Avnet, Inc. (AVT)

Updated December 14th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	6.7%	**Market Cap:**	$4.6 B
Fair Value Price:	$46	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	12/05/2023
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.8%	**Dividend Payment Date:**	12/20/2023
Dividend Yield:	2.6%	**5 Year Price Target**	$59	**Years Of Dividend Growth:**	10
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Avnet Inc. (AVT) is a global distributor of electronic components and technology solutions, connecting semiconductors and other components suppliers to customers in 140 countries. Avnet is the third-largest semiconductor distributor in the world and the largest for European chip distribution. The company has two main operating segments: the Electronic Components segment, which sells electrical components, semiconductors, interconnect, passive and electromechanical components, and the Farnell segment, which sells kits, tools, test measurement, and electronic components. The Electronic Components segment is the primary segment of the company, constituting 92.6% of 2022 sales, while the Farnell segment's contribution to sales was ~7.4%. The company operates across the Americas, Europe, Middle East, Africa (EMEA), and Asia/Pacific regions.

On November 1st, 2023, Avnet announced Q1 2024 results reporting non-GAAP adjusted diluted EPS of $1.61 for the quarter, beating the market consensus by $0.10. Moreover, the company reported revenue of $6.34 billion during the quarter, down 6.1% year-over-year.

For Fiscal 2024, the company projects a cautious yet positive outlook. Revenues are anticipated to rise by a low-single-digit percentage, approximately 1% to 2% on a constant currency basis, with slight concerns over the wholesale channel. Foreign currency fluctuations are expected to reduce revenue growth by about 50 basis points. Operating margin is forecasted to grow by 30 to 50 basis points to 12.3% to 12.5%, mainly due to an anticipated gross margin increase of 120 to 170 basis points in constant currency. This improvement is attributed to lower freight costs, a favorable channel and geographic mix, and ongoing growth in average unit retail, which should more than compensate for product cost inflation.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**2024**	**2029**
EPS	$4.24	$4.49	$4.22	$3.24	$3.55	$4.11	$2.02	$2.70	$6.93	$8.37	***$5.77***	***$7.36***
DPS	$0.15	$0.16	$0.17	$0.18	$0.19	$0.20	$0.21	$0.21	$0.26	$1.16	***$1.24***	***$1.58***
Shares[1]	138.3	134.5	127.4	123.1	115.8	104.0	98.8	99.6	97.3	97.3	***93.6***	***77.0***

Avnet has suffered some recent setbacks that have hurt its profitability and EPS growth. Starting in 2016, the company suffered from a failed implementation of a new ERP system in North America that has prolonged impacted the firm's profitability and efficiency. Management's mistakes and poor execution is reflected in the financials as the EPS dropped from $4.49 in 2015 to $2.02 in 2020. However, the company experienced significant EPS and profitability growth in 2022.

We expect the company to continue its growth, but at a moderate pace, since despite the operational challenges, the company has a robust business model and will continue to do well in the coming years. The company has consistently reported double-digit revenue growth and has surpassed market expectations on EPS. Therefore, we used the midpoint of analysts' EPS estimates of $5.77 for 2024 and expect an annual EPS growth rate of 5.0% over the next five years, leading to our estimated EPS of $7.36 by the end of the fiscal year 2029. Finally, we expect the company to maintain a healthy dividend distribution and forecast a dividend payment of $1.58 in 2029.

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[1] Shares in millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	9.8	9.7	10.0	13.2	11.4	10.5	18.1	12.9	291.8	5.1	***8.3***	***8.0***
Avg. Yld.	0.3%	0.4%	0.4%	0.4%	0.5%	0.5%	0.7%	0.5%	0.6%	2.5%	***2.6%***	***2.7%***

Avnet currently trades at a forward P/E of 8.3, lower than its normalized long-term 10-year average P/E of 11.2 and five-year average P/E of 11.7. Even though the company operates in the cyclical sector and earnings typically have not maintained consistent growth, we believe it will continue to benefit from robust demand for its products in the communication and defense market. Hence, a P/E ratio of 8.0 would be a fair reflection of the business, in our view, which will result in a five-year price target of $59.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	4%	4%	4%	6%	5%	5%	10%	8%	4%	14%	***21%***	***21%***

