



BorgWarner Inc. (VMC)

Updated October 1st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	8.1%	Market Cap:	\$10 billion
Fair Value Price:	\$47	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/30/2021 ¹
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.8%	Dividend Payment Date:	12/15/2021 ²
Dividend Yield:	1.6%	5 Year Price Target	\$60	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	21.4% (2017)

Overview & Current Events

BorgWarner supplies highly engineered components and systems for automotive powertrain applications. The company supplies products to some of the top names in vehicle manufacturing, including Ford and Volkswagen. BorgWarner has four operating segments, including Air Management, which makes turbochargers and emissions systems, E-propulsion & Drivetrain Group, which makes transmission components and control modules, Fuel Injection Group and Aftermarket. The company generated revenues of just over \$10 billion last year.

BorgWarner reported second quarter earnings results on 8/4/2021. Revenue surged 163% to \$3.76 billion, beating analysts' estimates by \$280 million. Adjusted earnings-per-share of \$1.08 compared extremely favorably to a loss of -\$0.14 in the prior year and was \$0.28 better than expected.

Organic sales were up nearly 72% as BorgWarner lapped its weakest quarter of 2020, which felt the worst of the COVID-19 pandemic impact. Air Management, E-propulsion & Drivetrain, Fuel Injection and Aftermarket had organic sales growth of 82%, 67.6%, 77.6% and 69%, respectively. BorgWarner's purchase of Delphi in October of 2020 added \$1 billion to quarterly sales.

The second quarter of 2020 was BorgWarner's worst quarter of the year as this was the period of time that the impact from the COVID-19 pandemic left its greatest mark. Revenue fell 44% and earnings-per-share were negative. Topping last year's results was going to be fairly easy.

Not only did the most recent quarter surpass last year's result, but adjusted earnings-per-share came in \$0.14 higher and revenue jumped nearly 48% from Q2 2019. Even without the addition of Delphi, revenue still topped Q2 2019.

BorgWarner has guided towards revenue of \$15.2 billion to \$15.6 billion for 2021. Adjusted earnings-per-share are expected to be in a range of \$4.15 to \$4.40.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.23	\$2.49	\$2.89	\$3.25	\$3.02	\$3.27	\$3.89	\$4.49	\$4.13	\$2.69	\$4.28	\$5.46
DPS	---	---	\$0.25	\$0.51	\$0.52	\$0.53	\$0.59	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68
Shares³	217	231	228	226	219	212	211	208	206	239	241	241

BorgWarner have been on a roller coaster ride over the last decade. Earnings-per-share barely budged from 2011 through 2020, equating to a compound annual growth rate of just 1.9% during this period of time. The five-year CAGR is even worse at -3.8%. Of course, the both the long- and medium-term growth rates were impacted by COVID-19. The previous 10 years had seen an annual growth rate of nearly 7%. Achieving the midpoint of company guidance for 2021 would be a 3.6% improvement from pre-pandemic levels. We believe an earnings-per-share growth rate of 5% takes into account the demand for the company's highly engineered products from some of the largest automakers in the world with the cyclical nature of its business.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ 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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BorgWarner has paid a dividend every year since 2013. After more than doubling its payment in 2014, dividend growth has been minimal and rare. The dividend has a compound annual growth rate of 5% since 2016, but BorgWarner has not raised its dividend since late 2017 even with a very low payout ratio. We do not anticipate the dividend growing in the near term.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	16.0	14.5	15.5	18.3	17.2	10.6	11.6	10.3	9.6	13	10.0	11.0
Avg. Yld.	---	---	0.6%	0.9%	1.0%	1.5%	1.3%	1.5%	1.5%	1.9%	1.6%	1.1%

BorgWarner's valuation has traded with a wide range since 2011, stretching from the low single-digits to the high teens. We believe a multiple of 11 times earnings, near the recent average, is a fair place to start for a 2026 target valuation. Using the current share price of \$43 and the midpoint of expected earnings-per-share, BorgWarner currently trades with a price-to-earnings ratio of 10. This implies a 1.8% tailwind to annual returns through 2026.

The company hasn't raised its dividend in several years, but BorgWarner's current yield is slightly superior to that of the S&P 500 index. The company has also had very low payout ratios stretching back to when the dividend was initiated.

