Garmin Ltd. (GRMN)

Updated September 1st, 2024, by Josh Arnold

Key Metrics

Current Price:	$183	**5 Year CAGR Estimate:**	2.2%	**Market Cap:**	$35 B
Fair Value Price:	$127	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	09/13/24
% Fair Value:	144%	**5 Year Valuation Multiple Estimate:**	-7.0%	**Dividend Payment Date:**	09/27/24
Dividend Yield:	1.6%	**5 Year Price Target**	$187	**Years Of Dividend Growth:**	7
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Garmin is a technology company based in Switzerland. It manufactures navigation, communication, and information devices and applications that are enabled by GPS. Its business segments are as follows: Auto, Aviation, Marine, Outdoor, and Fitness. The Auto segment offers auto navigation products for vehicles. The Aviation segment includes navigation, communications transmitters and receivers, multi-function displays, electronic flight instrumentation systems, automatic flight control systems, and traffic advisory systems. The Marine segment includes products for recreational boats. The Outdoor segment makes products for outdoor activities, while the Fitness segment makes products designed for activity tracking. Garmin produces just about $5 billion in annual revenue and has a $35 billion market capitalization.

Garmin posted second quarter earnings on July 31st, 2024, and results were much better than expected. The company saw adjusted earnings-per-share of $1.58, which was 15 cents ahead of estimates. Revenue was more than 14% higher year-over-year to $1.51 billion, beating expectations by $80 million.

Fitness, Marine, and Auto were the segments that led the way in terms of growth, with gains of 28%, 26%, and 41%, respectively, from those segments.

Gross margin was basically flat year-over-year, but SG&A costs fell due to sales leverage, and as such, operating income was higher year-over-year.

Operating income on a dollar basis was up 20% to $342 million.

We now see $6.05 in adjusted earnings-per-share for this year, up sharply from our prior estimate on tremendous strength in both revenue and margins in Q2.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.00	$2.49	$2.83	$2.94	$3.66	$4.45	$5.14	$5.82	$5.13	$5.59	***$6.05***	***$8.89***
DPS	$1.92	$2.04	$2.04	$2.04	$2.12	$2.24	$2.40	$2.68	$2.86	$2.92	***$3.00***	***$3.83***
Shares[1]	191.8	189.7	188.6	188.2	189.5	191.2	191.6	192.8	191.6	191.8	***192***	***193***

Garmin has engineered a major turnaround due to structural changes in the technology industry. Garmin rose to prominence due in large part to its automotive GPS devices. However, GPS devices for the automotive industry were rendered virtually obsolete with the widespread adoption of the smartphone.

As a result, Garmin has restructured itself around the aviation, marine, outdoor, and fitness markets, and has had success in those categories. We expect 8% annual earnings growth through 2029, which is up from 6% prior. We see higher margins as helping boost earnings, and as Garmin's top line strength has been quite sustainable. Dividends are expected to grow at a slower rate, and we see the payout rising to $3.83 per share by 2029, following the most recent increase of 3%.

[1] 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	18.1	17.4	15.7	18.0	17.2	18.6	18.9	24.6	18.0	23.0	***30.2***	***21.0***
Avg. Yld.	3.5%	4.7%	4.6%	3.9%	3.4%	2.7%	2.5%	1.9%	3.2%	2.3%	***1.6%***	***2.1%***

In the past 10 years, Garmin stock traded with an average price-to-earnings ratio of ~17; on this basis, the stock looks overvalued today. However, more recently, shares have been valued at higher multiples. Shares trade at 30.2 times earnings estimates for 2024, well above our fair value of 21 times earnings. We see the stock as quite overvalued at the moment, as the share price has risen much more quickly than earnings estimates. The yield is now at 1.6%, and could rise over time as the valuation declines. We note the stock looks expensive based upon the dividend yield as well, and despite the very strong revenue and earnings growth we've seen, the stock is simply too expensive.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	64%	82%	72%	69%	58%	50%	47%	46%	57%	52%	***50%***	***43%***

