# TE Connectivity (TEL)

*Updated November 5th, 2024 by Quinn Mohammed*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $148 | **5 Year CAGR Estimate:** | 9.5% | **Market Cap:** | $46 B |
| **Fair Value Price:** | $149 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date[1]:** | 11/22/24 |
| **% Fair Value:** | 100% | **5 Year Valuation Multiple Estimate:** | 0.1% | **Dividend Payment Date[1]:** | 12/02/24 |
| **Dividend Yield:** | 1.8% | **5 Year Price Target** | $219 | **Years Of Dividend Growth:** | 16 |
| **Dividend Risk Score:** | C | **Retirement Suitability Score:** | D | **Rating:** | Hold |

## Overview & Current Events

TE Connectivity (TEL) is a company that manufactures and sells connectivity and sensor solutions worldwide. The company operates through 3 segments: Transportation Solutions, Industrial Solutions, and Communications Solutions, which made up 60%, 28%, and 12% of sales, respectively, for the full fiscal year 2024.

The Transportation Solutions segment provides sensor and connectivity components for the automotive and commercial transportation industry. The Industrial Solutions segment provides components for industrial sectors like aerospace, defense, oil & gas, medical, and energy markets. Lastly, the Communications Solutions segment supplies components for the data and devices and appliances markets. We expect the company will benefit over the intermediate term from its investments in electric vehicles, factory automation, the cloud, and renewable energy.

On December 12th, 2023, the company announced it increased its dividend by 10% starting with the June 2024 payment.

On October 30th, 2024, TE Connectivity reported fourth quarter 2024 results for the period ending September 27th, 2024. The company reported $1.95 in adjusted earnings-per-share for the quarter, an all-time record, and 10% higher year-over-year, which beat analysts' estimates by $0.01.

Revenue rose 1% to $4.1 billion, surpassing analysts' consensus estimates by $100 million. For the quarter, sales in the Transportation Solutions segment fell 4% year-over-year to $2.3 billion, while sales in the Communications Solutions and Industrial Solutions segments increased 0.8% and 1.8% year-over-year to $577 million and $1.2 billion, respectively.

For the full FY 2024, TE's adjusted EPS rose 12% to $7.56. And adjusted operating margins rose by 220 basis points year-over-year to 18.9%, a new record.

The company announced a $2.5 billion increase in its share repurchase program, good for 5.5% of the company's stock. Additionally, the company is reorganizing into just two segments, Transportation Solutions and Industrial Solutions.

## Growth on a Per-Share Basis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $3.60 | $4.08 | $4.83 | $5.61 | $5.54 | $4.26 | $6.52 | $7.33 | $6.74 | $7.56 | ***$8.05*** | ***$11.83*** |
| **DPS** | $1.24 | $1.40 | $1.54 | $1.68 | $1.80 | $1.88 | $1.96 | $2.12 | $2.30 | $2.48 | ***$2.60*** | ***$3.32*** |
| **Shares** | 394 | 355 | 352 | 345 | 335 | 331 | 327 | 321 | 313 | 305 | ***295*** | ***275*** |

Over the past nine and five years, TE Connectivity has seen earnings-per-share grow at an average annualized rate of 8.6% and 6.4%, respectively. For the next quarter, management expects net sales of about $3.9 billion and adjusted earnings-per-share for the quarter of approximately $1.88. For the full fiscal year 2025, we expect $8.05 in earnings-per-share.

We forecast that the company can grow EPS by 8% annually over the intermediate term, which guides our 2030 estimate of $11.83. The company will rely on growth in its Transportation Solutions segment, most notably in its Automotive business, as well as sales growth in its AI offerings.

[1] Estimate based on last year's date

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The company has also actively repurchased its shares, and has decreased its share count by -2.8% annually since 2014.

Over the past nine and five years, TE Connectivity has increased its dividend by 8.0% and 6.6% annually. Over the next five years, we forecast that the company could increase dividends by 5% annually, which is below our EPS growth estimate and the historic dividend growth rate. This guides our 2030 dividend estimate of $3.32 per share. TE Connectivity has grown dividend payments for 16 consecutive years, which is a solid track record.

