



BorgWarner Inc. (BWA)

Updated May 7th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$38	5 Year CAGR Estimate:	9.8%	Market Cap:	\$9.1 billion
Fair Value Price:	\$45	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	05/31/2022
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.4%	Dividend Payment Date:	06/15/2022
Dividend Yield:	1.8%	5 Year Price Target	\$57	Years Of Dividend Growth:	N/A
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

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 generates annual revenue of about \$16 billion.

On May 4th, 2022, BorgWarner released first quarter results for the period ending March 31st, 2022. Revenue decreased 3.5% to \$3.87 billion, but was \$160 million above estimates. Adjusted earnings-per-share of \$1.05 compared unfavorably to \$1.21 in the prior year, but topped expectations by \$0.19.

Organic sales increased 1% year-over-year. E-propulsion & Drivetrain and Air Management had an organic sales decline of 0.3% and 0.5%, respectively. However, both figures were a sequential improvement. Fuel Injection improved 1.5% while Aftermarket was up 10.7%.

BorgWarner provided an updated outlook for 2022 as well, with the company expecting revenue of \$15.5 billion to \$16 billion for the year, down from \$15.9 billion to \$16.5 billion previously. Adjusted earnings-per-share are now expected in a range of \$3.90 to \$4.25, down from \$4.15 to \$4.60. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.49	\$2.89	\$3.25	\$3.02	\$3.27	\$3.89	\$4.49	\$4.13	\$2.69	\$4.15	\$4.08	\$5.21
DPS	---	\$0.25	\$0.51	\$0.52	\$0.53	\$0.59	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68
Shares¹	231	228	226	219	212	211	208	206	239	240	239	239

BorgWarner have been on a roller coaster ride over the last decade. Earnings-per-share barely budged from 2011 through 2020, though this was mostly due to the impact of COVID-19 on the business. The earnings growth rate over the last decade is 5.2%. 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.

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.5	15.5	18.3	17.2	10.6	11.6	10.3	9.6	13	10.9	9.3	11.0
Avg. Yld.	---	0.6%	0.9%	1.0%	1.5%	1.3%	1.5%	1.5%	1.9%	1.5%	1.8%	1.2%

¹ Share count in millions

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Shares of the company have decreased \$7, or 15.6%, since our February 15th, 2022 report. BorgWarner’s valuation has traded with a wide range since 2012, 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 2027 target valuation. Using the midpoint of expected earnings-per-share for the year, BorgWarner currently trades with a price-to-earnings ratio of 9.3. This implies a 3.4% contribution from multiple expansion to annual returns through 2027.

The company hasn’t raised its dividend in several years, but BorgWarner’s current yield is above 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

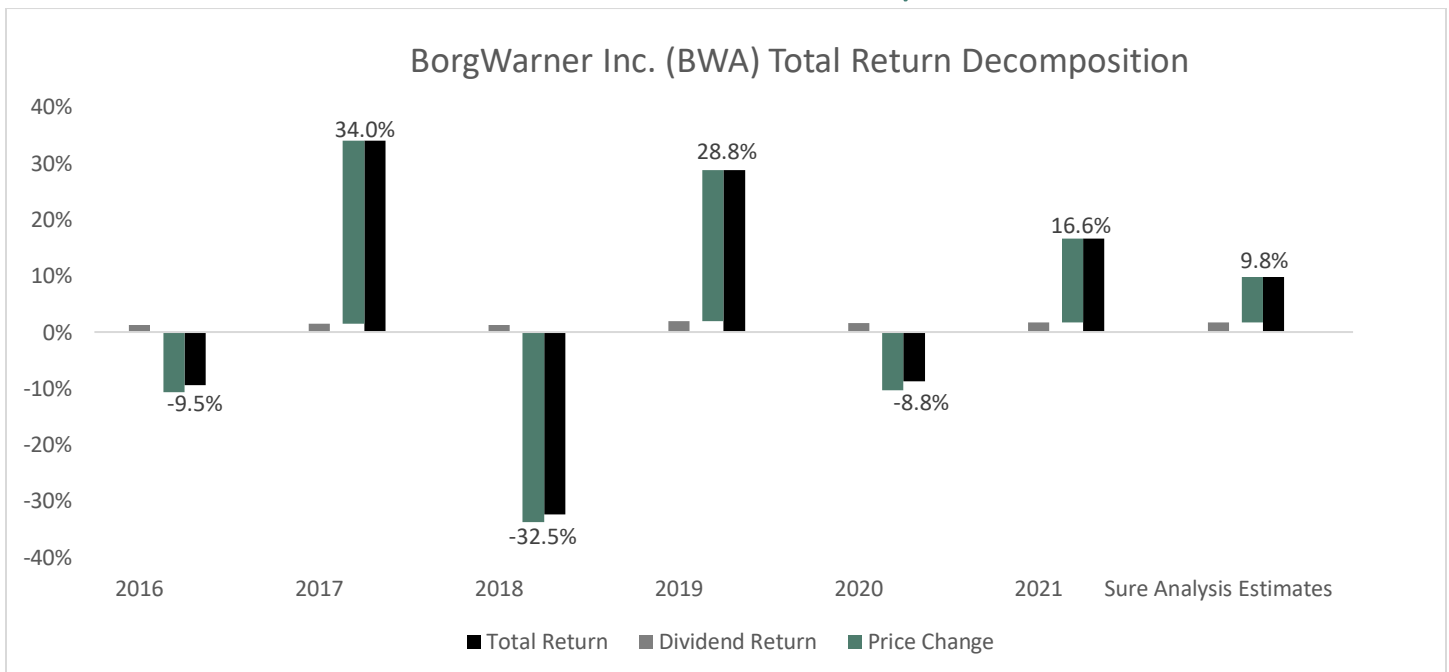
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	9%	165	17%	16%	15%	15%	16%	25%	16%	17%	13%

