



A.O. Smith Corporation (AOS)

Updated May 1st, 2025 by Jonathan Weber

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	9.1%	Market Cap:	\$9.6B
Fair Value Price:	\$71	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	06/29/25 ¹
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.2%	Dividend Payment Date:	07/16/25 ²
Dividend Yield:	2.0%	5 Year Price Target	\$95	Years Of Dividend Growth:	31
Dividend Risk Score:	A	Sector:	Industrials	Rating:	Buy

Overview & Current Events

A.O. Smith is a leading manufacturer of residential and commercial water heaters, boilers and water treatment products. A.O. Smith generates two-thirds of its sales in North America, and most of the rest in China, whereas the rest of the world is just a small market for A.O. Smith. A.O. Smith has raised its dividend for 31 years in a row, making the company a Dividend Aristocrat. A.O. Smith was founded in 1874 and is headquartered in Milwaukee, WI.

A.O. Smith reported its first quarter earnings results on April 29. The company generated revenues of \$964 million during the quarter, which represents a decline of 2% compared to the prior year's quarter. A.O. Smith's revenues were down by 2% in North America, while the international business was stable compared to the previous year's quarter, despite China sales being down, as growth in other countries offset this.

A.O. Smith generated earnings-per-share of \$0.95 during the first quarter, which was down 5% on a year over year basis. This was caused by lower revenues and lower margins, with buybacks not being able to fully offset these headwinds.

A.O. Smith has reiterated its guidance for 2025. The company is forecasting earnings-per-share in a range of \$3.60 to \$3.90, which reflects that management expects earnings-per-share to be roughly flat this year. At the midpoint of the guidance range, A.O. Smith's earnings-per-share would be up 0.5% versus the earnings-per-share A.O. Smith generated last year. This performance would be better than in 2024, when earnings-per-share declined versus 2023.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.58	\$1.85	\$2.17	\$2.61	\$2.23	\$2.12	\$3.02	\$3.14	\$3.81	\$3.73	\$3.75	\$5.02
DPS	\$0.38	\$0.48	\$0.56	\$0.76	\$0.90	\$0.98	\$1.12	\$1.20	\$1.22	\$1.30	\$1.36	\$1.91
Shares³	176	173	172	171	164	163	160	153	149	147	145	130

A.O. Smith has grown its earnings-per-share at a strong pace for many years, including over the last decade. The company's profits grew relatively consistently during that time frame. The Great Recession did not have an overly large impact on A.O. Smith's profits, as the company easily remained profitable. A.O. Smith continued to increase its dividend throughout the Great Recession and the pandemic, proving solid resilience.

Thanks to a healthy housing market in the U.S., the company has enjoyed consistent growth in the domestic market throughout most of the last decade. For a long time, A.O. Smith's sales performance was even more impressive in China, where sales have grown at a double-digits pace during the last decade. China's huge population, its robust GDP growth, and the booming of its middle class were major tailwinds in this important market. In addition, thanks to the severe pollution of the country, the demand for air purifiers remains strong as well. More recently, a downturn in China's real estate market has weakened A.O. Smith's performance in that country, however. The same growth factors as in China are in place in India as well, which is why A.O. Smith sees India as an important future growth market. Between sales growth potential and buybacks, A.O. Smith should be able to grow its earnings-per-share at a solid pace going forward.

¹ Estimated date

² Estimated date

³ 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	21.6	23.0	25.4	16.5	21.5	25.9	28.5	18.2	21.5	18.2	17.9	19.0
Avg. Yld.	1.1%	1.1%	1.0%	1.9%	1.9%	1.8%	1.3%	2.1%	1.6%	1.9%	2.0%	2.0%

A.O. Smith's valuation was low during the Great Recession, but the stock's earnings multiple expanded quickly in the following years. A.O. Smith was valued at more than 20 times earnings throughout the majority of the last decade. We believe that a 19 times earnings multiple would represent a fair valuation for the company's shares. This is less than the company's long-term median earnings multiple, but since A.O. Smith's growth will not remain at the very high levels seen in the past, we think a reduction in the fair value multiple is justified. Based on the earnings estimate for 2025, shares are trading slightly below fair value, which should be a bit of a total return tailwind going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	24%	26%	26%	29%	40%	46%	37%	38%	32%	35%	36%	38%

