Amphenol Corporation (APH)

Updated May 2nd, 2024, by Ian Bezek

Key Metrics

Current Price:	$121	**5 Year CAGR Estimate:**	1.9%	**Market Cap:**	$72.2 B
Fair Value Price:	$77	**5 Year Growth Estimate:**	10.5%	**Ex-Dividend Date:**	06/18/24
% Fair Value:	157%	**5 Year Valuation Multiple Estimate:**	-8.6%	**Dividend Payment Date:**	07/10/24
Dividend Yield:	0.7%	**5 Year Price Target**	$127	**Years Of Dividend Growth:**	13
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Sell

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%. This, in turn, lifted Amphenol's market cap to more than $72 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 April 24th, 2024, Amphenol released its Q1 2024 earnings. The company earned 80 cents per share, which topped estimates, and increased considerably from last year's 69 cent figure. The company's revenue came in at $3.3 billion, which amounted to a 9.5% increase from the same period last year.

Amphenol faced challenging industry dynamics in 2023 and barely grew earnings. However, this quarter was a return to form for Amphenol with the firm topping estimates and offering favorable forward guidance. This strength is impressive, as several key industries that Amphenol serves – such as automobiles and consumer electronics – remain relatively weak. That said, data centers are proving to have robust market demand right now, helping Amphenol considerably. Given this context, Amphenol's quarterly results are quite impressive and speak to the firm's operational excellence. We expect further strength in the business in the back half of 2024 and an overall faster growth rate than 2023.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.13	$1.21	$1.36	$1.56	$1.93	$1.88	$1.96	$2.48	$3.00	$3.11	***$3.35***	***$5.52***
DPS	$0.23	$0.27	$0.29	$0.35	$0.44	$0.48	$0.52	$0.64	$0.81	$0.85	***$0.88***	***$1.35***
Shares	620	616	615	611	597	596	599	599	599	597	***597***	***597***

Since 2014, Amphenol has grown its earnings at a 11.9% average compounded rate. Earnings growth has been quite consistent, and the firm saw a significant jump in profitability as demand surged in 2021 and 2022. 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 12.9% and 15.6% over the past five and nine years, respectively. However, the company has slowed down the dividend hikes recently. 2022's hike was 5%, and on Oct. 25, 2023, the company bumped its dividend from 21 cents to 22 cents per quarter. That works out to another 5% hike, suggesting that the new baseline for dividend growth is going to be lower than it used to be.

As for earnings, going forward, we estimate that Amphenol will generate 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.

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.6	22.8	21.7	24.7	23.1	25.4	26.4	29.0	26.0	28.2	***36.1***	***23.0***
Avg. Yld.	0.9%	1.0%	1.0%	0.9%	1.0%	1.0%	1.0%	0.9%	1.0%	1.0%	***0.7%***	***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 in 2012 to more than 35 times at present. We are skeptical that Amphenol's business will be able to support the loftier P/E ratios that the stock has obtained recently. Rather, we see Amphenol's P/E ratio settling closer to 23 over the long term.

Amphenol's dividend yield of 0.7% is now below its long-term average. We see the company's dividend yield rising slightly over the next five years, but remaining at a relatively low overall level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	22%	21%	22%	23%	26%	27%	26%	27%	27%	***26%***	***25%***

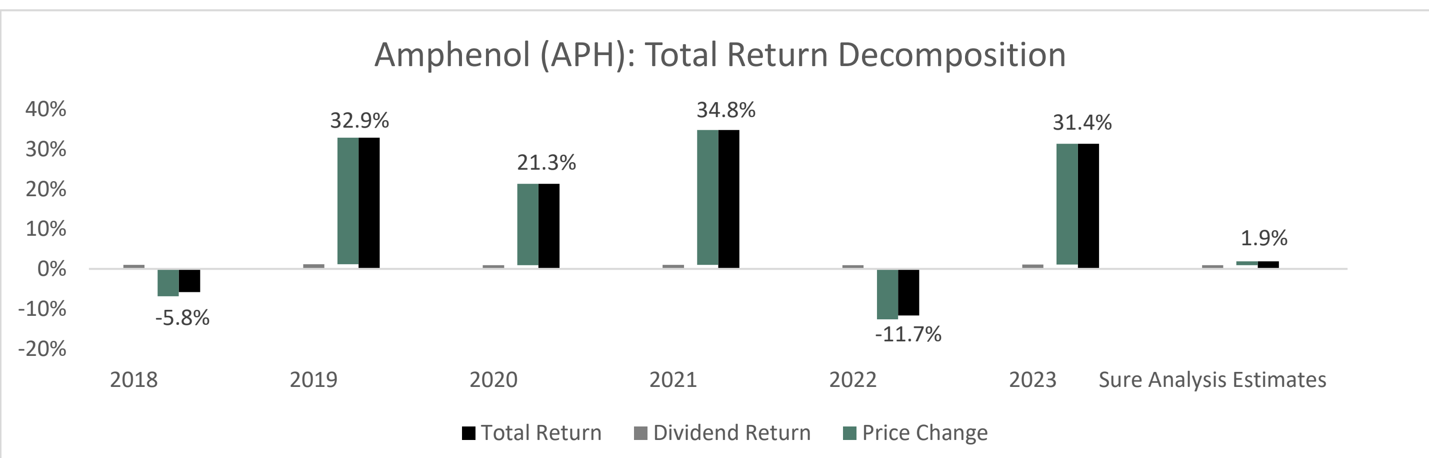
Amphenol operates in highly competitive markets with tons of rival firms. However, its broad product line and superior cost management have given the firm a persistent advantage over its peers. The firm had a surprisingly strong 2022, and its results didn't cede much ground in 2023 despite broad weakness 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. The company's balance sheet is in reasonable shape; while the firm carries a fair chunk of debt, its interest obligations should be manageable compared to its consistent cash flows.

