ABB Ltd. (ABBNY)

Updated July 21st, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$40	**5 Year CAGR Estimate:**	0.7%	**Market Cap:**	$74.9 B
Fair Value Price:	$27	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	3/25/2024[1]
% Fair Value:	147%	**5 Year Valuation Multiple Estimate:**	-7.4%	**Dividend Payment Date:**	5/9/2024
Dividend Yield:	2.3%	**5 Year Price Target**	$36	**Years Of Dividend Growth:**	4
Dividend Risk Score:	C	**Retirement Suitability Score:**	C	**Rating:**	Sell

Overview & Current Events

On May 23rd, 2023, ABB changed its ticker from ABB to ABBNY because it was delisted from NYSE and was listed on an OTC (over-the-counter) market. ABB is a global provider of automation technologies and power solutions. It operates in more than 100 countries and has four business units: Electrification Products, Robotics & Discrete Automation, Motion and Industrial Automation. ABB is based in Switzerland, but domestic investors can initiate an ownership stake in the company through American Depository Receipts (ADRs) that trade with a market capitalization of US$74.9 billion under the ticker ABBNY.

In mid-July, ABB reported (7/20/23) financial results for the second quarter of fiscal 2023. Comparable revenue and orders grew 17% and 2%, respectively, over the prior year's quarter while EBITDA margin rose from 15.5% to an all-time high of 17.5%, with all business segments above 15%. Revenues grew partly thanks to backlog execution and EBITDA grew thanks to healthy demand in all segments and material price hikes, which more than offset high cost inflation. Thanks to strong business momentum in all business areas, ABB posted a book-to-bill ratio of 106% and grew its earnings-per-share from $0.20 to $0.49.

ABB slightly improved its guidance for 2023. It reiterated its guidance for more than 10% revenue growth and provided guidance for EBITDA margin of at least 16% (vs. 15% previously) thanks to positive business momentum and price hikes.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.23	$1.13	$0.87	$0.88	$1.25	$1.33	$1.24	$0.98	$2.25	$1.30	***$1.70***	***$2.27***
DPS	$0.72	$0.77	$0.75	$0.75	$0.76	$0.81	$0.79	$0.83	$0.85	$0.88	***$0.92***	***$1.08***
Shares[2]	2301	2315	2192	2139	2139	2135	2135	2071	2053	1881	***1800***	***1750***

ABB's growth over the last decade has been far from compelling. The company faced a downturn due to the pandemic in 2020 but it has recovered strongly thanks to the recovery of the global economy. It is now facing high cost inflation but it is offsetting this headwind with price hikes. Moreover, ABB has a number of current growth opportunities that lead us to believe its future performance will be stronger than its historical track record. The Electrification segment, which generates 46% of the total revenues, seems to have the most promising prospects thanks to strong demand in key segments, such as rail, data centers, wind and electric vehicle infrastructure. We thus expect 6% average annual growth of earnings-per-share over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.6	20.8	23.1	22.9	23.5	17.3	16.0	23.8	15.0	22.5	***23.5***	***16.0***
Avg. Yld.	3.1%	3.3%	3.7%	3.7%	3.1%	3.4%	4.0%	3.6%	2.5%	3.0%	***2.3%***	***3.0%***

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[1] Estimated date for annual dividend.
[2] 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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ABB has traded at an average price-to-earnings ratio of 20.4 over the last decade. With that said, this sample includes several years (2014-2017) in which the stock traded with an elevated P/E ratio. We believe that fair value for a company of ABB's caliber lies somewhere around 16 times earnings. The stock is currently trading at a price-to-earnings ratio of 23.5. If it trades at our estimated fair earnings multiple in five years, it will incur a -7.4% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	58.5%	68.1%	86.2%	85.2%	73.8%	58.6%	63.7%	84.7%	37.8%	67.7%	***54.1%***	***47.6%***

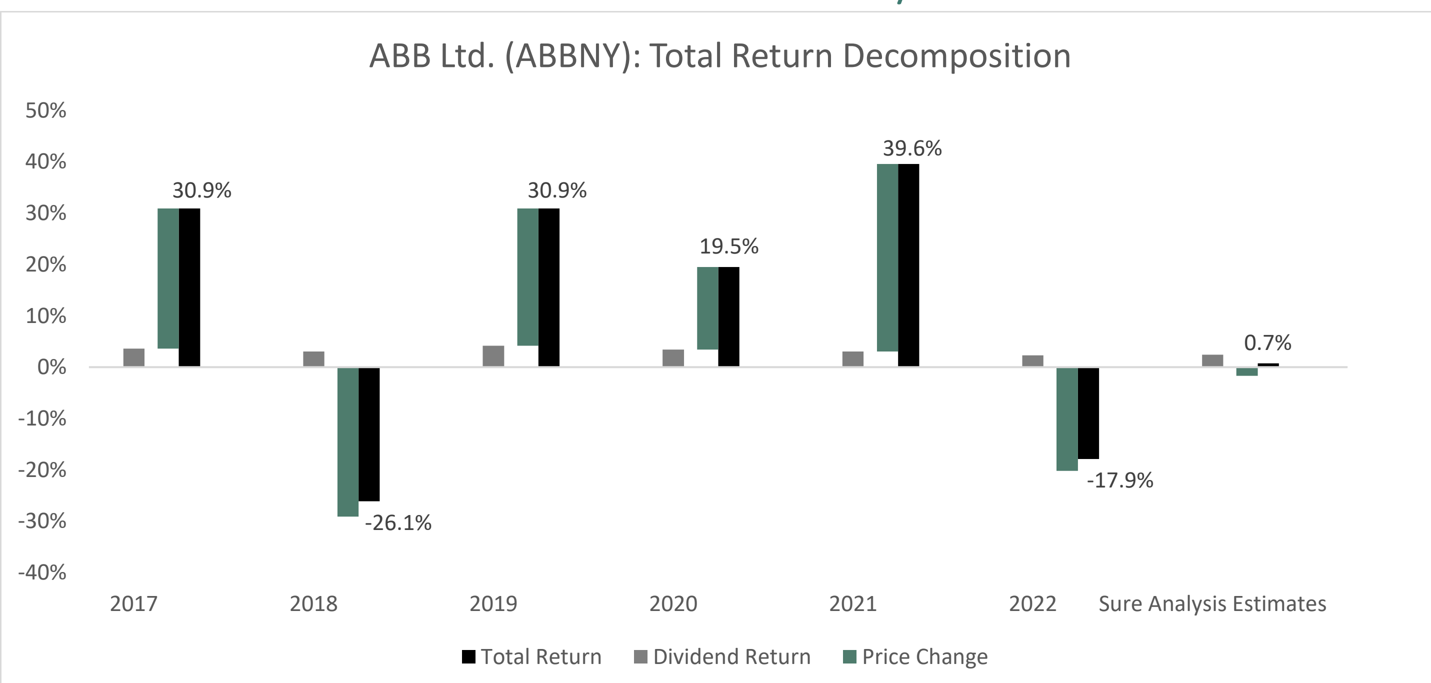
ABB has global businesses that are either the #1 or #2 player in attractive markets, with strong secular growth. The company expects its business markets to grow by 3.5%-4.0% per year on average over the long run. Thanks to its dominant position in its segments, ABB has a strong reputation and thus enjoys a significant competitive advantage over its peers.

