



# BorgWarner Inc. (BWA)

Updated February 21<sup>st</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$50	<b>5 Year CAGR Estimate:</b>	7.0%	<b>Market Cap:</b>	\$11.6 billion
<b>Fair Value Price:</b>	\$52	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	02/28/2023
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.9%	<b>Dividend Payment Date:</b>	03/15/2023
<b>Dividend Yield:</b>	1.4%	<b>5 Year Price Target</b>	\$67	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	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 \$17 billion.

On February 9<sup>th</sup>, 2023, BorgWarner announced fourth quarter and full year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, revenue was higher by 12.4% to \$4.11 billion, which was \$219 million more than expected. Adjusted earnings-per-share of \$1.26 compared favorably to \$1.06 in the prior year and beat estimates by \$0.18. For the year, revenue grew 6.5% to \$15.8 billion while adjusted earnings-per-share of \$4.60 compared \$4.15 in 2021.

Organic sales increased 21.3% for the quarter and 14% for the year. For the quarter, the Air Management, E-propulsion & Drivetrain, Fuel Injection, and Aftermarket segments had organic growth sales of 18.1%, 29.3%, 18.4%, and 14.7%, respectively.

BorgWarner provided an outlook for 2023 as well, with the company expecting revenue of \$16.7 billion to \$17.5 billion. Organic growth is expected to be 7% to 12% for the year. Adjusted earnings-per-share are projected to be in a range of \$4.50 to \$5.00. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$2.89	\$3.25	\$3.02	\$3.27	\$3.89	\$4.49	\$4.13	\$2.69	\$4.15	\$4.60	<b>\$4.75</b>	<b>\$6.06</b>
<b>DPS</b>	\$0.25	\$0.51	\$0.52	\$0.53	\$0.59	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	<b>\$0.68</b>	<b>\$0.68</b>
<b>Shares<sup>1</sup></b>	228	226	219	212	211	208	206	239	240	235	<b>235</b>	<b>230</b>

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 4.8%. 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. The company also has a sizeable presence in the electric vehicle market and expects to generate revenue of ~\$4.3 billion from this channel by 2025. For 2023, BorgWarner projects that electric vehicle revenue will be in a range of \$1.5 billion to \$1.8 billion for 2023, which compares to \$870 million in 2022.

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.

<sup>1</sup> Share count in millions

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## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	15.5	18.3	17.2	10.6	11.6	10.3	9.6	13.0	10.9	8.8	<b>10.5</b>	<b>11.0</b>
Avg. Yld.	0.6%	0.9%	1.0%	1.5%	1.3%	1.5%	1.5%	1.9%	1.5%	1.7%	<b>1.4%</b>	<b>1.0%</b>

Shares of the company have increased \$12, or 3.16%, since our October 29<sup>th</sup>, 2022 report. BorgWarner's valuation has traded with a wide range since 2013, stretching from the high 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 2028 target valuation. Using the midpoint of expected earnings-per-share for the year, BorgWarner currently trades with a price-to-earnings ratio of 10.5. This implies a 0.9% contribution from multiple expansion to annual returns through 2028.

The company hasn't raised its dividend in several years, but BorgWarner's current yield is nearly in-line with 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

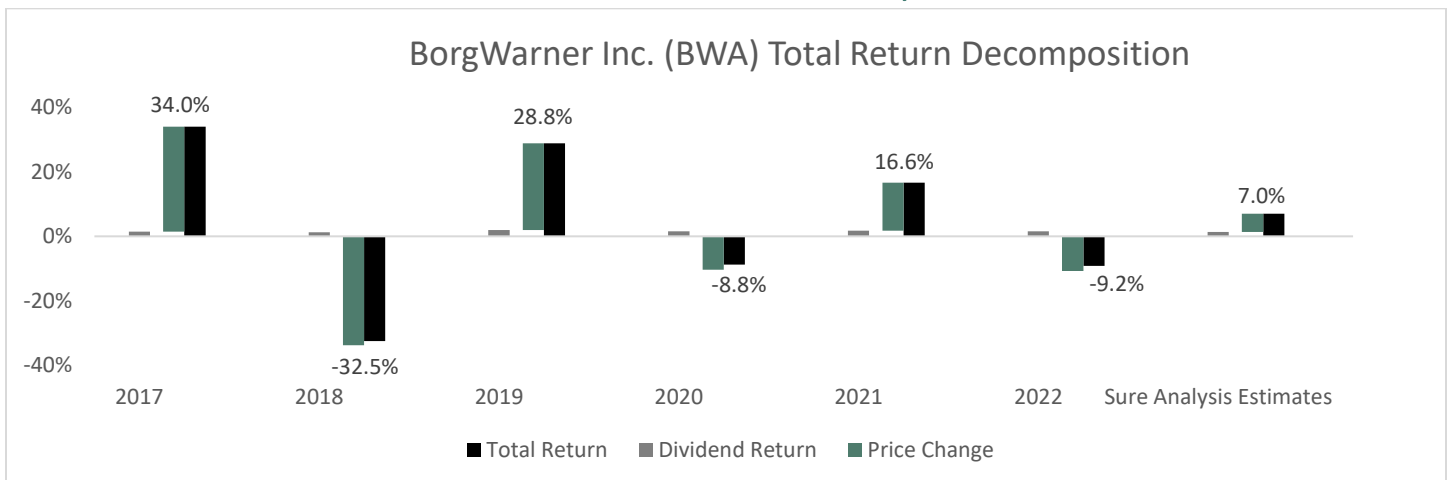
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	9%	16%	17%	16%	15%	15%	16%	25%	16%	15%	<b>14%</b>	<b>11%</b>

