AMETEK (AME)

Updated August 2nd, 2024, by Derek English

Key Metrics

Current Price:	$159	**5-Year CAGR Estimate:**	5.5%	**Market Cap:**	$40 B
Fair Value Price:	$143	**5-Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	09/13/24[1]
% Fair Value:	110%	**5-Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date:**	09/27/24
Dividend Yield:	0.7%	**5-Year Price Target**	$202	**Years of Dividend Growth:**	5
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Headquartered in Berwyn, Pennsylvania, AMETEK, established in 1930 as American Machine and Metals, is a global manufacturer of electronic instruments and electromechanical devices with operations across North America, Europe, Asia, and South America. The company's diverse product offerings are organized into two segments: Electronic Instruments (EIG), which designs advanced instruments for various markets including process, power, industrial, and aerospace; and Electromechanical (EMG), which provides precision motion control solutions, thermal management systems, and specialty metals to sectors such as aerospace, defense, and medical. Approximately 50% of AMETEK's sales are generated outside the U.S., driven by continuous investment in sales and service in key growth regions.

AMETEK released Q2 2024 results on August 1st, 2024. For the quarter, AMETEK reported sales of $1.73 billion, a 5% increase over the same period in 2023. Operating income reached a record $447.5 million, up 7%, with operating margins improving to 25.8%. The company generated $381.4 million in operating cash flow, a 14% increase from the previous year. Earnings per share were $1.45 on a GAAP basis, while adjusted earnings, which account for acquisition-related intangible amortization, were $1.66 per share, marking a 6% increase. The Electronic Instruments Group (EIG) posted sales of $1.15 billion, a 2% increase, with operating income rising 14% to $349.9 million and operating margins improving to 30.3%. Meanwhile, the Electromechanical Group (EMG) achieved record sales of $581.2 million, up 14%, and operating income of $123.1 million, with margins at 21.2%. Despite challenges from inventory normalization in the OEM customer base, EMG saw sequential margin improvements in the first two quarters of the year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$2.42	$2.55	$2.30	$2.61	$3.29	$4.19	$3.95	$4.85	$5.68	$6.38	***$6.86***	***$9.62***
DPS	$0.33	$0.36	$0.36	$0.36	$0.56	$0.56	$0.72	$0.80	$0.88	$1.00	***$1.12***	***$1.50***
Shares	247	242	234	232	233	229	231	233	232	232	***232***	***230***

Over the past decade, AMETEK has demonstrated significant growth in earnings per share (EPS) and dividends per share (DPS), showcasing its robust financial performance. From 2014 to 2023, AMETEK's EPS increased from $2.42 to $6.38, representing a compound annual growth rate (CAGR) of approximately 11.4%. DPS grew from $0.33 to $1.00 in the same period, with a CAGR of about 12.8%. The strong growth can be attributed to AMETEK's strategic acquisitions, which have expanded its technological capabilities and market presence. Standout acquisitions include Gatan in 2019, which enhanced AMETEK's analytical instrumentation offerings, and Magnetrol International in 2021, bolstering its level and flow measurement technology capabilities. For 2024, AMETEK's outlook remains positive, with overall sales expected to grow in the low double digits compared to 2023. The adjusted EPS for 2024 is projected to be in the range of $6.74 to $6.86, indicating a growth rate of 6% to 8% over 2023. We agree with management guidance and have estimated at the top end of their range, based on the solid start to the year. We expect dividends to continue to grow at the same pace as earnings due to AMETEK's statement that it is committed to paying a consistently increasing cash dividend in the 2023 annual report. We estimate a dividend of $1.50 per share by 2029.

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[1] Estimated based on past dividend history

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.8	19.6	19.6	22.2	21.6	19.8	23.5	26.6	22.0	23.2	***23.2***	***21.0***
Avg. Yld.	0.7%	0.7%	0.8%	0.6%	0.8%	0.7%	0.8%	0.6%	0.7%	0.7%	***0.7%***	***0.7%***

AMETEK has traded at an average PE ratio of ~22 over the last ten years due to its strong financial performance and history of strategic acquisitions, which have significantly expanded its product portfolio and market reach. As a result, AMETEK is a leader in several niche markets. We believe a P/E ratio of 21 is reasonable for a company with solid growth prospects in a growing industry. However, this means that even with high single-digit dividend growth, we expect the dividend yield to remain below 1%. We estimate the stock is trading at 110% of its $144 fair value. Our 5-year price target is $202, based on annual earnings growth of 7% and a P/E ratio of 21.

