



BorgWarner Inc. (BWA)

Updated November 7th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	11.1%	Market Cap:	\$7.6 Billion
Fair Value Price:	\$41	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	12/01/2023 ¹
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.9%	Dividend Payment Date:	12/15/2023 ²
Dividend Yield:	1.4%	5 Year Price Target	\$52	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Buy

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 five operating segments, including Air Management, which makes turbochargers and emissions systems, E-propulsion & Drivetrain Group, which makes transmission components and control modules, Fuel Systems, Drivetrain & Battery Systems, and Aftermarket. The company generates annual revenue of about \$14 billion.

On July 3rd, 2023, BorgWarner announced that it had spun off its Fuel Systems and Aftermarket segments into PHINA (PHIN).

On July 27th, 2023, BorgWarner reduced its quarterly dividend by 35.3% to \$0.11.

On November 2nd, 2023, BorgWarner reported third quarter results for the period ending September 30th, 2023. For the quarter, revenue declined 10.8% to \$3.62 billion, which was \$110 million below estimates. Adjusting for the spinoff of businesses, sales were higher by 12%. Adjusted earnings-per-share of \$0.98 compared unfavorably to \$1.24 in the prior year, but were \$0.04 better than expected.

Organic sales increased 12% for the period. The Drivetrain & Battery Systems, E-propulsion, and Air Management segments had organic growth sales of 20.0%, 16.8%, and 5.5%, respectively.

BorgWarner provided an updated outlook for 2023 as well, with the company now expecting revenue in a range of \$14.1 billion to \$14.3 billion, down from \$14.2 billion to \$14.6 billion, \$17.1 billion to \$17.9 billion, and \$16.7 billion to \$17.5 billion previously. Adjusted earnings-per-share are projected to be in a range of \$3.60 to \$3.80 for the year, compared to \$3.50 to \$3.85, \$4.60 to \$5.15, and \$4.50 to \$5.00 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.89	\$3.25	\$3.02	\$3.27	\$3.89	\$4.49	\$4.13	\$2.69	\$4.15	\$4.60	\$3.70	\$4.72
DPS	\$0.25	\$0.51	\$0.52	\$0.53	\$0.59	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.44	\$0.44
Shares³	228	226	219	212	211	208	206	239	240	235	235	230

BorgWarner shares 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 reaffirm our earnings-per-share growth rate of 5% as this 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 \$2.0 billion to \$2.1 billion for 2023, which is down slightly from its prior forecast. This is still an improvement from sales of \$1.5 billion in 2022.

¹ Estimated ex-dividend date.

² Estimated dividend payment date.

³ Share count in millions.

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BorgWarner had paid a dividend every year since 2013. After more than doubling its payment in 2014, dividend growth had been minimal and rare. The dividend was recently cut, but this is mostly due to the spin-off of its Fuel Systems and Aftermarket businesses. We believe that the current annualized dividend of \$0.44 is safe.

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	8.6	11.0
Avg. Yld.	0.6%	0.9%	1.0%	1.5%	1.3%	1.5%	1.5%	1.9%	1.5%	1.7%	1.4%	0.8%

Shares of the company have declined \$11, or 25.6%, since our August 5th, 2023 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 8.6. This implies a 4.9% benefit to annual returns from multiple expansion through 2028.

BorgWarner's current yield is now below the average of the S&P 500 index. The company has had a very low payout ratios stretching back to when the dividend was initiated.

