Eaton Corporation (ETN)

Updated February 3rd, 2025 by Nathan Parsh

Key Metrics

Current Price:	$319	**5 Year CAGR Estimate:**	6.2%	**Market Cap:**	$126 B
Fair Value Price:	$252	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	03/06/25[1]
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.6%	**Dividend Payment Date:**	03/24/25[2]
Dividend Yield:	1.2%	**5 Year Price Target**	$406	**Years Of Dividend Growth:**	15
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

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 $27 billion. The company employs about 94,000 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 January 31st, 2025, Eaton announced fourth quarter and full year results for the period ending December 31st, 2024. For the quarter, revenue grew 4.5% to $6.24 billion, but this was $100 million below estimates. Adjusted earnings-per-share of $2.83 was a Q4 record, compared favorably to $2.55 in the prior year, and was $0.02 more than expected. For the year, revenue grew 4.5% $24.9 billion while adjusted earnings-per-share were a record $10.80 and compared to $9.12 in the prior year.

Organic sales grew 6% for the quarter and 8% for the year. Adjusted earnings-per-share, operating cash flow of $1.6 billion, free cash flow of $1.3 billion, and segment margins of 24.7% were once again quarterly records. For the quarter, organic revenue for the Electrical Americas segment grew 9% to $2.91 billion. The backlog was up 29%. Electrical Global improved 5.5% to $1.57 billion while Aerospace grew 9% to a record $971 million. The backlog for both segments increased 16%. The Vehicle segment declined 7% to $647 million. eMobility was down 10% to $147 million.

Eaton provided an outlook for 2025 as well, with the company expecting adjusted earnings-per-share in a range of $11.80 to $12.20 for the year. At the midpoint, this would represent an 11% increase from 2024. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$4.30	$4.21	4.60	$5.35	$5.74	$4.24	$6.62	$7.57	$9.12	$10.80	***$12.00***	***$19.33***
DPS	$2.20	$2.28	$2.40	$2.64	$2.84	$2.92	$3.04	$3.24	$3.44	$3.76	***$3.76***	***$6.06***
Shares[3]	459	449	439	433	416	401	398	400	400	396	***396***	***385***

Eaton's earnings-per-share have increased by nearly 11% over the last decade, but this growth rate accelerates to more than 23% when looking at the last five years. 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 earnings-per-share growth returned very quickly. We reaffirm our expected earnings growth of 10% through 2030.

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.

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[1] Estimated ex-dividend date
[2] Estimated dividend payment date
[3] In millions of shares

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.6	14.6	16.3	14.7	14.3	22.7	26.1	20.7	26.4	30.7	***26.6***	***21.0***
Avg. Yld.	3.5%	3.7%	3.2%	3.4%	3.5%	3.0%	1.8%	2.1%	1.4%	1.1%	***1.2%***	***1.5%***

Shares of Eaton have declined $15, or 4.5%, since our November 4th, 2024 update. Based off revised estimates for 2025, the stock trades with a price-to-earnings multiple of 26.6. Eaton's stock has an average price-to-earnings ratio of 20.1 over the past decade and 25.3 over the last five years. We reaffirm our target P/E ratio of 21 from 19 as this is more reflective of the long-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 2030, then valuation would be a 4.6% headwind to total returns over this time frame. Eaton has a current yield of 1.2%, which is well below the stock's 10-year average of more than 2.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

