Hubbell Incorporated (HUBB)

Updated January 31st, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$337	**5 Year CAGR Estimate:**	4.9%	**Market Cap:**	$18 B
Fair Value Price:	$293	**5 Year Growth Estimate:**	6.5%	**Ex-Dividend Date:**	02/28/24
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.8%	**Dividend Payment Date:**	03/15/24
Dividend Yield:	1.4%	**5 Year Price Target**	$401	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Hubbell Incorporated (HUBB), founded in 1888, designs, manufactures, and sells electrical and electronic products in the United States and internationally. The business operates through its Utility Solutions and Electrical Solutions segments, where in 2023, Utility Solutions made up 61% of sales and Electrical Solutions made up 39% of sales. The company is headquartered in Shelton, Connecticut.

On December 12th, 2023, Hubbell completed its acquisition of Northern Star Holdings (known as Systems Control) for $1.1 billion in cash. Systems Control manufactures substation control and relay panels, and turnkey substation control building solutions. It was added to the Utility Solutions segment.

On January 30th, 2024, Hubbell Inc reported fourth quarter 2024 results for the period ending December 31st, 2023. The company reported fourth quarter sales of $1.35 billion, which beat estimates by $30 million and represented a 10.3% year-over-year increase.

The company saw its adjusted operating margin soar to 19.4%, up 340 basis points year-over-year. Adjusted diluted earnings-per-share of $3.69 surpassed analysts' estimates by $0.12, and was a 42% increase from the year-ago period.

These results were driven by 13% year-over-year revenue growth in Utility Solutions with adjusted operating margins increasing by 420 basis points year-over-year to 21.4%. Electrical Solutions produced revenue of $534 million for the fourth quarter, which increased 6% compared to last year, and this segment saw adjusted operating margins grow by 220 basis points year-over-year to 16.5%.

Hubbell initiated 2024 guidance, and sees total sales growth of 8% to 10% and organic sales growth of 3% to 5%. Adjusted earnings-per-share are anticipated to come in between $16.00 to $16.50, for a $16.25 midpoint.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$5.48	$5.07	$5.66	$5.93	$7.29	$8.12	$7.58	$8.05	$10.62	$15.33	***$16.25***	***$22.26***
DPS	$2.06	$2.31	$2.59	$2.87	$3.15	$3.43	$3.71	$3.99	$4.27	$4.58	***$4.88***	***$6.23***
Shares	59	58	56	55	55	55	54	55	54	54	***54***	***52***

While earnings have ebbed and flowed in the last decade, they have moved steadily higher over the long term. Over the past nine and five years, Hubbell has seen earnings-per-share grow at an average annualized rate of 12.1 and 14.9%, respectively.

Moving forward, we expect the company will benefit from sales growth from their recent acquisitions as it continues to capitalize on megatrends like Grid Modernization, the move to upgrade the power grid to accommodate tech changes, and Electrification, where businesses are looking to replace technologies on fossil fuels with electric technologies. For 2023, we are using the midpoint of management's guidance, $16.25, along with a 6.5% expected annual growth rate over the intermediate term.

Over the past nine years, dividend payments have grown at 9.3% annually, and over the past 5 years, dividends have grown at 7.3% annually. We forecast that dividends will grow at 5% annually over the next 5 years, just below our estimated earnings growth rate. Hubbell has a 17-year track record of increasing its dividend payments.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.3	20.4	18.4	20.0	16.2	15.7	18.1	22.5	19.5	18.5	***20.7***	***18.0***
Avg. Yld.	1.8%	2.2%	2.5%	2.4%	2.7%	2.7%	2.7%	2.1%	1.9%	1.6%	***1.4%***	***1.6%***

Over the past ten years, Hubbell has averaged a P/E ratio of 19.1 and has averaged a P/E of 18.9 over the past five years. Based on the steady history of valuation multiples, we estimate that a P/E ratio of 18.0 is fair for the business. Today, the stock offers a 1.4% dividend yield, which is low for income-oriented investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

