Autoliv, Inc. (ALV)

Updated August 4th, 2024, by Josh Arnold

Key Metrics

Current Price:	$97	**5 Year CAGR Estimate:**	19.4%	**Market Cap:**	$7.7 B
Fair Value Price:	$119	**5 Year Growth Estimate:**	13.0%	**Ex-Dividend Date:**	08/21/2024[1]
% Fair Value:	82%	**5 Year Valuation Multiple Estimate:**	4.2%	**Dividend Payment Date:**	09/06/2024
Dividend Yield:	2.8%	**5 Year Price Target**	$219	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Autoliv is a global manufacturer of airbags, seatbelts, and steering wheels for automobile manufacturers all over the globe. The company is the industry leader in a critical and growing segment of the automobile manufacturing process. It was founded in 1953 and since then, has grown to 63,000 employees, more than $10 billion in revenue this year and a $7.7 billion market capitalization. Autoliv is listed in both New York and Stockholm and is headquartered in the latter city; we use the New York listing and U.S. dollars for this report.

Autoliv posted second quarter results on July 19th, 2024, and the stock was sent much lower following the report. Total revenue came to $2.6 billion, which was a 1.1% decline. Organic sales grew fractionally, but it wasn't enough to offset forex translation. Organic sales were 1.4% better than global LVP, which fell 0.7%. Adjusted operating margin was 8.5% of revenue. Adjusted earnings-per-share came to $1.87, which was a 3% decline. The profitability increase was primarily due to cost containment efforts and slightly higher revenue.

Operating cash flow was $340 million, and free cash flow was $194 million. The company ended the quarter with a leverage ratio of 1.2X. Autoliv repurchased 1.31 million shares during the quarter.

We now see $8.50 in adjusted earnings-per-share for this year after Q2 results, well down from our prior estimate from weak revenue and lack of meaningful margin growth.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$5.06	$5.17	$6.42	$4.87	$6.83	$5.72	$3.15	$5.02	$4.50	$8.19	***$8.50***	***$15.66***
DPS	$2.12	$2.22	$2.30	$2.38	$2.46	$2.48	$0.62	$1.88	$2.58	$2.66	***$2.72***	***$3.64***
Shares[2]	89	88	88	87	87	87	87	88	88	83	***80***	***70***

Autoliv's earnings-per-share has been volatile in the past decade, and the overall trajectory has been flat. The company struggled during the Great Recession given its exposure to the automobile market, which of course declined significantly as a result of the economic downturn. However, the recovery was swift and strong. We're estimating long-term earnings growth of 13% annually from this year's base, which is now higher than prior estimates. Guidance for 2024 is quite bullish, and we think margin improvement efforts will help enormously in the quarters to come. Profitability in 2023 was outstanding and bodes well for earnings looking forward.

Autoliv is performing well against benchmarks over the long term. Light vehicle production is generally back to normalized levels, but there was a sizable decline in late-2021 due to supply constraints globally, and there are signs of continued volatility. We note that Autoliv's level of outperformance against LVP has remained strong throughout all portions of the cycle. Outperformance has narrowed in recent periods, and we note that if LVP continues to weaken, Autoliv would likely suffer as a result.

[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 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	19.6	22.2	17.1	23.1	14.1	13.3	22.7	19.1	17.0	13.5	***11.4***	***14.0***
Avg. Yld.	2.1%	1.9%	2.1%	2.1%	2.5%	3.3%	0.9%	2.0%	3.4%	2.4%	***2.8%***	***1.7%***

Autoliv's price-to-earnings ratio has increased since our last report to 11.4 times our earnings estimate for 2024. We see fair value at 14 times earnings, which is more normalized based upon historical data, and the fact that global vehicle production is clearly weakening. Given the move in the valuation, we now see a meaningful positive impact from the valuation going forward.

The current yield is 2.8%, so Autoliv isn't a particularly enticing income stock, but has great growth prospects.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	42%	43%	36%	49%	36%	43%	20%	37%	57%	32%	***32%***	***23%***