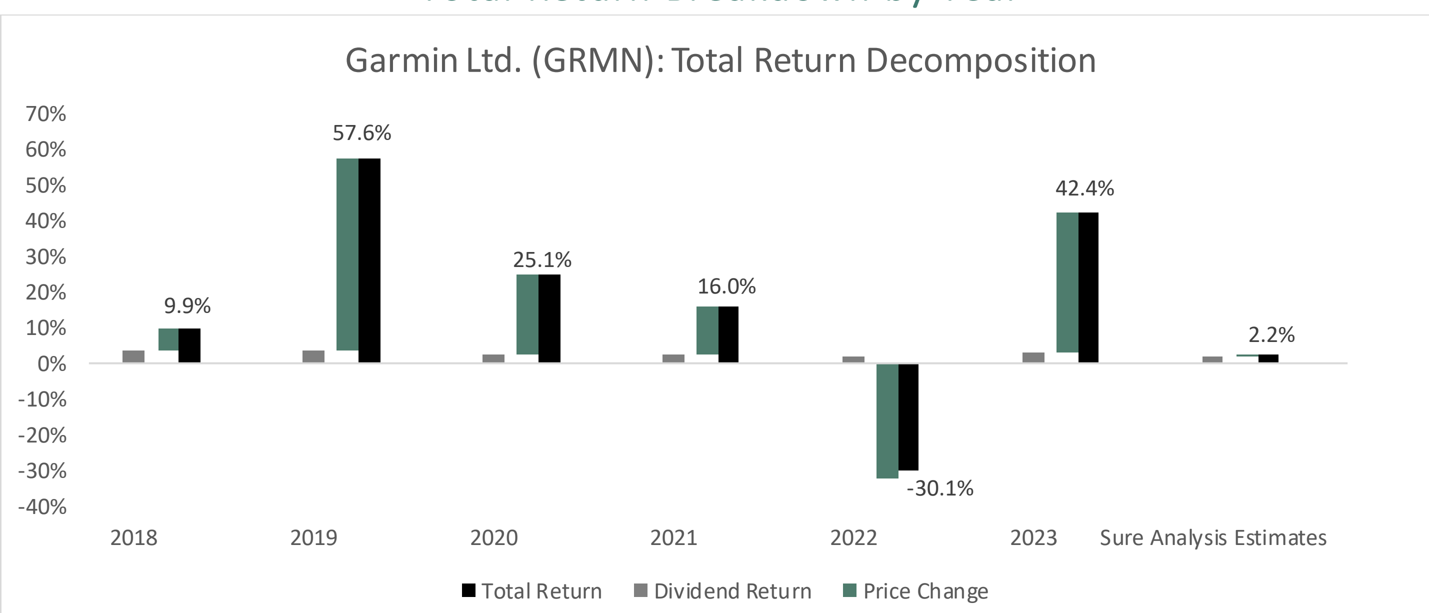
The dividend appears secure, with a payout ratio of 50% of earnings. During the Great Recession in 2008-2009, the company saw earnings drop, but managed to continue to pay out its dividend. We do not believe Garmin would be resistant to a prolonged recession when consumers reduce spending on discretionary technology products.

Garmin does not possess many notable competitive advantages, which are hard to come by in the technology sector. Technology is a highly competitive and rapidly changing industry. Garmin lost its advantage in automotive GPS devices when trends changed related to widespread smartphone adoption. However, the company has been investing heavily in non-automotive markets to fuel future growth, and we note its leadership in Aviation and Marine products.

Final Thoughts & Recommendation

Garmin is a financially healthy company with a very strong balance sheet, and strong growth. The company has turned the corner on growth, and it's resulting in strong revenue and margin expansion. Following Q2 results, total annual returns are estimated at 2.2%. We see the valuation as a big headwind to total returns, while our growth estimate of 8%, and yield of 1.6% are insufficient for anything other than a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,871	2,820	3,046	3,122	3,347	3,758	4,187	4,983	4,860	5,228
Gross Profit	1,604	1,539	1,689	1,798	1,980	2,234	2,481	2,890	2,807	3,005
Gross Margin	55.9%	54.6%	55.4%	57.6%	59.1%	59.5%	59.3%	58.0%	57.8%	57.5%
SG&A Exp.	519	562	588	603	634	683	721	832	944	1,008
D&A Exp.	77	78	86	86	96	106	127	155	164	178
Operating Profit	691	550	633	684	778	946	1,054	1,219	1,028	1,092
Operating Margin	24.1%	19.5%	20.8%	21.9%	23.3%	25.2%	25.2%	24.5%	21.2%	20.9%
Net Profit	364	456	518	709	694	952	992	1,082	974	1,290
Net Margin	12.7%	16.2%	17.0%	22.7%	20.7%	25.3%	23.7%	21.7%	20.0%	24.7%
Free Cash Flow	445	196	609	509	759	578	948	703	542	1,181
Income Tax	360	111	121	(12)	129	35	111	125	91	-89

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,693	4,499	4,525	4,948	5,383	6,167	7,031	7,854	7,731	8,604
Cash & Equivalents	1,196	833	847	891	1,202	1,028	1,458	1,498	1,279	1,693
Accounts Receivable	570	531	527	591	570	707	849	843	657	815
Inventories	420	501	485	518	562	753	762	1,228	1,515	1,346
Goodwill & Int. Ass.	218	246	305	410	417	660	829	791	746	795
Total Liabilities	1,290	1,154	1,107	1,096	1,220	1,373	1,515	1,740	1,527	1,592
Accounts Payable	149	179	172	170	205	241	259	370	212	254
Long-Term Debt	---	---	---	---	---	---	---	---	0	0
Shareholder's Equity	3,403	3,345	3,418	3,852	4,163	4,793	5,516	6,114	6,204	7,012
LTD/E Ratio	---	---	---	---	---	---	---	---	0	0

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.6%	9.9%	11.5%	15.0%	13.4%	16.5%	15.0%	14.5%	12.5%	15.8%
Return on Equity	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%	19.3%	18.6%	15.8%	19.5%
ROIC	10.3%	13.5%	15.3%	19.5%	17.3%	21.3%	19.3%	18.6%	15.8%	19.5%
Shares Out.	191.8	189.7	188.6	188.2	189.5	191.2	191.6	192.8	193.0	192.1
Revenue/Share	14.78	14.76	16.09	16.54	17.64	19.68	21.82	25.81	25.18	27.22
FCF/Share	2.29	1.03	3.22	2.70	4.00	3.03	4.94	3.64	2.81	6.15

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