Amphenol Corporation (APH)

Updated August 3rd, 2023, by Ian Bezek

Key Metrics

Current Price:	$88	**5 Year CAGR Estimate:**	6.0%	**Market Cap:**	$52.4 B
Fair Value Price:	$68	**5 Year Growth Estimate:**	10.5%	**Ex-Dividend Date:**	09/19/23[1]
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date:**	10/12/23
Dividend Yield:	1.0%	**5 Year Price Target**	$113	**Years Of Dividend Growth:**	12
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Amphenol is an American electronics company primarily involved in the production of fiber optic connectors, coaxial cables, and other such systems. The company was founded in 1932 as American Phenolic Corp; the name was subsequently shortened to Amphenol. Its primary end markets are for IT and data services, industrial, and automotive uses. The company had a highly successful past decade, with its share price rising 400 percent. This, in turn, lifted Amphenol's market cap to more than $50 billion today.

Historically, Amphenol was a growth investment with a minimal dividend. In 2012, however, the company started to put a focus on increasing its dividend, and since then, it has grown its annual payout at a double-digit compound rate.

On July 26th, 2023, Amphenol released its Q2 2023 earnings. The company earned 74 cents per share, which topped estimates, but slipped slightly from last year's 76 cents figure. The company's revenue came in at $3.05 billion, which amounted to a 3% decline from the same period last year.

Amphenol appears to be facing pressures from the slowdown in the electronics industry. The company's Q2 revenue decline was a stark contrast from 2022 when the firm was posting rapid growth. Additionally, Amphenol issued disappointing guidance for Q3, with revenues set to fall about 7% with adjusted diluted earnings per share expected to fall 9%. It seems like things are set to get worse for Amphenol before they start to improve again.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.96	$1.13	$1.21	$1.36	$1.56	$1.93	$1.88	$1.96	$2.48	$3.00	***$2.97***	***$4.89***
DPS	$0.15	$0.23	$0.27	$0.29	$0.35	$0.44	$0.48	$0.52	$0.64	$0.81	***$0.84***	***$1.29***
Shares	633	620	616	615	611	597	596	599	599	595	***595***	***595***

Since 2013, Amphenol has grown its earnings at a 13.5% average compounded rate. Earnings growth has been quite consistent, and the firm saw a significant jump in profitability as demand surged over the past two years. Amphenol has boosted its earnings both through organic growth and a series of acquisitions.

Up until 2012, Amphenol paid a minimal dividend. Since then, Amphenol has started returning a substantially greater portion of its profits to shareholders through its dividend. As a result of this increasing attention to the dividend, Amphenol has managed tremendous dividend growth rates of 13.8% and 20.6% over the past five and nine years, respectively. However, the company's 2022 dividend hike was a smaller 5% increase. This perhaps signals a slowdown in future dividend growth given the more challenging macroeconomic conditions.

After a roughly flat 2023 for Amphenol, going forward, we estimate 10.5% annualized earnings growth over the next five years. The mass deployment of 5G mobile networks and continuing demand for additional data centers should help generate favorable business prospects for Amphenol in coming years.

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[1] Estimated date.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.1	21.6	22.8	21.7	24.7	23.1	25.4	26.4	29.0	26.0	***29.6***	***23.0***
Avg. Yld.	0.8%	0.9%	1.0%	1.0%	0.9%	1.0%	1.0%	1.0%	0.9%	1.0%	***1.0%***	***1.1%***

A significant portion of Amphenol's exemplary returns over the past decade came due to expansion of its P/E ratio. Amphenol's P/E rose from 17.0 in 2012 all the way to 29.0 in 2021. After a dip last year, Amphenol's P/E has now reached an even higher level. We are skeptical that Amphenol will be able to support the loftier P/E ratios it has obtained recently. Rather, we see Amphenol's P/E ratio settling closer to 23.0 over the long term.

Over the years, the company's dividend yield has ticked upward, rising from 0.8% in 2013 to 1.0% now. We see the company's dividend yield remaining near its current level in future years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	16%	20%	22%	21%	22%	23%	26%	27%	26%	27%	***28%***	***26%***

Amphenol operates in highly competitive markets with tons of rival firms. However, its broad product line and superior cost management have given the firm a persistent advantage over its peers. The firm had a surprisingly strong 2022, and its results haven't given up too much ground in 2023 despite broad weakness in much of the tech industry.