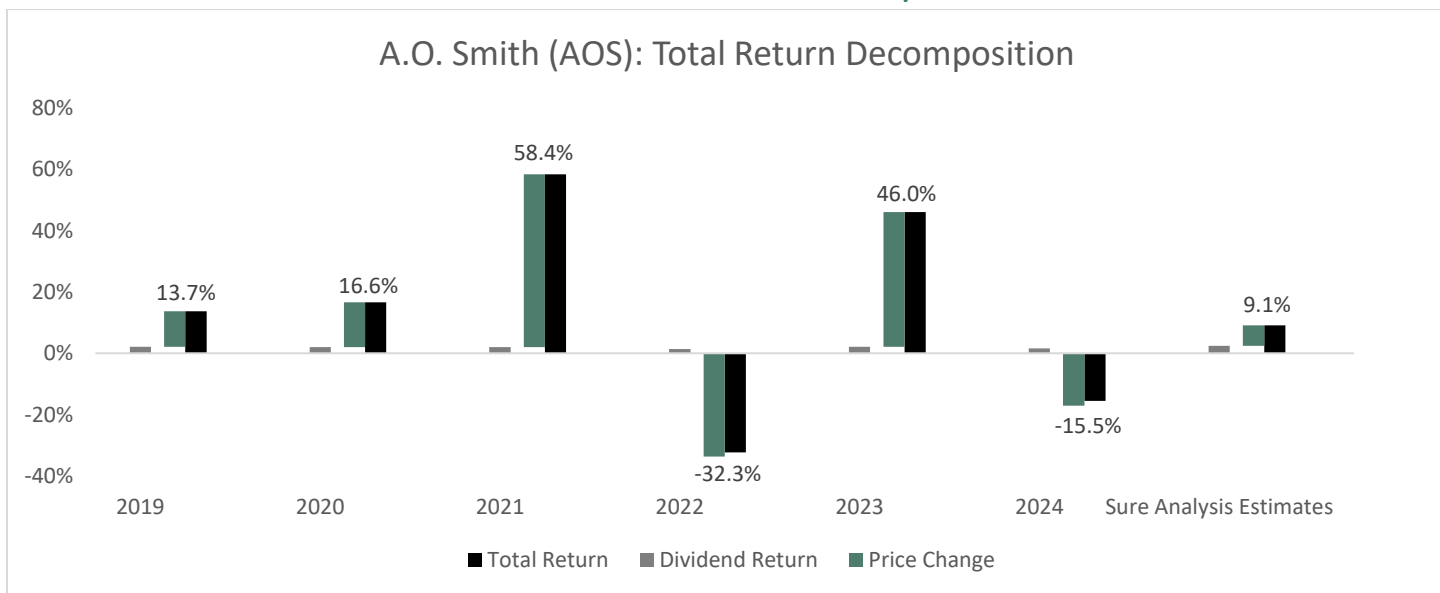
A.O. Smith has raised its dividend at an attractive pace over the last decade, although the relative growth rate has declined to some degree. The payout ratio grew over the last year but is still far from high. A.O. Smith will likely continue to raise the dividend at a solid pace, which will, we believe, result in further growth in the company's payout ratio. Despite the payout ratio increases, the dividend looks pretty safe, we believe.

A.O. Smith has exposure to the housing industry, which means that the company's underlying operations are impacted by troubles in the housing market. A.O. Smith not only sells to homebuilders, however, as replacement demand results in a solid revenue baseline even during downturns.

Final Thoughts & Recommendation

A.O. Smith has been a quality growth stock that provided excellent dividend growth and substantial share price gains in the past. Demand for A.O. Smith's products should remain healthy in the long run, which is why we forecast meaningful earnings-per-share growth in the coming years. Shares should provide compelling total returns and trade below our fair value estimate, which is why we rate A.O. Smith a buy today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	2,537	2,686	2,997	3,188	2,993	2,895	3,539	3,754	3,853	3,818
Gross Profit	1,010	1,114	1,232	1,306	1,181	1,108	1,311	1,330	1,485	1,456
Gross Margin	39.8%	41.5%	41.1%	41.0%	39.5%	38.3%	37.0%	35.4%	38.5%	38.1%
SG&A Exp.	611	663	723	754	716	660	701	671	727	739
D&A Exp.	63	65	70	72	78	80	78	77	78	79
Operating Profit	399	452	510	552	465	448	610	659	757	717
Operating Margin	15.7%	16.8%	17.0%	17.3%	15.5%	15.5%	17.2%	17.5%	19.7%	18.8%
Net Profit	283	327	297	444	370	345	487	236	557	534
Net Margin	11.2%	12.2%	9.9%	13.9%	12.4%	11.9%	13.8%	6.3%	14.4%	14.0%
Free Cash Flow	279	366	232	364	392	505	566	321	598	474
Income Tax	120	136	224	114	102	99	139	(12)	177	167

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,629	2,891	3,197	3,072	3,058	3,161	3,474	3,332	3,214	3,240
Cash & Equivalents	324	330	347	260	374	573	443	391	340	240
Accounts Receivable	501	519	593	647	590	585	634	581	596	541
Inventories	223	251	297	305	303	300	448	516	497	532
Goodwill & Int. Ass.	712	800	825	806	884	871	993	968	970	1,083
Total Liabilities	1,187	1,376	1,553	1,355	1,391	1,312	1,642	1,585	1,370	1,357
Accounts Payable	425	529	535	544	510	595	746	626	600	589
Long-Term Debt	249	324	410	221	284	113	197	345	127	193
Shareholder's Equity	1,442	1,515	1,645	1,717	1,667	1,848	1,832	1,748	1,844	1,884
LTD/E Ratio	0.17	0.21	0.25	0.13	0.17	0.06	0.11	0.20	0.07	0.10

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	11.0%	11.8%	9.7%	14.2%	12.1%	11.1%	14.7%	6.9%	17.0%	16.5%
Return on Equity	20.0%	22.1%	18.8%	26.4%	21.9%	19.6%	26.5%	13.2%	31.0%	28.6%
ROIC	17.2%	18.5%	15.2%	22.2%	19.0%	17.6%	24.4%	11.4%	27.4%	26.4%
Shares Out.	176	173	172	171	164	163	160	153	149	147
Revenue/Share	14.17	15.19	17.16	18.51	17.95	17.81	21.94	24.10	25.51	25.96
FCF/Share	1.56	2.07	1.33	2.11	2.35	3.11	3.51	2.06	3.96	3.22

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

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