ABB Ltd. (ABBNY)

Updated July 19th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	$54	**5 Year CAGR Estimate:**	-2.3%	**Market Cap:**	$100.6 B
Fair Value Price:	$32	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	3/24/2025[1]
% Fair Value:	169%	**5 Year Valuation Multiple Estimate:**	-9.9%	**Dividend Payment Date:**	3/26/2025
Dividend Yield:	1.8%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	5
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

On May 23rd, 2023, ABB changed its ticker from ABB to ABBNY because it was delisted from NYSE and was listed on an OTC (over-the-counter) market. ABB is a global provider of automation technologies and power solutions. It operates in more than 100 countries and has four business units: Electrification Products, Robotics & Discrete Automation, Motion and Industrial Automation. ABB is based in Switzerland, but domestic investors can initiate an ownership stake in the company through American Depository Receipts (ADRs) that trade with a market capitalization of US$100.6 billion under the ticker ABBNY.

In mid-July, ABB reported (7/18/24) financial results for the second quarter of fiscal 2024. Comparable revenue grew 4% but orders decreased -3% over last year's quarter due to weak demand for automation products in most regions. EBITDA margin expanded from 17.5% to an all-time high of 19.0% thanks to strong demand from data centers and price hikes. Earnings-per-share grew 22%, from $0.49 to $0.59. Nevertheless, the stock plunged -6% after the earnings release due to weakening orders, which may be signaling slower growth ahead.

Despite the tough comparisons this year, ABB reiterated its positive guidance for 2024. It expects 5% revenue growth and the EBITDA margin to improve significantly, from 16.9% in 2023 to about 18.0%. Management also expects a positive book-to-bill ratio, i.e., it expects backlog to increase this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.13	$0.87	$0.88	$1.25	$1.33	$1.24	$0.98	$2.25	$1.30	$2.01	***$2.00***	***$2.68***
DPS	$0.77	$0.75	$0.75	$0.76	$0.81	$0.79	$0.83	$0.85	$0.88	$0.92	***$0.96***	***$1.11***
Shares[2]	2315	2192	2139	2139	2135	2135	2071	2053	1881	1856	***1830***	***1750***

ABB's growth over the last decade has been far from compelling. The company faced a downturn due to the pandemic in 2020 but it has recovered strongly thanks to the recovery of the global economy. It is now facing high cost inflation but it is offsetting this headwind with price hikes. Moreover, ABB has a number of current growth opportunities that lead us to believe its future performance will be stronger than its historical track record. The Electrification segment, which generates 45% of the total revenues, seems to have the most promising prospects thanks to strong demand in key segments, such as rail, data centers, wind and electric vehicle infrastructure. We expect 6% average annual growth of earnings-per-share over the next five years, slightly below the 10-year average annual growth rate of 6.6%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.8	23.1	22.9	23.5	17.3	16.0	23.8	15.0	22.5	18.2	***27.0***	***16.0***
Avg. Yld.	3.3%	3.7%	3.7%	3.1%	3.4%	4.0%	3.6%	2.5%	3.0%	2.5%	***1.8%***	***2.6%***

[1] Estimated date for annual dividend.
[2] In millions.

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ABB has traded at an average price-to-earnings ratio of 20.3 over the last decade. With that said, this sample includes several years (2014-2017) in which the stock traded with an elevated P/E ratio. We believe that fair value for a company of ABB's caliber lies somewhere around 16 times earnings. The stock is currently trading at a nearly 10-year high price-to-earnings ratio of 27.0. If it trades at our estimated fair earnings multiple in five years, it will incur a -9.9% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	68.1%	86.2%	85.2%	73.8%	58.6%	63.7%	84.7%	37.8%	67.7%	45.8%	***48.0%***	***41.6%***

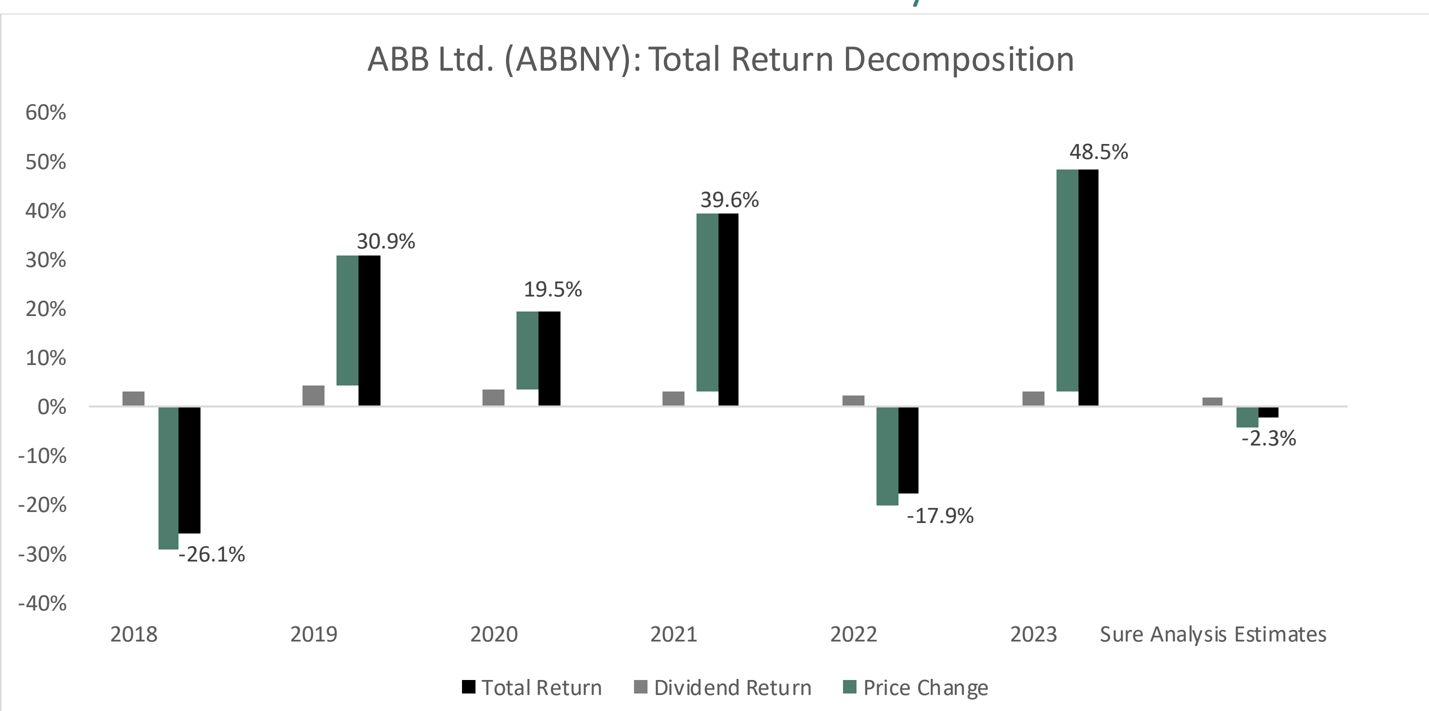
ABB has global businesses that are either the #1 or #2 player in attractive markets, with strong secular growth. The company expects its business markets to grow by 3.5%-4.0% per year on average over the long run. Thanks to its dominant position in its segments, ABB has a strong reputation and thus enjoys a significant competitive advantage ove r its peers.