Safety, Quality, Competitive Advantage, & Recession Resiliency

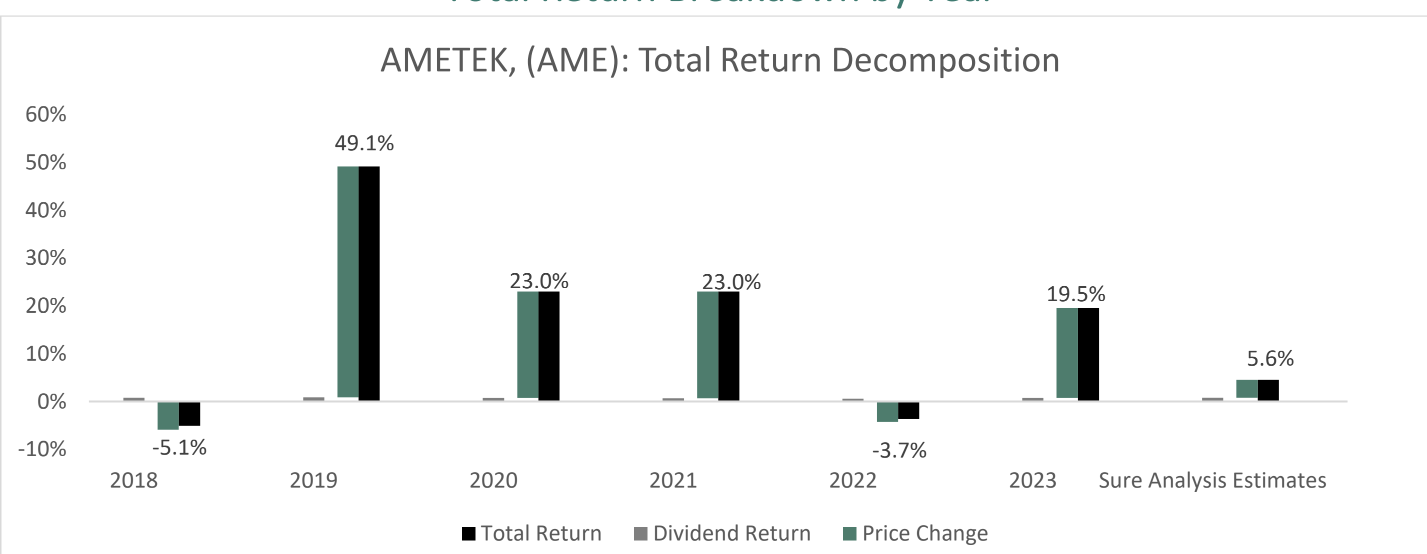
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	**2024**	**2029**
Payout	14%	14%	16%	14%	17%	13%	18%	16%	15%	16%	***16%***	***16%***

AMETEK's competitive advantage lies within its significant market share, healthy technological innovation, efficient manufacturing operations, and experienced management team, all of which position it well against competitors. The company's growth model emphasizes operational excellence, strategic acquisitions, global market expansion, and new product development, ensuring the ability to adapt to evolving customer needs, particularly in Europe and Asia. During the last recession, AMETEK demonstrated resilience by maintaining its commitment to shareholders through consistent dividend payments, unlike many companies that reduced or suspended dividends in 2008-2009. Even during challenging economic periods, this consistent dividend policy underscores AMETEK's strong financial management and stability, reinforcing investor confidence in the company.

Final Thoughts & Recommendation

AMETEK's impressive earnings growth has driven the company to achieve double-digit returns in four of the last six years, resulting in a current P/E ratio of 23.2. However, the company is currently trading above our fair value estimate and we anticipate the P/E ratio to revert to the historical average of 21.0. A low dividend yield and its high share price led us to project a five-year average return rate of 5.6%. Therefore, we currently rate AMETEK as a hold.

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	4,022	3,974	3,840	4,300	4,846	5,159	4,540	5,547	6,151	6,597
Gross Profit	1,361	1,356	1,255	1,439	1,660	1,788	1,544	1,913	2,145	2,384
Gross Margin	33.8%	34.1%	32.7%	33.5%	34.2%	34.7%	34.0%	34.5%	34.9%	36.1%
SG&A Exp.	463	449	464	535	584	610	516	604	645	677
D&A Exp.	139	149	180	183	199	234	255	292	319	338
Operating Profit	899	908	791	904	1,076	1,177	1,028	1,309	1,501	1,707
Operating Margin	22.3%	22.8%	20.6%	21.0%	22.2%	22.8%	22.6%	23.6%	24.4%	25.9%
Net Profit	584	591	512	681	778	861	872	990	1,160	1,313
Net Margin	14.5%	14.9%	13.3%	15.8%	16.1%	16.7%	19.2%	17.9%	18.9%	19.9%
Free Cash Flow	655	603	694	758	843	1,012	1,207	1,050	1,010	1,599
Income Tax	220	216	181	115	210	208	210	233	269	293

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	6,421	6,660	7,101	7,796	8,662	9,845	10,357	11,898	12,431	15,024
Cash & Equivalents	378	381	717	646	354	393	1,213	347	345	410
Accounts Receivable	585	603	592	668	733	745	597	829	919	1,013
Inventories	496	514	492	541	625	625	559	769	1,044	1,132
Goodwill & Int. Ass.	4,240	4,380	4,553	5,129	6,016	6,810	6,849	8,607	8,715	10,613
Total Liabilities	3,181	3,406	3,844	3,768	4,420	4,729	4,408	5,026	4,955	6,293
Accounts Payable	386	365	370	437	400	377	360	470	497	517
Long-Term Debt	1,714	1,938	2,342	2,174	2,633	2,769	2,414	2,544	2,385	3,313
Shareholder's Equity	3,240	3,255	3,257	4,028	4,242	5,115	5,949	6,872	7,477	8,730
D/E Ratio	0.53	0.60	0.72	0.54	0.62	0.54	0.41	0.37	0.32	0.38

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.5%	9.0%	7.4%	9.1%	9.5%	9.3%	8.6%	8.9%	9.5%	9.6%
Return on Equity	18.3%	18.2%	15.7%	18.7%	18.8%	18.4%	15.8%	15.4%	16.2%	16.2%
ROIC	12.3%	11.6%	9.5%	11.6%	11.9%	11.7%	10.7%	11.1%	12.0%	12.0%
Shares Out.	247	242	234	232	233	229	231	233	232	232
Revenue/Share	16.28	16.45	16.43	18.55	20.82	22.49	19.64	23.82	26.56	28.50
FCF/Share	2.65	2.50	2.97	3.27	3.62	4.41	5.22	4.51	4.36	6.91

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