Safety, Quality, Competitive Advantage, & Recession Resiliency

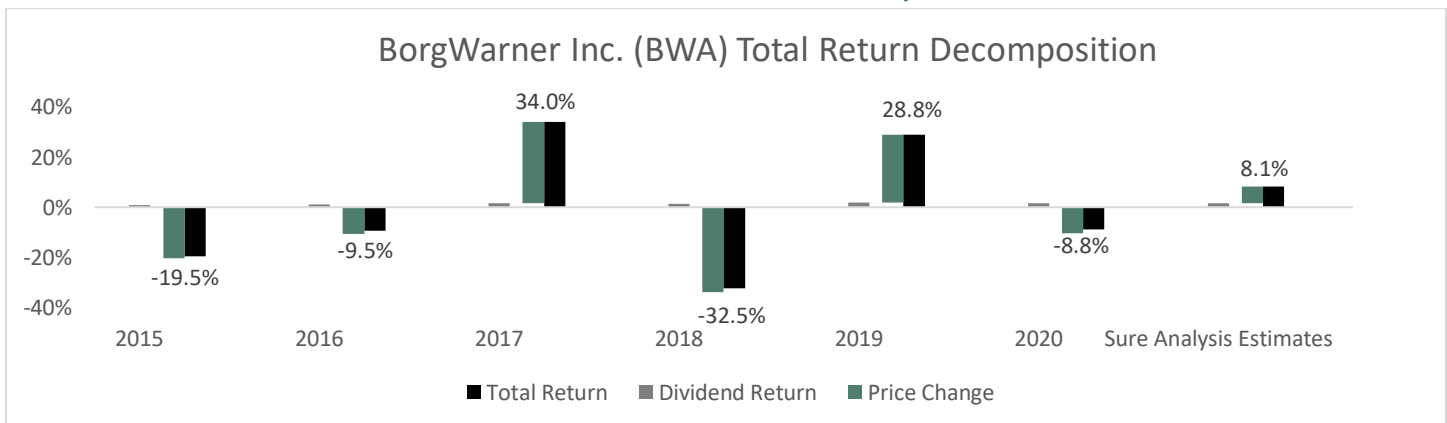
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	9%	16%	17%	16%	15%	15%	16%	25%	16%	12%

BorgWarner may not be a household name in the auto-parts industry, but the company's products are in great demand. Ford, which accounts for 13% of annual sales, and Volkswagen, which contributes 11% of annual sales, are its two largest customers. With some of the world's largest automakers as customers, BorgWarner has a distinct advantage against would-be competitors. The company is also very diversified, with roughly a third of revenues coming from Asia, Europe and North America each. That said, BorgWarner is not immune to the impacts of a recession as seen by the company's 91% decline in earnings-per-share from 2007 to 2009. We would expect a similar decline in the next downturn.

Final Thoughts & Recommendation

BorgWarner is expected to return 8.1% annually through 2026. Our projected return stems from a 5% earnings growth rate, a 1.6% starting yield and a small contribution from multiple expansion. We are intrigued by the BorgWarner's industry position, but would wait for a pullback before purchasing shares of the company. Shares earn a hold recommendation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	7,115	7,183	7,437	8,305	8,023	9,071	9,799	10,530	10,168	10,165
Gross Profit	1,410	1,467	1,558	1,756	1,703	1,929	2,115	2,230	2,101	1,910
Gross Margin	19.8%	20.4%	20.9%	21.1%	21.2%	21.3%	21.6%	21.2%	20.7%	18.8%
SG&A Exp.	621	647	646	702	688	818	899	946	873	951
Operating Profit	789	820	912	1,054	1,015	1,111	1,216	1,288	1,230	925
Op. Margin	11.1%	11.4%	12.3%	12.7%	12.7%	12.2%	12.4%	12.2%	12.1%	9.1%
Net Profit	550	501	624	656	577	595	440	931	746	500
Net Margin	7.7%	7.0%	8.4%	7.9%	7.2%	6.6%	4.5%	8.8%	7.3%	4.9%
Free Cash Flow	315	471	301	239	291	535	620	580	527	723
Income Tax	195	239	218	293	262	306	580	211	468	397

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5,959	6,401	6,917	7,228	8,826	8,835	9,788	10,095	9,702	16,029
Cash & Equivalents	360	716	940	798	578	444	545	739	832	1,650
Acc. Receivable	1,037	1,015	1,068	1,201	1,424	1,448	1,736	1,728	1,713	2,636
Inventories	454	448	458	506	724	641	766	781	807	1,286
Goodwill & Int.	1,430	1,388	1,367	1,357	2,302	2,166	2,375	2,292	2,244	3,723
Total Liabilities	3,506	3,255	3,285	3,537	5,194	5,533	5,962	5,750	4,858	9,305
Accounts Payable	870	855	935	979	1,226	1,259	1,546	1,485	1,325	2,352
Long-Term Debt	1,329	1,067	1,223	1,340	2,550	2,220	2,188	2,114	1,960	3,787
Total Equity	2,388	3,083	3,561	3,616	3,554	3,218	3,717	4,226	4,706	6,428
D/E Ratio	0.56	0.35	0.34	0.37	0.72	0.69	0.59	0.50	0.42	0.59

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.6%	8.1%	9.4%	9.3%	7.2%	6.7%	4.7%	9.4%	7.5%	3.9%
Return on Equity	23.7%	18.3%	18.8%	18.3%	16.1%	17.6%	12.7%	23.4%	16.7%	9.0%
ROIC	15.1%	12.5%	13.8%	13.3%	10.3%	10.2%	7.6%	14.9%	11.2%	5.8%
Shares Out.	217	231	228	226	219	212	211	208	206	239
Revenue/Share	27.69	29.59	32.15	36.28	35.56	42.13	46.33	50.26	49.17	47.50
FCF/Share	1.22	1.94	1.30	1.04	1.29	2.49	2.93	2.77	2.55	3.38

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

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