Moreover, the company has a rock-solid balance sheet and pays negligible interest expense. On the other hand, the performance of ABB is greatly affected by economic growth and oil prices, which are beyond its control. Due to this vulnerability, the stock tends to underperform the market during sell-offs. Consequently, only investors who can tolerate significant price pressure should consider this stock.

Final Thoughts & Recommendation

ABB has a variety of appealing characteristics. It is a global business with leadership in many segments of the industrial sector. Moreover, it is recovering strongly from the pandemic but it will be vulnerable if the global economy falls into a recession. We are also concerned over the volatile and unreliable business performance of ABB. The stock has more than doubled off its bottom in 2022 and hence it could offer a -2.3% average annual return over the next five years, as its 6.0% earnings growth and its 1.8% dividend may be offset by a -9.9% valuation drag. ABB maintains its sell rating.

Total Return Breakdown by Year



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	39830	35481	24929	25196	27662	27978	26,134	28,945	29,446	32,235
Gross Profit	11215	10134	7533	7846	8544	8906	7,878	9,467	9,710	11,214
Gross Margin	28.2%	28.6%	30.2%	31.1%	30.9%	31.8%	30.1%	32.7%	33.0%	34.8%
SG&A Exp.	6067	5574	4532	4765	5295	5447	4,895	5,162	5,132	5,543
D&A Exp.	1305	1160	870	836	916	961	915	893	814	780
Operating Profit	3649	3154	2034	2068	2102	2261	1,904	5,718	3,337	4,871
Op. Margin	9.2%	8.9%	8.2%	8.2%	7.6%	8.1%	7.3%	19.8%	11.3%	15.1%
Net Profit	2594	1933	1899	2213	2173	1439	5,146	4,546	2,475	3,745
Net Margin	6.5%	5.4%	7.6%	8.8%	7.9%	5.1%	19.7%	15.7%	8.4%	11.6%
Free Cash Flow	2819	2942	3211	3047	2152	1563	999	2,510	525	3,520
Income Tax	1202	788	526	583	544	772	496	1,057	757	930

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	44852	41356	39202	43458	44441	46108	41,088	40,260	39,148	40,940
Cash & Equivalents	5443	4565	3644	4526	3445	3544	3,278	4,159	4,156	3,891
Acc. Receivable	7715	7197	7293	5553	5970	6434	6,820	6,551	6,858	7,446
Inventories	5376	4757	4347	3737	4284	4184	4,469	4,880	6,028	6,149
Goodwill & Int.	12755	12008	11497	11961	13371	13077	12,928	12,043	11,917	11,784
Total Liabilities	28037	26368	25305	28109	29907	32128	25,089	24,303	25,876	26,794
Accounts Payable	4765	4342	4446	3736	4424	4353	4,571	4,921	4,904	4,847
Long-Term Debt	7665	7439	6803	7408	8618	9059	6,121	5,561	7,678	7,828
Total Equity	16269	14481	13395	14819	13952	13526	15,685	15,579	12,777	13,410
LTD/E Ratio	0.47	0.51	0.51	0.50	0.62	0.67	0.39	0.36	0.60	0.58

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.6%	4.5%	4.7%	5.4%	4.9%	3.2%	11.8%	11.2%	6.2%	9.4%
Return on Equity	14.8%	12.6%	13.6%	15.7%	15.1%	10.5%	35.2%	29.1%	17.5%	27.3%
ROIC	10.0%	8.2%	8.8%	10.2%	9.5%	6.2%	22.8%	20.8%	11.7%	17.4%
Shares Out.	2314.7	2191.6	2138.7	2138.7	2135.0	2135.0	2071.0	2053	1910	1867
Revenue/Share	17.36	15.91	11.57	11.73	12.93	13.10	12.33	14.34	15.42	17.27
FCF/Share	1.23	1.32	1.49	1.42	1.01	0.73	0.47	1.24	0.27	1.89

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