Safety, Quality, Competitive Advantage, & Recession Resiliency

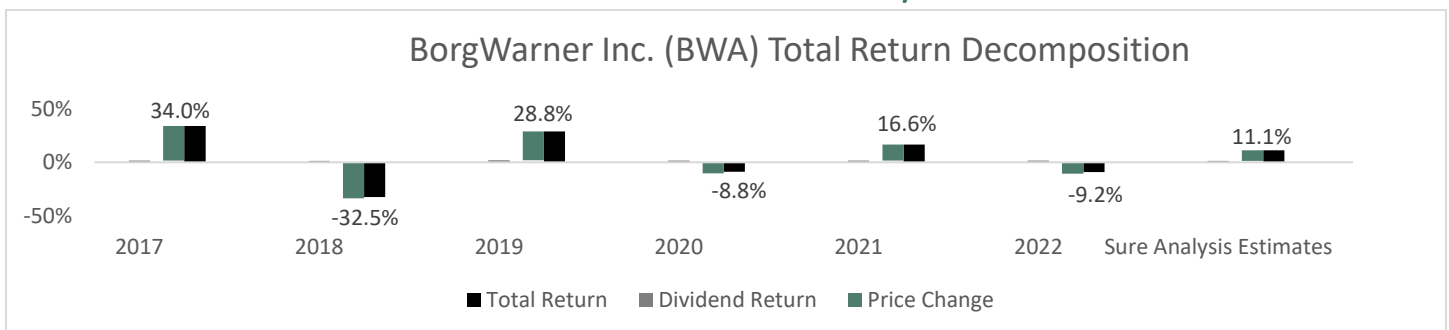
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	9%	165	17%	16%	15%	15%	16%	25%	16%	15%	12%	9%

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 11.1% annually through 2028, up from our previous estimate of 4.6%. Our projected return stems from a 5% earnings growth rate, a 1.4% starting yield, and a mid-single-digit contribution from multiple expansion. We remain enthused by the BorgWarner's industry position, especially in the area of electric vehicles. Organic sales momentum that occurred last year continued into the most recent quarter. The company has undergone a sizeable change in its business following the spin-off. Shares sold off following the guidance reset, but the stock is now much more attractively priced in our view. We maintain our 2028 price target of \$52 due to company guidance for 2023, but now rate shares of BorgWarner as a buy 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
Revenue	7,437	8,305	8,023	9,071	9,799	10,530	10,168	10,165	14,838	15,801
Gross Profit	1,558	1,756	1,703	1,929	2,115	2,230	2,101	1,910	2,855	3,101
Gross Margin	20.9%	21.1%	21.2%	21.3%	21.6%	21.2%	20.7%	18.8%	19.2%	19.6%
SG&A Exp.	646	702	688	818	899	946	873	951	1,460	1,610
Operating Profit	299	330	320	391	408	431	439	568	772	721
Op. Margin	912	1,054	1,015	1,111	1,216	1,288	1,228	921	1,343	1,471
Net Profit	12.3%	12.7%	12.7%	12.2%	12.4%	12.2%	12.1%	9.1%	9.1%	9.3%
Net Margin	624	656	577	595	440	931	746	500	537	944
Free Cash Flow	8.4%	7.9%	7.2%	6.6%	4.5%	8.8%	7.3%	4.9%	3.6%	6.0%
Income Tax	301	239	291	535	620	580	527	723	638	846

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	6,917	7,228	8,826	8,835	9,788	10,095	9,702	16,029	16,575	16,994
Cash & Equivalents	940	798	578	444	545	739	832	1,650	1,841	1,338
Acc. Receivable	1,068	1,201	1,424	1,448	1,736	1,728	1,713	2,636	2,522	2,823
Inventories	458	506	724	641	766	781	807	1,286	1,534	1,687
Goodwill & Int.	1,367	1,357	2,302	2,166	2,375	2,292	2,244	3,723	4,370	4,448
Total Liabilities	3,285	3,537	5,194	5,533	5,962	5,750	4,858	9,305	9,313	9,486
Accounts Payable	935	979	1,226	1,259	1,546	1,485	1,325	2,352	2,276	2,684
Long-Term Debt	1,223	1,340	2,550	2,220	2,188	2,114	1,960	3,787	4,327	4,228
Total Equity	3,561	3,616	3,554	3,218	3,717	4,226	4,706	6,428	6,948	7,224
LTD/E Ratio	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
Return on Assets	9.4%	9.3%	7.2%	6.7%	4.7%	9.4%	7.5%	3.9%	3.3%	5.6%
Return on Equity	18.8%	18.3%	16.1%	17.6%	12.7%	23.4%	16.7%	9.0%	8.0%	13.3%
ROIC	13.8%	13.3%	10.3%	10.2%	7.6%	14.9%	11.2%	5.8%	4.9%	8.1%
Shares Out.	228	226	219	212	211	208	206	239	240	235
Revenue/Share	32.15	36.28	35.56	42.13	46.33	50.26	49.17	47.50	61.88	66.73
FCF/Share	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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