



Aon Plc (AON)

Updated February 19th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$311	5 Year CAGR Estimate:	11.6%	Market Cap:	\$62 B
Fair Value Price:	\$339	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	04/28/24 ¹
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	05/15/24
Dividend Yield:	0.8%	5 Year Price Target	\$522	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Buy

Overview & Current Events

Aon is a professional services firm headquartered in London, United Kingdom. The company provides a variety of services including consulting, risk management, and health plan management. Aon has approximately 500 offices worldwide that serve 120 countries through a workforce that numbers about 50,000. U.S. investors can initiate an ownership stake in Aon through American Depositary Receipts that trade with a market capitalization of \$62 billion on the New York Stock Exchange, under the ticker AON. Aon should generate just over \$14 billion in revenue this year.

Aon posted fourth quarter and full-year earnings on February 2nd, 2024, and results were somewhat mixed, as earnings missed estimates but the top line slightly beat. Adjusted earnings-per-share came to \$3.89, which was 17 cents worse than expected. Revenue was up 8% year-over-year to \$3.38 billion, and was \$20 million ahead of estimates. Revenue saw a 7% organic gain, 2% gain from forex translation, and a 1% favorable impact from fiduciary investment income. These were partially offset by a 2% unfavorable impact from acquisitions and divestitures.

Operating expenses were up to \$2.6 billion from \$2.1 billion. The company also agreed to acquire middle-market property and casualty broker NFP for \$13.4 billion, a sizable addition given the company's current market cap.

The company said it can deliver mid-single digit or better organic revenue growth for 2024, as well as over the long-term. Adjusted operating margin is expected to rise in 2024 and in the years to come.

We start 2024 with an estimate of \$16.15 in earnings-per-share, excluding any potential impact from the NFP acquisition.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.66	\$4.88	\$5.16	\$6.52	\$8.16	\$9.17	\$9.81	\$12.00	\$13.39	\$14.14	\$16.15	\$24.85
DPS	\$0.92	\$1.15	\$1.29	\$1.41	\$1.56	\$1.72	\$1.78	\$1.99	\$2.19	\$2.41	\$2.46	\$4.15
Shares²	280	270	262	254	245	237	230	215	205	198	191	180

Between 2011 and 2020, Aon compounded its adjusted earnings-per-share at a rate of nearly 15% per year. Looking ahead, we believe that the company's growth is likely to continue to be quite strong, albeit a bit slower than its historical pace. More specifically, we are forecasting 9% annualized earnings growth over a full economic cycle.

Management continues to be bullish, and rightfully so, as Aon's businesses are posting very strong rates of growth, for the most part. We see expense savings as a driver of earnings growth along with the buyback, and organic revenue growth should continue to move the top line higher as well. Given the broad assortment of professional services the company offers as well as its global footprint, we are bullish on Aon's future. We note forex translation has been a sizable headwind in the past, but Aon has thus far been able to overcome that, and then some. There is upside potential so long as the company can continue to grow expenses at a slower rate than the top line. We note the NFP acquisition as a potential driver as well in the years to come.

¹ Estimated date

² Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in 72 hours.



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The dividend should continue to rise at roughly the rate of earnings, and we forecast the payout to be at \$4.15 in 2029, up from the current \$2.46. Aon is not a high-yield stock by any means, but its dividend growth potential is strong given the very low payout ratio, and strong earnings growth outlook.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.6	19.8	20.4	20.1	17.9	17.7	20.3	21.6	22.4	20.6	19.3	21.0
Avg. Yld.	1.1%	1.2%	1.2%	1.1%	1.1%	0.9%	0.9%	0.8%	0.7%	0.8%	0.8%	0.8%

Aon has traded at an average price-to-earnings ratio of ~19 over the last decade, and we are using 21 for a fair value estimate as more recent years have seen higher valuations. The company is trading for a price-to-earnings ratio of 19.3 using our 2023 earnings-per-share estimate. That implies a small tailwind to total returns from the valuation, as Aon is trading below our estimate of fair value. We see the yield staying about where it is for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	24%	25%	22%	19%	19%	18%	17%	16%	17%	15%	17%