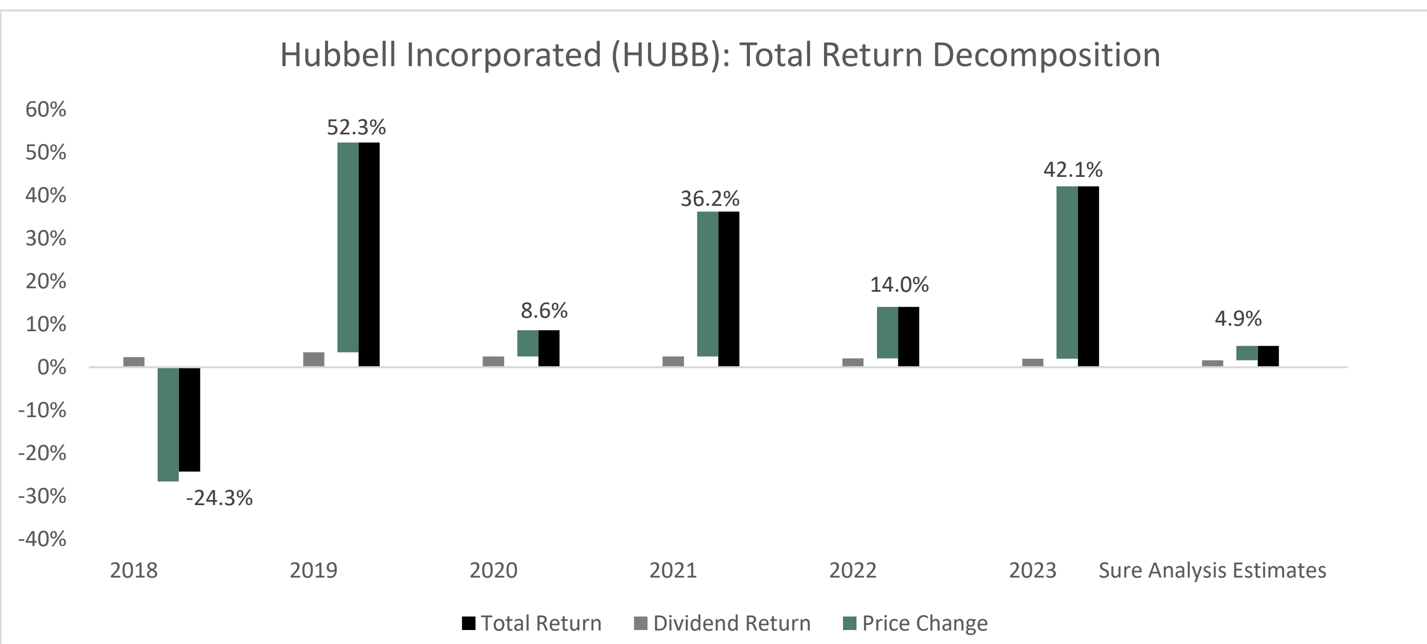
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	38%	46%	46%	48%	43%	42%	49%	50%	40%	30%	***30%***	***28%***

Hubbell has averaged a payout ratio of 43% over the past ten years. We consider this to be a conservative payout ratio, where dividends are well supported by earnings, and this should moderate in the future as earnings growth outpace dividend growth. Additionally, the company has a strong balance sheet, with about $2.2 billion in current assets and $6.9 billion in total assets compared to about $1.3 billion in current liabilities, $4.0 billion in total liabilities, and $2.9 billion in shareholders' equity. This company has a proven track record of strong organic growth and growth through acquisitions. Hubbell saw a small dip in earnings-per-share in 2020 but has since grown strongly. The company appears to possess some recession resiliency.

Final Thoughts & Recommendation

Hubbell is a leader in the Utility and Electrical Solutions space and is poised to see organic growth over the intermediate term from Grid Modernization and Electrification tailwinds. The stock could offer 4.9% in annualized total returns over the next five years, comprised of 6.5% earnings-per-share growth and the starting 1.4% dividend yield, partly offset by a valuation headwind. We are reiterating HUBB as a hold.

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	3,359	3,390	3,505	3,669	4,482	3,947	3,683	4,194	4,948	5,373
Gross Profit	1,109	1,092	1,105	1,155	1,300	1,172	1,086	1,152	1,472	1,888
Gross Margin	33.0%	32.2%	31.5%	31.5%	29.0%	29.7%	29.5%	27.5%	29.7%	35.1%
SG&A Exp.	592	617	615	636	744	645	591	619	763	850
D&A Exp.	79	85	91	98	148	138	145	149	149	150
Operating Profit	517	475	490	519	557	527	495	532	709	1,038
Op. Margin	15.4%	14.0%	14.0%	14.1%	12.4%	13.3%	13.4%	12.7%	14.3%	19.3%
Net Profit	325	277	293	243	360	362	330	365	511	760
Net Margin	9.7%	8.2%	8.4%	6.6%	8.0%	9.2%	9.0%	8.7%	10.3%	14.1%
Free Cash Flow	331	262	344	299	421	505	565	454	454	715
Income Tax	158	137	133	193	101	101	90	88	140	217

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	3,320	3,209	3,525	3,721	4,872	4,903	5,085	5,282	5,403	6,914
Cash & Equivalents	654	344	438	375	189	182	259	286	441	336
Acc. Receivable	494	492	566	576	739	697	574	696	742	785
Inventories	442	540	532	635	651	633	527	662	741	833
Goodwill & Int.	1,198	1,301	1,423	1,549	2,604	2,593	2,644	2,553	2,640	3,729
Total Liabilities	1,384	1,460	1,922	2,073	3,073	2,943	3,000	3,041	3,032	4,025
Accounts Payable	244	290	292	327	394	348	339	533	530	564
Long-Term Debt	596	644	994	1,055	1,793	1,571	1,590	1,445	1,443	2,141
Total Equity	1,927	1,741	1,593	1,634	1,781	1,947	2,070	2,230	2,361	2,877
LTD/E Ratio	0.31	0.37	0.62	0.65	1.01	0.81	0.77	0.65	0.61	0.74

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.0%	8.5%	8.7%	6.7%	8.4%	7.4%	6.6%	7.0%	9.6%	12.3%
Return on Equity	17.0%	15.1%	17.6%	15.1%	21.1%	19.4%	16.4%	17.0%	22.3%	29.0%
ROIC	12.9%	11.3%	11.7%	9.2%	11.4%	10.1%	9.2%	9.9%	13.6%	17.2%
Shares Out.	59	58	56	55	55	55	54	52	54	54
Revenue/Share	56.75	58.46	62.93	66.58	81.63	72.15	67.57	76.67	91.46	99.50
FCF/Share	5.59	4.52	6.17	5.43	7.67	9.23	10.37	8.29	8.39	13.24

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