Eaton Corporation (ETN)

Updated November 4th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$334	**5 Year CAGR Estimate:**	3.1%	**Market Cap:**	$133 B
Fair Value Price:	$226	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	11/04/24
% Fair Value:	148%	**5 Year Valuation Multiple Estimate:**	-7.5%	**Dividend Payment Date:**	11/22/24
Dividend Yield:	1.1%	**5 Year Price Target**	$365	**Years Of Dividend Growth:**	15
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Sell

Overview & Current Events

Eaton Corporation is a diversified industrial equipment and parts manufacturer. The company's engineered electrical systems and components are used by customers in the industrial, vehicle, commercial, and aerospace markets. The Ireland-based Eaton was founded in 1916 and today has annual sales of about $25 billion. The company employs about 85,000 people. Eaton has 5 divisions: Electrical Americas, Electrical Global, Aerospace, Vehicle, and eMobility.

On February 29th, 2024, Eaton raised its quarterly dividend 9.3% to $0.94, extending the company's dividend growth streak to 15 consecutive years.

On October 31st, 2024, Eaton reported third quarter results for the period ending June 30th, 2024. For the quarter, revenue grew 7.5% to $6.34 billion, but this was $30 million below estimates. Adjusted earnings-per-share of $2.84 compared favorably to $2.47 in the prior year and was $0.03 better than expected.

Organic sales grew 9% for the period. Adjusted earnings-per-share, operating cash flow of $1.3 billion, free cash flow of $1.1 billion, segment margins of 24.3% were once again quarterly records. Organic revenue for the Electrical Americas segment increased 14% and revenue hit a record $2.96 billion. The backlog was up 26%. Electrical Global increased 4% to $1.57 billion while Aerospace grew 8% to a record $946 million. The backlog for Aerospace was higher by 14%. The Vehicle segment decreased 6% to $696 million. eMobility grew 1% to $167 million due to new program launches and ramp-ups.

Eaton provided an updated outlook for 2024 as well, with the company now expecting adjusted earnings-per-share in a range of $10.75 to $10.81, up from $10.65 to $10.75, $10.20 to $10.60, and $9.95 to $10.35 previously. At the midpoint, this would represent an 18% increase from 2023. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.67	$4.30	$4.21	4.60	$5.35	$5.74	$4.24	$6.62	$7.57	$9.12	***$10.78***	***$17.36***
DPS	$1.96	$2.20	$2.28	$2.40	$2.64	$2.84	$2.92	$3.04	$3.24	$3.44	***$3.76***	***$6.06***
Shares[1]	468	459	449	439	433	416	401	398	400	400	***397***	***393***

Prior to 2020, Eaton had delivered mid-single-digit organic growth in recent years, though the company's earnings-per-share decreased dramatically during the last recession. The short-term following the pandemic was challenging for the company, but our expect earnings-per-share growth has already returned. We are raising our expected earnings growth to 10% from 7% to better reflect the quality of earnings recently. This is also closer to the average growth rate of 13.4% since 2019. Eaton paused dividend growth in 2009, as this was prudent given the earnings decline. We now expect dividends to grow in-line with earnings as the payout ratio is very reasonable.

[1] In millions of shares

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	15.2	14.6	14.6	16.3	14.7	14.3	22.7	26.1	20.7	26.4	***31.0***	***21.0***
Avg. Yld.	2.8%	3.5%	3.7%	3.2%	3.4%	3.5%	3.0%	1.8%	2.1%	1.4%	***1.1%***	***1.7%***

Shares of Eaton have increased $55, or 19.7%, since our August 5th, 2024 update. Based off revised estimates for 2024, the stock trades with a price-to-earnings multiple of 31.0. Eaton's stock has an average price-to-earnings ratio of 18.6 over the past decade and 22 over the last five years. We have raised our target P/E ratio to 21 from 19 as this is more reflective of the medium-term average valuation and takes into account the strong results over the past few years. If shares were to trade at our target P/E by 2029, then valuation would be an 7.5% headwind to total returns over this time frame.

Eaton has a current yield of 1.1%, which is well below the stock's 10-year average of more than 2.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