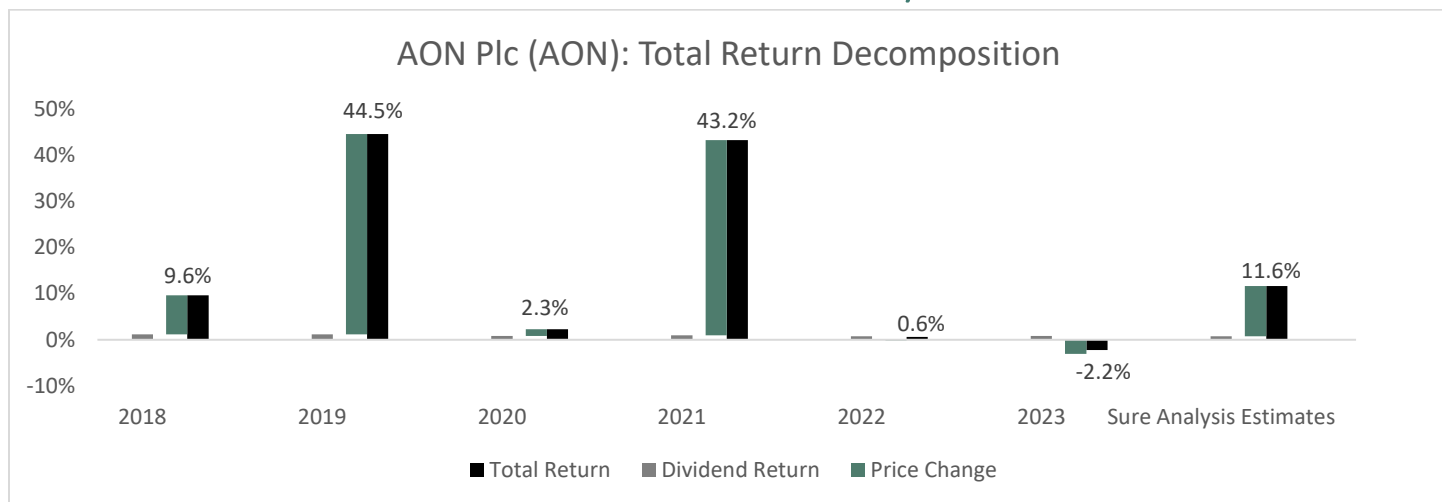
Aon's payout ratio is still very low, consistent with the company's historical practices, and we do not believe that will change. We see the dividend remaining around one-sixth of total earnings, so the payout is extremely safe. However, this means Aon is highly unlikely to have a meaningful yield anytime soon. Management has stated that it plans to protect the dividend during periods of uncertainty, and we see no reasonable scenario where Aon's dividend would be at risk.

Aon was resilient during the Great Recession, and that was certainly the case again during the COVID crisis, the product of its very diversified revenue streams. This is also a competitive advantage for the firm, along with its world-class client list and reputation.

Final Thoughts & Recommendation

We are forecasting 11.6% total annual returns, consisting of the 0.8% yield, 9% EPS growth, and a 1.7% tailwind from the valuation. We're reiterating the stock at a buy rating after Q4 results. Aon offers dividend growth potential, but also a long runway for earnings-per-share growth, and now offers a favorable valuation as well.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	12,045	9,480	9,409	9,998	10,770	11,013	11,066	12,193	12,479	13,376
SG&A Exp.	5,031	3,875	3,895	3,995	4,667	4,959	5,161	5,455	2,069	1,862
D&A Exp.	41.8%	40.9%	41.4%	40.0%	43.3%	45.0%	46.6%	44.7%	264	256
Operating Profit	3,065	1,951	1,765	2,039	2,354	2,226	1,967	3,039	3,669	3,822
Operating Margin	594	338	319	891	769	564	413	326	29.4%	28.6%
Net Profit	1,966	1,587	1,811	1,065	1,544	2,169	2,781	2,090	2,589	2,564
Net Margin	16.3%	16.7%	19.2%	10.7%	14.3%	19.7%	25.1%	17.1%	20.7%	19.2%
Free Cash Flow	1,397	1,385	1,396	1,226	1,134	1,532	1,969	1,255	3,023	3,183
Income Tax	11.6%	14.6%	14.8%	12.3%	10.5%	13.9%	17.8%	10.3%	510	541

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	29,772	26,883	26,615	26,088	26,422	29,405	32,114	31,928	32,704	33,959
Cash & Equivalents	374	384	426	756	656	790	884	544	690	778
Acc. Receivable	2,815	2,564	2,106	2,478	2,760	3,112	3,070	3,094	3,035	3,254
Goodwill & Int.	11,380	10,628	9,300	10,091	9,320	8,948	9,306	8,926	8,739	8,648
Total Liabilities	23,141	20,824	21,083	21,440	22,203	25,956	28,531	30,770	33,133	34,701
Accounts Payable	1,805	1,772	1,604	1,961	1,943	1,939	2,016	2,192	18,014	2,262
Long-Term Debt	5,582	5,700	6,205	5,966	6,244	7,339	7,729	9,392	10,770	11,199
Total Equity	6,571	6,002	5,475	4,583	4,151	3,375	3,495	1,061	-529	-826
LTD/E Ratio	0.85	0.95	1.13	1.30	1.50	2.17	2.21	8.85	-20.36	-13.56

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.7%	4.9%	5.2%	4.7%	4.3%	5.5%	6.4%	3.9%	8.0%	7.7%
Return on Equity	19.0%	22.0%	24.3%	24.4%	26.0%	40.7%	57.3%	55.1%	710%	---
ROIC	11.3%	11.6%	11.9%	11.0%	10.8%	14.4%	17.8%	11.5%	24.8%	24.7%
Shares Out.	280	270	262	254	245	237	230	215	213	205
Revenue/Share	40.20	33.40	34.81	38.35	43.60	45.77	47.47	53.93	58.53	65.25
FCF/Share	5.19	6.37	8.03	2.11	5.85	6.69	11.33	9.04	14.18	15.53

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

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