewable energy. At today's price, we rate the stock as a hold with total return prospects coming in at 7.0% annually, driven by an estimated 8% annual earnings-per-share growth and a 1.7% dividend yield, potentially offset by a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	11,390	11,973	12,233	11,352	12,185	13,988	13,448	12,172	14,923	16,281
Gross Profit	3,651	3,972	4,087	3,827	4,183	4,745	4,394	3,735	4,887	5,244
Gross Margin	32.1%	33.2%	33.4%	33.7%	34.3%	33.9%	32.7%	30.7%	32.7%	32.2%
SG&A Exp.	1,440	1,534	1,504	1,396	1,543	1,594	1,490	1,392	1,512	1,584
D&A Exp.	536	551	616	560	611	667	690	711	769	785
Operating Profit	1,621	1,855	1,956	1,828	2,029	2,471	2,260	1,730	2,698	2,942
Op. Margin	14.2%	15.5%	16.0%	16.1%	16.7%	17.7%	16.8%	14.2%	18.1%	18.1%
Net Profit	1,276	1,781	2,420	2,009	1,683	2,565	1,844	(241)	2,261	2,428
Net Margin	11.2%	14.9%	19.8%	17.7%	13.8%	18.3%	13.7%	-2.0%	15.2%	14.9%
Free Cash Flow	1,465	1,448	1,330	1,344	1,642	1,516	1,673	1,432	1,986	1,700
Income Tax	(75)	146	337	(826)	180	(344)	(15)	783	123	306

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	18,461	20,152	20,589	17,608	19,403	20,386	19,694	19,242	21,462	20,782
Cash & Equivalents	1,403	2,457	3,329	647	1,218	848	927	945	1,203	1,088
Acc. Receivable	2,323	2,057	2,120	2,046	2,138	2,361	2,320	2,377	2,928	2,865
Inventories	1,762	1,509	1,615	1,596	1,647	1,857	1,836	1,950	2,511	2,676
Goodwill & Int.	5,570	4,813	6,379	7,371	7,492	7,388	7,336	6,817	7,139	6,546
Total Liabilities	10,075	11,139	11,004	9,123	9,652	9,555	9,124	9,747	10,714	9,885
Accounts Payable	1,383	1,230	1,143	1,090	1,387	1,548	1,357	1,276	1,911	1,593
Long-Term Debt	3,014	3,858	3,884	4,070	4,344	4,000	3,965	4,146	4,092	4,206
Total Equity	8,380	9,007	9,585	8,485	9,751	10,831	10,570	9,383	10,634	10,802
LTD/E Ratio	0.36	0.43	0.41	0.48	0.45	0.37	0.38	0.44	0.38	0.39

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.8%	9.2%	11.9%	10.5%	9.1%	12.9%	9.2%	-1.2%	11.1%	11.5%
Return on Equity	15.6%	20.5%	26.0%	22.2%	18.5%	24.9%	17.2%	-2.4%	22.6%	22.7%
ROIC	11.1%	14.7%	18.4%	15.4%	12.6%	17.7%	12.6%	-1.7%	15.9%	16.2%
Shares Out.	412	408	394	355	352	345	335	331	327	325
Revenue/Share	26.93	28.71	29.76	30.76	34.04	39.63	39.55	36.66	44.81	50.10
FCF/Share	3.46	3.47	3.24	3.64	4.59	4.29	4.92	4.31	5.96	5.23

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

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