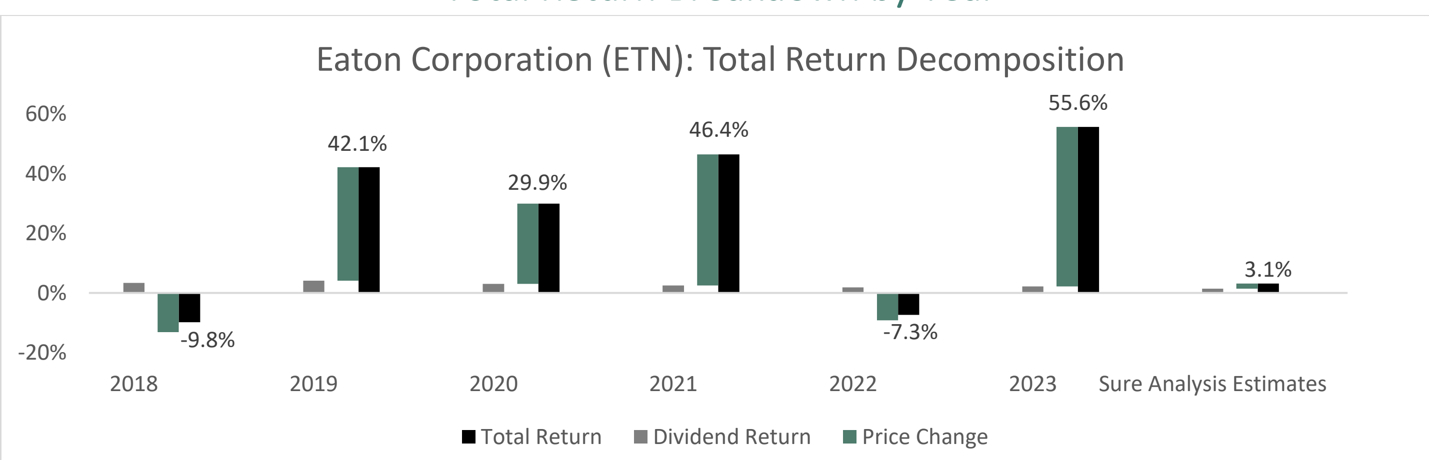
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	42%	51%	54%	52%	49%	49%	69%	46%	43%	38%	***35%***	***35%***

Eaton suffered an extreme decline in earnings during the last recession that forced the company to pause its dividend growth. The company would likely experience a decline in earnings in another recession due to the nature of its business and could pause its dividend increases again. Eaton's key competitive advantages are its expertise and understanding of the businesses that it operates. The company specializes in providing highly engineered products to customers in niche end markets. Switching to a different provider could prove costly and comes with a risk of failure. While Eaton is not recession-proof, the company is likely to do well in an improving economy due to these factors.

Final Thoughts & Recommendation

After third quarter results, Eaton Corporation is expected to return 3.1% annually through 2029, up from our prior estimate of 2.0%. Our projection stems from a 10% earnings growth rate and a 1.1% starting dividend yield that are offset by a high single-digit headwind from multiple compression. Once again, Eaton's businesses largely performed very well during the period, with several segments posting quarterly records. The backlog shows that the company's products remain in high demand. That said, Eaton's valuation continues to leave a lot to be desired. We have increased our five-year price target $80 to $365 due to a higher expected EPS growth rate and valuation target, but shares continue to earn a sell recommendation due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	22552	20855	19747	20404	21609	21390	17858	19628	20752	23196
Gross Profit	6906	6551	6351	6648	7098	7052	5450	6335	6887	8434
Gross Margin	30.6%	31.4%	32.2%	32.6%	32.8%	33.0%	30.5%	32.3%	33.2%	36.4%
SG&A Exp.	3810	3596	3464	3526	3548	3583	3075	3256	3227	3795
D&A Exp.	983	925	929	914	903	884	811	922	954	
Operating Profit	2449	2330	2300	2538	2966	2863	1824	2463	2995	3885
Op. Margin	10.9%	11.2%	11.6%	12.4%	13.7%	13.4%	10.2%	12.5%	14.4%	16.7%
Net Profit	1793	1972	1916	2985	2145	2211	1410	2144	2462	3218
Net Margin	8.0%	9.5%	9.7%	14.6%	9.9%	10.3%	7.9%	10.9%	11.9%	13.9%
Free Cash Flow	1246	1903	2073	2146	2093	2864	2555	1588	1935	
Income Tax	(42)	159	199	382	278	378	331	750	445	604

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	33529	30996	30476	32623	31092	32805	31824	34027	35014	38432
Cash & Equivalents	781	268	543	561	283	370	438	297	294	488
Acc. Receivable	3667	3479	3560	3943	3858	3437	2904	3297	4076	4475
Inventories	2428	2323	2346	2620	2785	2805	2109	2969	3430	3739
Goodwill & Int.	20449	19493	18715	18833	18174	18094	17078	20606	20282	20068
Total Liabilities	17690	15765	15478	15333	14950	16672	16851	17576	17939	19363
Accounts Payable	1940	1758	1718	2166	2130	2114	1987	2797	3072	3365
Long-Term Debt	9034	8414	8277	7751	7521	8322	8058	8579	8655	9269
Total Equity	15786	15186	14954	17253	16107	16082	14930	16413	17038	19036
LTD/E Ratio	0.57	0.55	0.55	0.45	0.47	0.52	0.54	0.52	0.51	0.49

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.2%	6.1%	6.2%	9.5%	6.7%	6.9%	4.4%	6.5%	7.1%	8.8%
Return on Equity	11.0%	12.7%	12.7%	18.5%	12.9%	13.7%	9.1%	13.7%	14.7%	17.8%
ROIC	7.0%	8.1%	8.2%	12.4%	8.8%	9.2%	5.9%	8.9%	9.7%	11.9%
Shares Out.	468	459	449	439	433	416	401	398	400	400
Revenue/Share	47.30	44.65	43.26	45.65	49.46	50.83	44.20	48.87	51.78	57.83
FCF/Share	2.61	4.07	4.54	4.80	4.79	6.81	6.32	3.95	4.83	

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