Final Thoughts & Recommendation

Amphenol shares are trading near their all-time highs and the P/E multiple has expanded dramatically, which will lower future returns. We currently have a 1.9% annual total return outlook over the next five years. Earnings growth will drive nearly all that total return while multiple compression will be a significant headwind. While the company's results are improving, the stock price has run far ahead of our fair value. Shares earn a sell rating today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,346	5,569	6,286	7,011	8,202	8,225	8,599	10,876	12,623	12,550
Gross Profit	1,694	1,780	2,040	2,310	2,655	2,616	2,664	3,402	4,028	4,084
Gross Margin	31.7%	32.0%	32.5%	32.9%	32.4%	31.8%	31.0%	31.3%	31.9%	32.5%
SG&A Exp.	645	669	798	878	960	971	1,014	1,226	1,421	1,490
D&A Exp.	168	172	217	227	300	312	308	396	393	406
Operating Profit	1,049	1,110	1,242	1,432	1,695	1,645	1,650	2,176	2,607	2,594
Op. Margin	19.6%	19.9%	19.8%	20.4%	20.7%	20.0%	19.2%	20.0%	20.7%	20.7%
Net Profit	709	764	823	651	1,205	1,155	1,203	1,591	1,902	1,928
Net Margin	13.3%	13.7%	13.1%	9.3%	14.7%	14.0%	14.0%	14.6%	15.1%	15.4%
Free Cash Flow	672	858	887	918	802	1,207	1,315	1,180	1,791	2,156
Income Tax	257	281	309	692	372	332	313	409	551	509

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,986	7,458	8,499	10,004	10,045	10,816	12,327	14,678	15,326	16,530
Cash & Equivalents	969	1,737	1,035	1,719	1,279	891	1,702	1,197	1,373	1,475
Acc. Receivable	1,124	1,105	1,349	1,599	1,792	1,736	1,952	2,455	2,631	2,618
Inventories	866	852	929	1,107	1,234	1,310	1,462	1,894	2,094	2,167
Goodwill & Int.	2,852	2,909	4,153	4,484	4,501	5,309	5,430	7,134	7,180	7,927
Total Liabilities	4,048	4,180	4,776	5,961	5,981	6,219	6,875	8,299	8,232	8,100
Accounts Payable	618	588	678	876	891	867	1,121	1,312	1,309	1,351
Long-Term Debt	2,656	2,814	3,011	3,543	3,571	3,607	3,867	4,800	4,578	4,337
Total Equity	2,907	3,239	3,675	3,990	4,017	4,530	5,385	6,302	7,016	8,346
LTD/E Ratio	0.91	0.87	0.82	0.89	0.89	0.80	0.72	0.76	0.65	0.52

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.8%	10.6%	10.3%	7.0%	12.0%	11.1%	10.4%	11.8%	12.7%	12.1%
Return on Equity	24.6%	24.8%	23.8%	17.0%	30.1%	27.0%	24.3%	27.2%	28.6%	25.1%
ROIC	13.4%	13.1%	12.8%	9.1%	15.8%	14.6%	13.7%	15.5%	16.6%	15.8%
Shares Out.	620	616	615	611	597	596	599	599	595	621
Revenue/Share	8.34	8.80	9.97	11.08	13.12	13.36	13.98	17.39	20.33	20.23
FCF/Share	1.05	1.36	1.41	1.45	1.28	1.96	2.14	1.89	2.88	3.47

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