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 9.8% annually through 2027, up from our previous estimate of 7.6%. Our projected return stems from a 5% earnings growth rate, a 1.8% starting yield, and a low single-digit contribution from multiple expansion. We are enthused by the BorgWarner’s industry position. Organic sales still declined in the company’s two largest businesses, but note that the decline was less severe than the prior quarter. We have lowered our 2027 price target \$4 to \$57 due to company guidance for 2027. BorgWarner continues to earn a hold recommendation due to projected returns, but a further pullback would have us more bullish on the name.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	7,183	7,437	8,305	8,023	9,071	9,799	10,530	10,168	10,165	14,838
Gross Profit	1,467	1,558	1,756	1,703	1,929	2,115	2,230	2,101	1,910	2,855
Gross Margin	20.4%	20.9%	21.1%	21.2%	21.3%	21.6%	21.2%	20.7%	18.8%	19.2%
SG&A Exp.	647	646	702	688	818	899	946	873	951	1,460
Operating Profit	289	299	330	320	391	408	431			
Op. Margin	820	912	1,054	1,015	1,111	1,216	1,288	1,230	925	1,314
Net Profit	11.4%	12.3%	12.7%	12.7%	12.2%	12.4%	12.2%	12.1%	9.1%	8.9%
Net Margin	501	624	656	577	595	440	931	746	500	537
Free Cash Flow	7.0%	8.4%	7.9%	7.2%	6.6%	4.5%	8.8%	7.3%	4.9%	3.6%
Income Tax	471	301	239	291	535	620	580	527	723	638

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,401	6,917	7,228	8,826	8,835	9,788	10,095	9,702	16,029	16,575
Cash & Equivalents	716	940	798	578	444	545	739	832	1,650	1,841
Acc. Receivable	1,015	1,068	1,201	1,424	1,448	1,736	1,728	1,713	2,636	2,522
Inventories	448	458	506	724	641	766	781	807	1,286	1,534
Goodwill & Int.	1,388	1,367	1,357	2,302	2,166	2,375	2,292	2,244	3,723	4,370
Total Liabilities	3,255	3,285	3,537	5,194	5,533	5,962	5,750	4,858	9,305	9,313
Accounts Payable	855	935	979	1,226	1,259	1,546	1,485	1,325	2,352	2,276
Long-Term Debt	1,067	1,223	1,340	2,550	2,220	2,188	2,114	1,960	3,787	4,327
Total Equity	3,083	3,561	3,616	3,554	3,218	3,717	4,226	4,706	6,428	6,948
LTD/E Ratio	0.35	0.34	0.37	0.72	0.69	0.59	0.50	0.42	0.59	0.62

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	8.1%	9.4%	9.3%	7.2%	6.7%	4.7%	9.4%	7.5%	3.9%	3.3%
Return on Equity	18.3%	18.8%	18.3%	16.1%	17.6%	12.7%	23.4%	16.7%	9.0%	8.0%
ROIC	12.5%	13.8%	13.3%	10.3%	10.2%	7.6%	14.9%	11.2%	5.8%	4.9%
Shares Out.	231	228	226	219	212	211	208	206	239	240
Revenue/Share	29.59	32.15	36.28	35.56	42.13	46.33	50.26	49.17	47.50	61.88
FCF/Share	1.94	1.30	1.04	1.29	2.49	2.93	2.77	2.55	3.38	2.66

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

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