## Valuation Analysis

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 18.0 | 14.9 | 15.3 | 17.0 | 15.3 | 20.3 | 19.9 | 17.4 | 19.1 | 19.3 | ***18.4*** | ***18.5*** |
| **Avg. Yld.** | 1.9% | 2.3% | 2.1% | 1.8% | 2.1% | 2.2% | 1.5% | 1.6% | 1.8% | 1.7% | ***1.8%*** | ***1.5%*** |

Over the trailing ten and five years, TE Connectivity has averaged a P/E ratio of 17.6 and 19.2, respectively. We estimate that a P/E ratio of 18.5 could be fair for the business over the intermediate term. TEL's 1.8% dividend yield is equal to its 5-year average, indicating that shares are near fair value.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 34% | 34% | 32% | 30% | 32% | 44% | 30% | 29% | 34% | 33% | ***32%*** | ***28%*** |

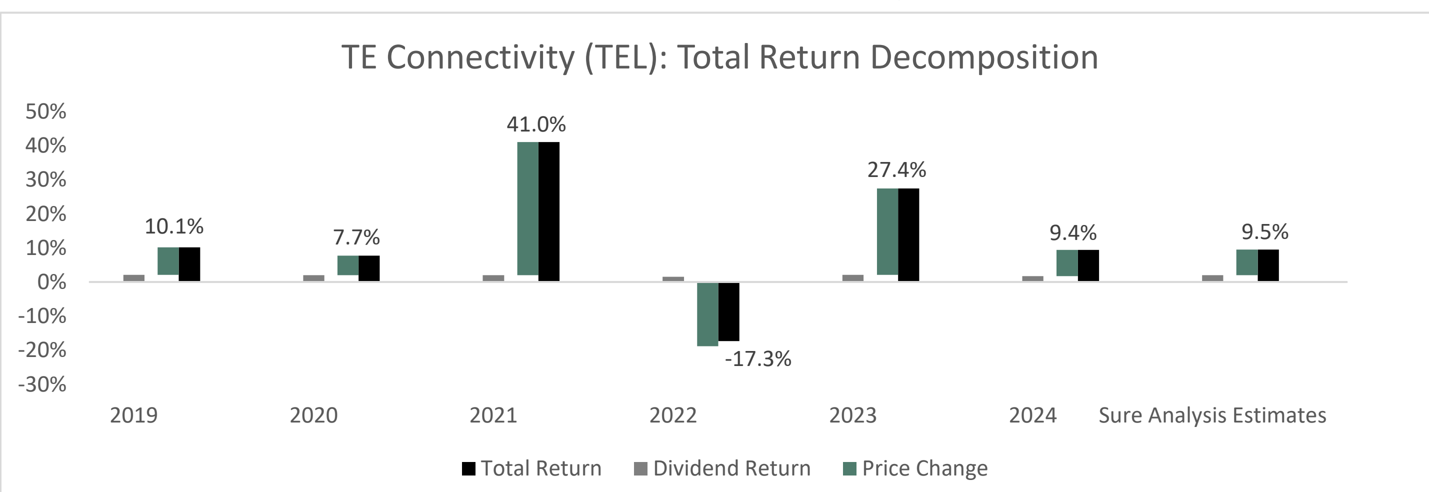
The business has averaged a low payout ratio of 33% over the past ten years, and we expect the dividend to continue to be safe. We believe TE Connectivity has a competitive advantage due to its expertise in the field of electronics, components, and networking for aerospace, medicine, defense, and other industries.

As of the most recent quarterly report, TE Connectivity held $1.3 billion in cash, $7.6 billion in current assets and $22.9 billion in total assets against $4.7 billion in current liabilities and $10.4 billion in total liabilities. Additionally, long-term debt stood at $3.3 billion.

## Final Thoughts & Recommendation

TE Connectivity is a growing sensor and connectivity company that is likely to benefit from secular trends in electric vehicles, AI, factory automation, the cloud, and renewable energy. Following the 18% share price increase in the last one year, the valuation has become less attractive. At today's price, we rate the stock as a hold with total return prospects coming in at 9.5% annually, driven by an 8.0% annual earnings-per-share growth rate, a 1.8% dividend yield, and 0.1% multiple expansion.

