



Autoliv, Inc. (ALV)

Updated October 23rd, 2023, by Josh Arnold

Key Metrics

Current Price:	\$96	5 Year CAGR Estimate:	16.6%	Market Cap:	\$8.1 B
Fair Value Price:	\$124	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	11/21/2023 ¹
% Fair Value:	77%	5 Year Valuation Multiple Estimate:	5.3%	Dividend Payment Date:	12/06/2023
Dividend Yield:	2.8%	5 Year Price Target	\$191	Years Of Dividend Growth:	3
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 63,000 employees, more than \$10 billion in revenue this year and an \$8.1 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 posted third quarter earnings on October 20th, 2023, and results were worse than expected on both revenue and earnings. Adjusted earnings-per-share came to \$1.66, which was 17 cents worse than estimates. Revenue was up 13% year-over-year to \$2.6 billion, but still fractionally missed expectations. Organic sales were up 11% as new product launches and higher prices led to broad-based strength in the top line.

Profitability improved as well, as higher prices, organic growth, and cost reduction activities all contributed. Adjusted operating income was \$243 million, up from \$173 million a year ago. Adjusted operating margin was 9.4% of revenue, up from 7.5% a year ago. Inflation pressure on input costs and adverse forex effects were headwinds, but not enough to unwind the positive impacts of pricing and cost discipline.

Operating cash flow was \$202 million, down from \$232 million, which was due to temporary negative working capital impacts. Free cash flow was down to \$50 million from \$68 million a year ago. Leverage ended the quarter at 1.3X, unchanged compared to Q2.

The company said it expects 17% organic sales growth for the full year. We've updated our estimate of earnings-per-share to \$7.75 for this year after Q3 results.

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	\$7.75	\$11.92
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
Shares²	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 9% annually from this year's base, which is now higher than prior estimates. Guidance for 2023 is quite bullish, and we think normalizing trends in new vehicle production will help immensely in the coming quarters. Profitability in Q3 was outstanding and bodes well for earnings looking forward.

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

¹ Estimated date

² Share count in millions

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continued volatility. We note that Autoliv's level of outperformance against LVP has remained strong throughout all portions of the cycle.

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	12.4	16.0
Avg. Yld.	2.5%	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	0.9%	2.0%	3.4%	2.8%	1.9%

Autoliv's price-to-earnings ratio has declined since our last report to 12.4 times our earnings estimate for 2023. We see fair value at 16 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 meaningful positive impact from the valuation going forward.

The current yield is 2.8%, 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%	34%	30%

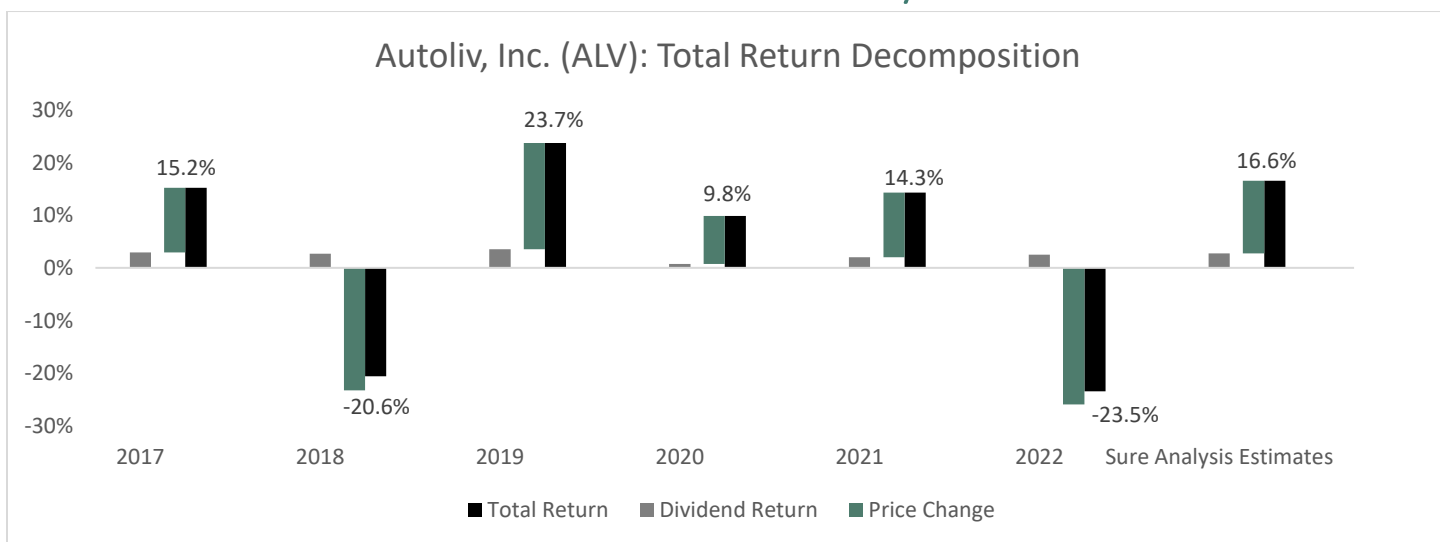
We expect moderate dividend growth given management is likely to be shy about raising it to the point where it may need to be cut again in the future. The current payout ratio of 34% is more than sustainable.

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 reliant upon global light vehicle production.

Final Thoughts & Recommendation

Autoliv's valuation is lower since our last update. Revenue was outstanding in Q3, and guidance remains quite positive for 2023. The dividend is growing, and we see Autoliv's total return outlook as strong at 16.6% annually, based on projected growth of 9%, a 5.3% tailwind from the valuation, and the 2.8% 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.

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