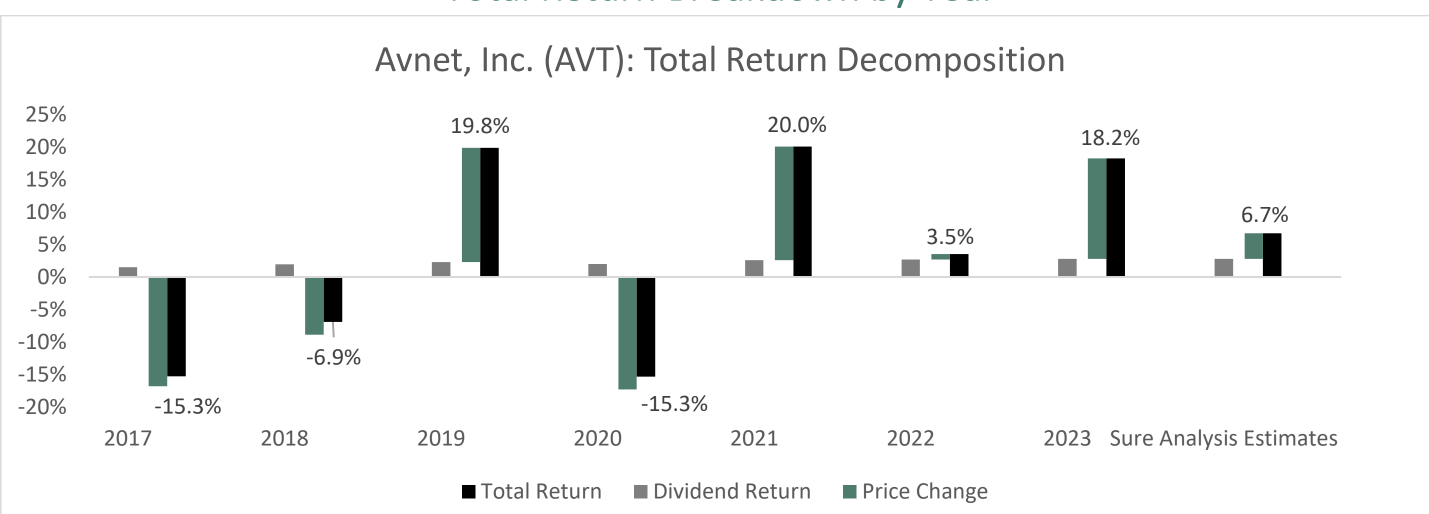
Avnet holds a competitive advantage as a global distributor of electronic components and solutions, benefiting from a vast network and industry expertise. Its recession performance has historically demonstrated resilience due to its diversified customer base spanning various sectors. However, its debt levels have fluctuated, impacting financial flexibility. Overall, AVT's competitive positioning and adaptable business model contribute to its stability during economic downturns, although debt management remains crucial for sustained growth.

Avnet has paid increasing dividends over the past ten years, with the payout ratio averaging 6.3%. In addition, the company has been committed to increasing shareholder value through delivering a reliable, increasing dividend and continued share repurchase. Finally, during Q1, the company returned $27.0 million to shareholders through share repurchases.

Final Thoughts & Recommendation

Although Avnet has suffered from implementation failures that have impacted its efficiency and profitability, the company remains the third-largest chip distributor globally. Moreover, it holds the top market share in Europe. Avnet's value proposition is compelling, and its robust business model supports our hold rating. We maintain our hold rating on the stock premised on the 6.7% annualized total returns projected for the medium-term, derived from the forecasted earnings-per-share growth of 5.0% and a dividend yield of 2.6%, and a minor multiple compression.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	27,500	17,655	16,741	17,440	19,037	19,519	17,634	19,535	24,310	26,540
Gross Profit	3,226	2,210	2,078	2,369	2,527	2,486	2,063	2,241	2,965	3,182
Gross Margin	11.7%	12.5%	12.4%	13.6%	13.3%	12.7%	11.7%	11.5%	12.2%	12.0%
SG&A Exp.	2,341	1,515	1,460	1,788	1,991	1,875	1,842	1,875	1,995	1,967
D&A Exp.	137	82	80	155	235	181	243	189	155	143
Operating Profit	885	695	618	581	536	611	221	366	971	1,215
Op. Margin	3.2%	3.9%	3.7%	3.3%	2.8%	3.1%	1.3%	1.9%	4.0%	4.6%
Net Profit	546	572	507	525	(156)	176	(31)	193	692	771
Net Margin	2.0%	3.2%	3.0%	3.0%	-0.8%	0.9%	-0.2%	1.0%	2.8%	2.9%
Free Cash Flow	114	451	87	(489)	98	412	657	41	(268)	(908)
Income Tax	156	86	87	47	288	60	(99)	(20)	141	212

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	11,251	10,800	11,240	9,700	9,597	8,565	8,105	8,925	10,390	12,480
Cash & Equivalents	929	933	1,031	836	621	546	477	200	154	288
Acc. Receivable	5,221	5,054	2,770	3,338	3,641	3,168	2,928	3,576	4,301	4,764
Inventories	2,613	2,482	2,560	2,825	3,142	3,008	2,732	3,237	4,244	5,465
Goodwill & Int.	1,533	1,378	644	1,426	1,201	1,020	839	867	771	781
Total Liabilities	6,360	6,115	6,549	4,518	4,912	4,424	4,379	4,841	6,196	7,725
Accounts Payable	3,402	3,338	1,591	1,862	2,269	1,864	1,754	2,401	3,432	3,374
Long-Term Debt	2,074	1,978	2,492	1,779	1,655	1,720	1,425	1,214	1,612	3,059
Total Equity	4,890	4,685	4,691	5,182	4,685	4,140	3,726	4,084	4,193	4,752
LTD/E Ratio	0.42	0.42	0.53	0.34	0.35	0.42	0.38	0.3	0.38	0.64

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.0%	5.2%	4.6%	5.0%	-1.6%	1.9%	-0.4%	2.3%	7.2%	6.7%
Return on Equity	11.9%	11.9%	10.8%	10.6%	-3.2%	4.0%	-0.8%	4.9%	16.7%	17.2%
ROIC	8.2%	8.4%	7.3%	7.4%	-2.4%	2.9%	-0.6%	3.7%	12.5%	11.3%
Shares Out.	138.3	134.5	127.4	123.1	115.8	104.0	98.8	99.6	99.8	93.4
Revenue/Share	196.26	127.21	125.71	135.56	158.76	176.16	175.51	195.02	243.55	284.22
FCF/Share	0.81	3.25	0.65	(3.80)	0.81	3.72	6.54	0.41	(2.69)	(9.73)

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