Moreover, the company has a rock-solid balance sheet and pays negligible interest expense. On the other hand, the performance of ABB is greatly affected by economic growth and oil prices, which are beyond its control. Due to this vulnerability, the stock tends to underperform the market during sell-offs. Consequently, only investors who can tolerate significant price pressure should consider this stock.

Final Thoughts & Recommendation

ABB has a variety of appealing characteristics. It is a global business with leadership in many segments of the industrial sector. Moreover, it is recovering strongly from the pandemic but it will be vulnerable if global economy falls into a recession. The risk of a recession has increased due to the tightening policies of central banks in an effort to restore inflation to normal levels. We also note that ABB has rallied 66% off its bottom last year. As a result, ABB could offer just a 0.7% average annual return over the next five years, as its 6.0% earnings growth and its 2.3% dividend may be partly offset by a -7.4% valuation drag. ABB receives a sell 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	41848	39830	35481	24929	25196	27662	27978	26,134	28,945	29,446
Gross Profit	11992	11215	10134	7533	7846	8544	8906	7,878	9,467	9,710
Gross Margin	28.7%	28.2%	28.6%	30.2%	31.1%	30.9%	31.8%	30.1%	32.7%	33.0%
SG&A Exp.	6094	6067	5574	4532	4765	5295	5447	4,895	5,162	5,132
D&A Exp.	1318	1305	1160	870	836	916	961	915	893	814
Operating Profit	4428	3649	3154	2034	2068	2102	2261	1,904	5,718	3,337
Op. Margin	10.6%	9.2%	8.9%	8.2%	8.2%	7.6%	8.1%	7.3%	19.8%	11.3%
Net Profit	2787	2594	1933	1899	2213	2173	1439	5,146	4,546	2,475
Net Margin	6.7%	6.5%	5.4%	7.6%	8.8%	7.9%	5.1%	19.7%	15.7%	8.4%
Free Cash Flow	2547	2819	2942	3211	3047	2152	1563	999	2,510	525
Income Tax	1122	1202	788	526	583	544	772	496	1,057	757

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	48064	44852	41356	39202	43458	44441	46108	41,088	40,260	39,148
Cash & Equivalents	6021	5443	4565	3644	4526	3445	3544	3,278	4,159	4,156
Acc. Receivable	8360	7715	7197	7293	5553	5970	6434	6,820	6,551	6,858
Inventories	6004	5376	4757	4347	3737	4284	4184	4,469	4,880	6,028
Goodwill & Int.	13967	12755	12008	11497	11961	13371	13077	12,928	12,043	11,917
Total Liabilities	28856	28037	26368	25305	28109	29907	32128	25,089	24,303	25,876
Accounts Payable	5112	4765	4342	4446	3736	4424	4353	4,571	4,921	4,904
Long-Term Debt	8023	7665	7439	6803	7408	8618	9059	6,121	5,561	7,678
Total Equity	18678	16269	14481	13395	14819	13952	13526	15,685	15,579	12,777
LTD/E Ratio	0.43	0.47	0.51	0.51	0.50	0.62	0.67	0.39	0.36	0.60

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.7%	5.6%	4.5%	4.7%	5.4%	4.9%	3.2%	11.8%	11.2%	6.2%
Return on Equity	15.7%	14.8%	12.6%	13.6%	15.7%	15.1%	10.5%	35.2%	29.1%	17.5%
ROIC	10.2%	10.0%	8.2%	8.8%	10.2%	9.5%	6.2%	22.8%	20.8%	11.7%
Shares Out.	2300.6	2314.7	2191.6	2138.7	2138.7	2135.0	2135.0	2071.0	2053	1910
Revenue/Share	18.16	17.36	15.91	11.57	11.73	12.93	13.10	12.33	14.34	15.42
FCF/Share	1.11	1.23	1.32	1.49	1.42	1.01	0.73	0.47	1.24	0.27

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