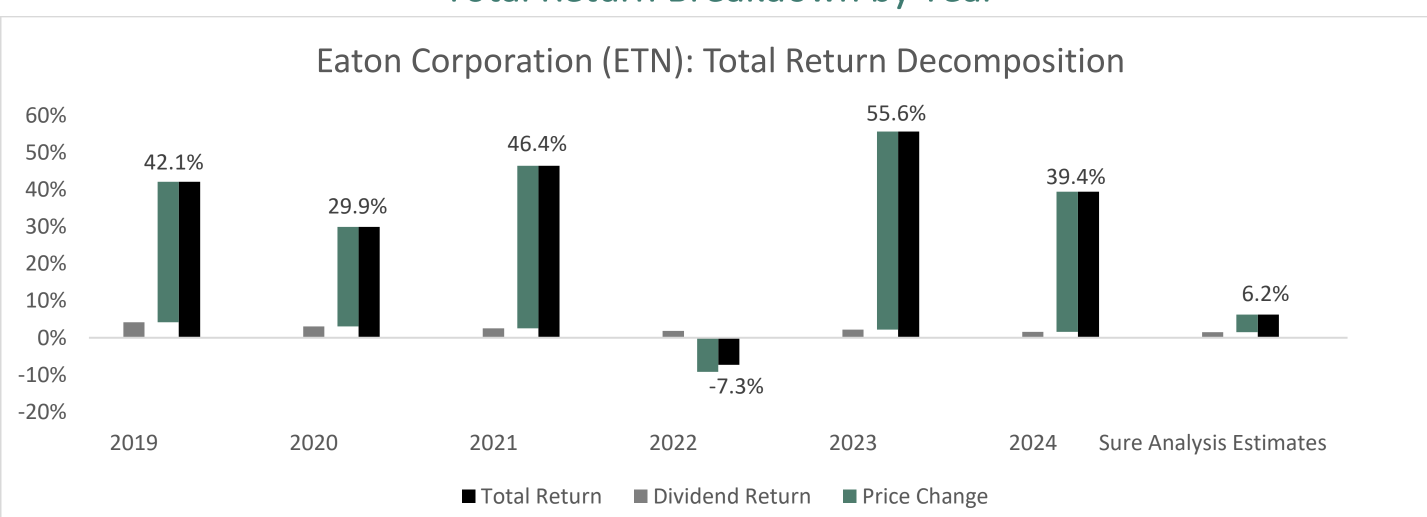
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	51%	54%	52%	49%	49%	69%	46%	43%	38%	35%	***31%***	***31%***

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

Following fourth quarter results, Eaton Corporation is expected to return 6.2% annually through 2030, up from our prior estimate of 3.1%. Our projection stems from a 10% earnings growth rate and a 1.2% starting dividend yield that are offset by a mid-single-digit headwind from multiple compression. Once again, Eaton's businesses largely performed very well during the period, with the company seeing records in multiple areas of the business. 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 $41 to $406 due to EPS estimates for the year and now rate shares of Eaton as a hold due to projected returns.

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	20855	19747	20404	21609	21390	17858	19628	20752	23196	24878
Gross Profit	6551	6351	6648	7098	7052	5450	6335	6887	8434	9503
Gross Margin	31.4%	32.2%	32.6%	32.8%	33.0%	30.5%	32.3%	33.2%	36.4%	38.2%
SG&A Exp.	3596	3464	3526	3548	3583	3075	3256	3227	3795	4077
D&A Exp.	925	929	914	903	884	811	922	954	926	
Operating Profit	2330	2300	2538	2966	2863	1824	2463	2995	3885	4632
Op. Margin	11.2%	11.6%	12.4%	13.7%	13.4%	10.2%	12.5%	14.4%	16.7%	18.6%
Net Profit	1972	1916	2985	2145	2211	1410	2144	2462	3218	3794
Net Margin	9.5%	9.7%	14.6%	9.9%	10.3%	7.9%	10.9%	11.9%	13.9%	15.3%
Free Cash Flow	1903	2073	2146	2093	2864	2555	1588	1935	2867	
Income Tax	159	199	382	278	378	331	750	445	604	768

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	30996	30476	32623	31092	32805	31824	34027	35014	38432	38381
Cash & Equivalents	268	543	561	283	370	438	297	294	488	555
Acc. Receivable	3479	3560	3943	3858	3437	2904	3297	4076	4475	4619
Inventories	2323	2346	2620	2785	2805	2109	2969	3430	3739	4227
Goodwill & Int.	19493	18715	18833	18174	18094	17078	20606	20282	20069	19371
Total Liabilities	15765	15478	15333	14950	16672	16851	17576	17939	19363	19850
Accounts Payable	1758	1718	2166	2130	2114	1987	2797	3072	3365	3678
Long-Term Debt	8414	8277	7751	7521	8322	8058	8579	8655	9269	9152
Total Equity	15186	14954	17253	16107	16082	14930	16413	17038	19036	18488
LTD/E Ratio	0.55	0.55	0.45	0.47	0.52	0.54	0.52	0.51	0.49	0.50

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	6.1%	6.2%	9.5%	6.7%	6.9%	4.4%	6.5%	7.1%	8.8%	9.9%
Return on Equity	12.7%	12.7%	18.5%	12.8%	13.7%	9.1%	13.6%	14.7%	17.8%	20.2%
ROIC	8.1%	8.2%	12.4%	8.8%	9.2%	5.9%	8.9%	9.7%	11.9%	13.5%
Shares Out.	459	449	439	433	416	401	398	400	400	396
Revenue/Share	44.65	43.26	45.65	49.46	50.83	44.20	48.87	51.78	57.83	62.29
FCF/Share	4.07	4.54	4.80	4.79	6.81	6.32	3.95	4.83	7.15	

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