## 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 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 12,233 | 11,352 | 12,185 | 13,988 | 13,448 | 12,172 | 14,923 | 16,281 | 16030 | 15840 |
| Gross Profit | 4,087 | 3,827 | 4,183 | 4,745 | 4,394 | 3,735 | 4,887 | 5,244 | 5055 | 5456 |
| Gross Margin | 33.4% | 33.7% | 34.3% | 33.9% | 32.7% | 30.7% | 32.7% | 32.2% | 31.5% | 34.4% |
| SG&A Exp. | 1,504 | 1,396 | 1,543 | 1,594 | 1,490 | 1,392 | 1,512 | 1,584 | 1670 | 1732 |
| D&A Exp. | 616 | 560 | 611 | 667 | 690 | 711 | 769 | 785 | 794 | 826 |
| Operating Profit | 1,956 | 1,828 | 2,029 | 2,471 | 2,260 | 1,730 | 2,698 | 2,942 | 2677 | 2983 |
| Op. Margin | 16.0% | 16.1% | 16.7% | 17.7% | 16.8% | 14.2% | 18.1% | 18.1% | 16.7% | 18.8% |
| Net Profit | 2,420 | 2,009 | 1,683 | 2,565 | 1,844 | (241) | 2,261 | 2,428 | 1910 | 3193 |
| Net Margin | 19.8% | 17.7% | 13.8% | 18.3% | 13.7% | -2.0% | 15.2% | 14.9% | 11.9% | 20.2% |
| Free Cash Flow | 1,330 | 1,344 | 1,642 | 1,516 | 1,673 | 1,432 | 1,986 | 1,700 | 2400 | 2797 |
| Income Tax | 337 | (826) | 180 | (344) | (15) | 783 | 123 | 306 | 364 | -397 |

## Balance Sheet Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 20,589 | 17,608 | 19,403 | 20,386 | 19,694 | 19,242 | 21,462 | 20,782 | 21710 | 22850 |
| Cash & Equivalents | 3,329 | 647 | 1,218 | 848 | 927 | 945 | 1,203 | 1,088 | 1661 | 1319 |
| Acc. Receivable | 2,120 | 2,046 | 2,138 | 2,361 | 2,320 | 2,377 | 2,928 | 2,865 | 2967 | 3055 |
| Inventories | 1,615 | 1,596 | 1,647 | 1,857 | 1,836 | 1,950 | 2,511 | 2,676 | 2552 | 2517 |
| Goodwill & Int. | 6,379 | 7,371 | 7,492 | 7,388 | 7,336 | 6,817 | 7,139 | 6,546 | 6638 | 6975 |
| Total Liabilities | 11,004 | 9,123 | 9,652 | 9,555 | 9,124 | 9,747 | 10,714 | 9,885 | 10060 | 10370 |
| Accounts Payable | 1,143 | 1,090 | 1,387 | 1,548 | 1,357 | 1,276 | 1,911 | 1,593 | 1563 | 1728 |
| Long-Term Debt | 3,884 | 4,070 | 4,344 | 4,000 | 3,965 | 4,146 | 4,092 | 4,206 | 4211 | 4203 |
| Total Equity | 9,585 | 8,485 | 9,751 | 10,831 | 10,570 | 9,383 | 10,634 | 10,802 | 11550 | 12360 |
| LTD/E Ratio | 0.41 | 0.48 | 0.45 | 0.37 | 0.38 | 0.44 | 0.38 | 0.39 | 0.36 | 0.34 |

## Profitability & Per Share Metrics

| Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 11.9% | 10.5% | 9.1% | 12.9% | 9.2% | -1.2% | 11.1% | 11.5% | 9.0% | 14.3% |
| Return on Equity | 26.0% | 22.2% | 18.5% | 24.9% | 17.2% | -2.4% | 22.6% | 22.7% | 17.1% | 26.5% |
| ROIC | 18.4% | 15.4% | 12.6% | 17.7% | 12.6% | -1.7% | 15.9% | 16.2% | 12.3% | 19.6% |
| Shares Out. | 394 | 355 | 352 | 345 | 335 | 331 | 327 | 325 | 317 | 309 |
| Revenue/Share | 29.76 | 30.76 | 34.04 | 39.63 | 39.55 | 36.66 | 44.81 | 50.10 | 50.58 | 51.28 |
| FCF/Share | 3.24 | 3.64 | 4.59 | 4.29 | 4.92 | 4.31 | 5.96 | 5.23 | 7.57 | 9.05 |

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