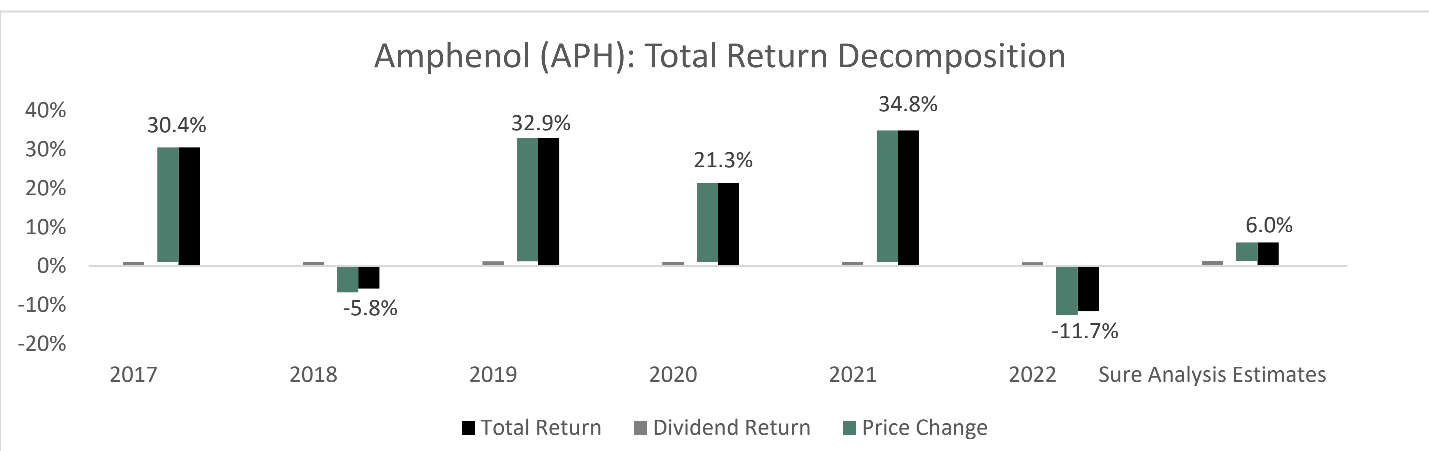
On paper, Amphenol might seem to face significant risk during economic downturns. But the company has developed durable relationships with key customers, insulating it from the technology industry's boom and bust cycle. Additionally, while the company's payout ratio has ticked up slightly in recent years, it remains at a low level overall.

Amphenol's balance sheet is in fine shape. It has $6.5 billion of current assets against $2.4 billion of current liabilities. The company's $4.6 billion of long-term debt is manageable compared to its $15.4 billion of total assets.

Final Thoughts & Recommendation

Amphenol shares have rallied sharply since our last report, which has made the stock less attractive going forward. We currently have a 6.0% annualized total return outlook over the next five years. Earnings growth will drive nearly all that total return while valuation will be a significant headwind. Amphenol faces some near-term risk due to a significant slowdown in the technology industry. Shares earn a hold rating.

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	4,615	5,346	5,569	6,286	7,011	8,202	8,225	8,599	10,876	12,623
Gross Profit	1,451	1,694	1,780	2,040	2,310	2,655	2,616	2,664	3,402	4,028
Gross Margin	31.4%	31.7%	32.0%	32.5%	32.9%	32.4%	31.8%	31.0%	31.3%	31.9%
SG&A Exp.	548	645	669	798	878	960	971	1,014	1,226	1,421
D&A Exp.	137	168	172	217	227	300	312	308	396	393
Operating Profit	903	1,049	1,110	1,242	1,432	1,695	1,645	1,650	2,176	2,607
Op. Margin	19.6%	19.6%	19.9%	19.8%	20.4%	20.7%	20.0%	19.2%	20.0%	20.7%
Net Profit	636	709	764	823	651	1,205	1,155	1,203	1,591	1,902
Net Margin	13.8%	13.3%	13.7%	13.1%	9.3%	14.7%	14.0%	14.0%	14.6%	15.1%
Free Cash Flow	611	672	858	887	918	802	1,207	1,315	1,180	1,791
Income Tax	208	257	281	309	692	372	332	313	409	551

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,168	6,986	7,458	8,499	10,004	10,045	10,816	12,327	14,678	15,326
Cash & Equivalents	887	969	1,737	1,035	1,719	1,279	891	1,702	1,197	1,373
Acc. Receivable	1,001	1,124	1,105	1,349	1,599	1,792	1,736	1,952	2,455	2,631
Inventories	793	866	852	929	1,107	1,234	1,310	1,462	1,894	2,094
Goodwill & Int.	2,454	2,852	2,909	4,153	4,484	4,501	5,309	5,430	7,134	7,180
Total Liabilities	3,288	4,048	4,180	4,776	5,961	5,981	6,219	6,875	8,299	8,232
Accounts Payable	550	618	588	678	876	891	867	1,121	1,312	1,309
Long-Term Debt	2,133	2,656	2,814	3,011	3,543	3,571	3,607	3,867	4,800	4,578
Total Equity	2,860	2,907	3,239	3,675	3,990	4,017	4,530	5,385	6,302	7,016
LTD/E Ratio	0.75	0.91	0.87	0.82	0.89	0.89	0.80	0.72	0.76	0.65

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	11.2%	10.8%	10.6%	10.3%	7.0%	12.0%	11.1%	10.4%	11.8%	12.7%
Return on Equity	24.0%	24.6%	24.8%	23.8%	17.0%	30.1%	27.0%	24.3%	27.2%	28.6%
ROIC	13.9%	13.4%	13.1%	12.8%	9.1%	15.8%	14.6%	13.7%	15.5%	16.6%
Shares Out.	633	620	616	615	611	597	596	599	599	595
Revenue/Share	7.11	8.34	8.80	9.97	11.08	13.12	13.36	13.98	17.39	20.33
FCF/Share	0.94	1.05	1.36	1.41	1.45	1.28	1.96	2.14	1.89	2.88

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