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 7.0% annually through 2028, down from our previous estimate of 11.2%. Our projected return stems from a 5% earnings growth rate, a 1.4% starting yield, and a small contribution from multiple expansion. We remain enthused by the BorgWarner's industry position, especially in the area of electric vehicles. Organic sales were up considerably throughout the company once again, showing broad strength. We have raised our 2028 price target \$6 to \$67 due to company guidance for 2028, but now rate shares of BorgWarner as a hold due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	7,437	8,305	8,023	9,071	9,799	10,530	10,168	10,165	14,838	15,801
<b>Gross Profit</b>	1,558	1,756	1,703	1,929	2,115	2,230	2,101	1,910	2,855	3,101
<b>Gross Margin</b>	20.9%	21.1%	21.2%	21.3%	21.6%	21.2%	20.7%	18.8%	19.2%	19.6%
<b>SG&amp;A Exp.</b>	646	702	688	818	899	946	873	951	1,460	1,610
<b>Operating Profit</b>	299	330	320	391	408	431	439	568	772	721
<b>Op. Margin</b>	912	1,054	1,015	1,111	1,216	1,288	1,228	921	1,343	1,471
<b>Net Profit</b>	12.3%	12.7%	12.7%	12.2%	12.4%	12.2%	12.1%	9.1%	9.1%	9.3%
<b>Net Margin</b>	624	656	577	595	440	931	746	500	537	944
<b>Free Cash Flow</b>	8.4%	7.9%	7.2%	6.6%	4.5%	8.8%	7.3%	4.9%	3.6%	6.0%
<b>Income Tax</b>	301	239	291	535	620	580	527	723	638	846

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	6,917	7,228	8,826	8,835	9,788	10,095	9,702	16,029	16,575	16,994
<b>Cash &amp; Equivalents</b>	940	798	578	444	545	739	832	1,650	1,841	1,338
<b>Acc. Receivable</b>	1,068	1,201	1,424	1,448	1,736	1,728	1,713	2,636	2,522	2,823
<b>Inventories</b>	458	506	724	641	766	781	807	1,286	1,534	1,687
<b>Goodwill &amp; Int.</b>	1,367	1,357	2,302	2,166	2,375	2,292	2,244	3,723	4,370	4,448
<b>Total Liabilities</b>	3,285	3,537	5,194	5,533	5,962	5,750	4,858	9,305	9,313	9,486
<b>Accounts Payable</b>	935	979	1,226	1,259	1,546	1,485	1,325	2,352	2,276	2,684
<b>Long-Term Debt</b>	1,223	1,340	2,550	2,220	2,188	2,114	1,960	3,787	4,327	4,228
<b>Total Equity</b>	3,561	3,616	3,554	3,218	3,717	4,226	4,706	6,428	6,948	7,224
<b>LTD/E Ratio</b>	0.34	0.37	0.72	0.69	0.59	0.50	0.42	0.59	0.62	0.59

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	9.4%	9.3%	7.2%	6.7%	4.7%	9.4%	7.5%	3.9%	3.3%	5.6%
<b>Return on Equity</b>	18.8%	18.3%	16.1%	17.6%	12.7%	23.4%	16.7%	9.0%	8.0%	13.3%
<b>ROIC</b>	13.8%	13.3%	10.3%	10.2%	7.6%	14.9%	11.2%	5.8%	4.9%	8.1%
<b>Shares Out.</b>	228	226	219	212	211	208	206	239	240	235
<b>Revenue/Share</b>	32.15	36.28	35.56	42.13	46.33	50.26	49.17	47.50	61.88	66.73
<b>FCF/Share</b>	1.30	1.04	1.29	2.49	2.93	2.77	2.55	3.38	2.66	3.57

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

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