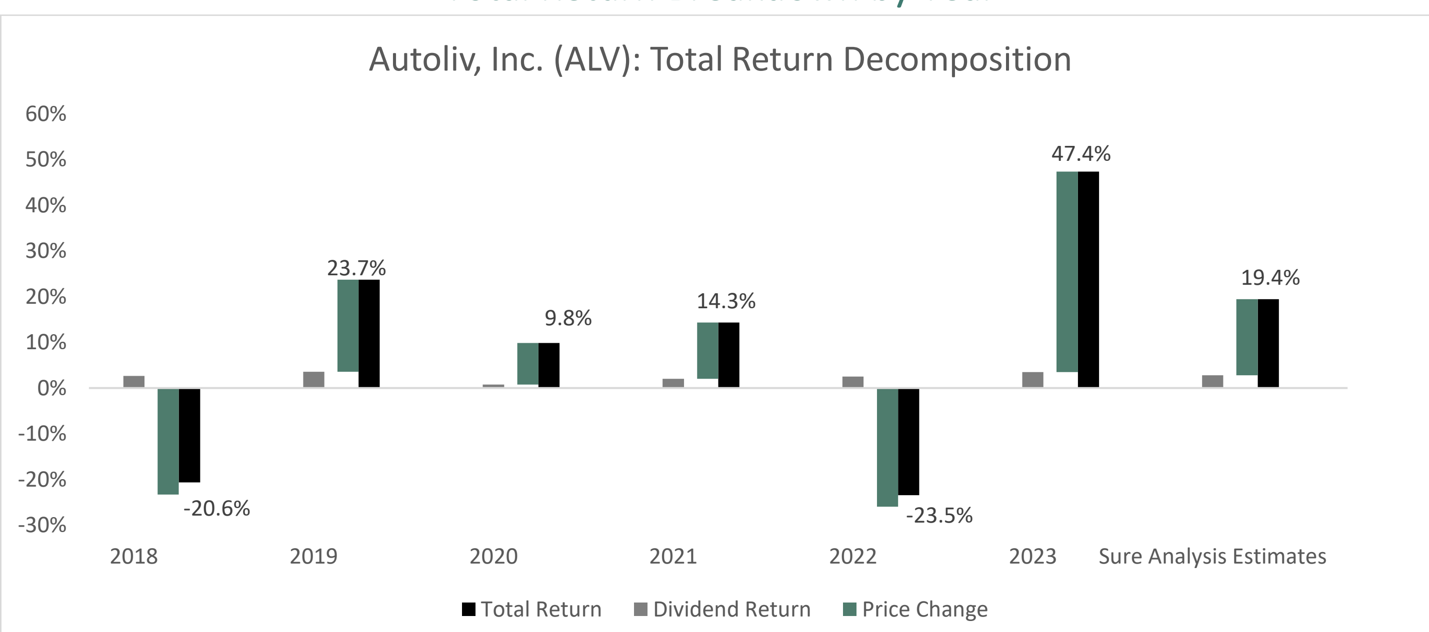
We expect moderate dividend growth given management is likely to be shy about raising it to the point where it may need to be cut again in the future. The current payout ratio of 32% is more than sustainable.

Autoliv's competitive advantage is in its strong market share and the fact that it counts every major global automaker among its customers. It undoubtedly suffered in 2020, as it did during the last recession, but has rebounded. Autoliv continues to get multiple products in major vehicle launches across the world, reaffirming its strong market position, but it will remain reliant upon global light vehicle production.

Final Thoughts & Recommendation

Autoliv's valuation is lower since our last update. Revenue and margins were much weaker in Q2, and guidance is more modest for 2024. The dividend is growing, and we see Autoliv's total return outlook as exceptional at 19.4% annually, based on projected growth of 13%, a 4.2% tailwind from the valuation, and the 2.8% yield. Given the double-digit projected returns, we're reiterating the stock at a buy rating, but note the weakening market for global auto production is a big wildcard.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9,241	9,170	7,922	8,137	8,678	8,548	7,447	8,230	8,842	10,475
Gross Profit	1,804	1,844	1,628	1,680	1,711	1,584	1,247	1,511	1,396	1,822
Gross Margin	19.5%	20.1%	20.6%	20.6%	19.7%	18.5%	16.7%	18.4%	15.8%	17.4%
SG&A Exp.	415	412	394	407	390	399	389	432	437	498
D&A Exp.	305	319	383	426	397	351	371	394	363	378
Operating Profit	723	728	831	860	686	726	382	675	659	690
Operating Margin	7.8%	7.9%	10.5%	10.6%	7.9%	8.5%	5.1%	8.2%	7.5%	6.6%
Net Profit	468	457	567	427	190	462	187	435	423	488
Net Margin	5.1%	5.0%	7.2%	5.2%	2.2%	5.4%	2.5%	5.3%	4.8%	4.7%
Free Cash Flow	255	260	361	356	31	165	509	296	128	410
Income Tax	198	218	224	204	235	186	103	177	178	123

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,443	7,526	8,234	8,550	6,722	6,771	8,157	7,537	7,717	8,332
Cash & Equivalents	1,529	1,334	1,227	960	616	445	1,178	969	594	498
Accounts Receivable	1,706	1,788	1,960	1,697	1,652	1,627	1,822	1,699	1,907	2,198
Inventories	676	711	773	704	758	741	798	777	969	1,012
Goodwill & Int. Ass.	1,661	1,794	2,083	1,440	1,423	1,410	1,412	1,395	1,382	1,385
Total Liabilities	4,001	4,057	4,308	4,381	4,825	4,649	5,734	4,889	5,091	5,762
Accounts Payable	1,092	1,170	1,197	957	978	951	1,254	1,144	1,693	1,978
Long-Term Debt	1,601	1,539	1,543	1,330	2,230	2,094	2,411	2,008	1,765	1,862
Shareholder's Equity	3,427	3,456	3,677	4,035	1,884	2,109	2,409	2,633	2,613	2,557
LTD/E Ratio	0.47	0.45	0.42	0.33	1.18	0.99	1.00	0.76	0.68	0.73

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.5%	6.1%	7.2%	5.1%	2.5%	6.8%	2.5%	5.5%	5.5%	6.1%
Return on Equity	12.6%	13.3%	15.9%	11.1%	6.4%	23.1%	8.3%	17.3%	16.1%	18.9%
ROIC	9.7%	9.1%	10.8%	7.8%	4.0%	11.1%	4.1%	9.2%	9.4%	11.1%
Shares Out.	89	88	88	87	87	87	87	88	87.2	85.2
Revenue/Share	100.0	103.73	89.61	92.78	99.41	97.91	85.11	93.84	101.40	122.95
FCF/Share	2.76	2.94	4.08	4.06	0.35	1.89	5.82	3.38	1.47	4.81

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