



BorgWarner Inc. (BWA)

Updated February 11th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$32	5 Year CAGR Estimate:	11.8%	Market Cap:	\$7.5 Billion
Fair Value Price:	\$42	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/29/2024
% Fair Value:	76%	5 Year Valuation Multiple Estimate:	5.7%	Dividend Payment Date:	03/15/2024
Dividend Yield:	1.4%	5 Year Price Target	\$54	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	D	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 nearing \$15 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 February 8th, 2024, BorgWarner announced fourth quarter results for the period ending December 31st, 2023. For the quarter, revenue grew 6% to \$3.52 billion, which was \$110 million below estimates. Adjusted earnings-per-share of \$0.90 compared unfavorably to \$1.26 in the prior year, but were \$0.04 less than expected. For 2023, revenue fell 10.1% to \$14.2 billion while adjusted earnings-per-share of \$3.75 compared to \$4.60 in the prior year.

Excluding currency exchange and the net impact of merger and acquisition activity, organic sales improved 4.4%. The Drivetrain & Battery Systems and E-propulsion segments had organic growth sales of 14.1% and 4.0%, respectively, in the fourth quarter. Air Management was down slightly.

BorgWarner provided an outlook for 2024 as well, with the company expecting revenue in a range of \$14.4 billion to \$14.9 billion. Adjusted earnings-per-share are projected to be in a range of \$3.65 to \$4.00 for the year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2023	2028
EPS	\$3.25	\$3.02	\$3.27	\$3.89	\$4.49	\$4.13	\$2.69	\$4.15	\$4.60	\$3.75	\$3.83	\$4.89
DPS	\$0.51	\$0.52	\$0.53	\$0.59	\$0.68	\$0.68	\$0.68	\$0.68	\$0.68	\$0.56	\$0.44	\$0.44
Shares¹	226	219	212	211	208	206	239	240	235	234	234	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 just 1.4%. 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. Last year, BorgWarner's revenue related to electric vehicle revenues totaled just over \$2 billion, up from \$1.5 billion in 2022.

¹ 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.



BorgWarner Inc. (BWA)

Updated February 11th, 2024 by Nathan Parsh

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2028
Avg. P/E	18.3	17.2	10.6	11.6	10.3	9.6	13.0	10.9	8.8	9.6	8.4	11.0
Avg. Yld.	0.9%	1.0%	1.5%	1.3%	1.5%	1.5%	1.9%	1.5%	1.7%	1.6%	1.4%	0.8%

Shares of the company are unchanged since our November 7th, 2023 report. BorgWarner's valuation has traded with a wide range since 2014, 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 2029 target valuation. Using the midpoint of expected earnings-per-share for the year, BorgWarner currently trades with a price-to-earnings ratio of 8.4. This implies a 5.7% benefit to annual returns from multiple expansion through 2029.

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

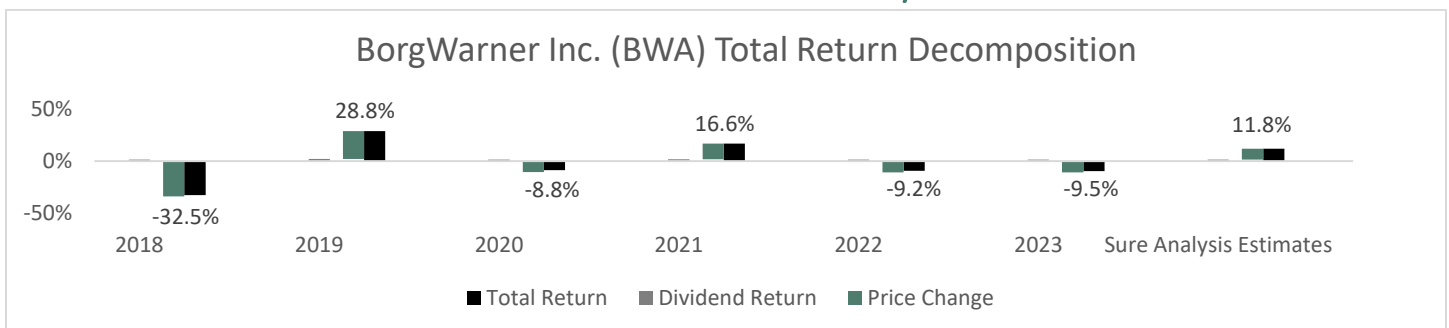
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	9%	165	17%	16%	15%	15%	16%	25%	16%	15%	11%	9%

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 11.8% annually through 2029, up from our previous estimate of 11.8%. 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. The stock remains attractively priced in our view. We have raised our 2029 price target \$2 to \$54 due to company guidance for 2024 and continue to rate shares of BorgWarner as a buy due to projected returns.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



BorgWarner Inc. (BWA)

Updated February 11th, 2024 by Nathan Parsh

Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	8,305	8,023	9,071	9,799	10,530	10,168	10,165	11,803	12,635	14,198
Gross Profit	1,756	1,703	1,929	2,115	2,230	2,101	1,910	2,173	2,369	2,568
Gross Margin	21.1%	21.2%	21.3%	21.6%	21.2%	20.7%	18.8%	18.4%	18.7%	18.1%
SG&A Exp.	702	688	818	899	946	873	951	1,078	1,290	1,331
Operating Profit	1,054	1,015	1,111	1,216	1,288	1,228	921	1,106	1,083	1,248
Op. Margin	12.7%	12.7%	12.2%	12.4%	12.2%	12.1%	9.1%	9.4%	8.6%	8.8%
Net Profit	656	577	595	440	931	746	500	537	944	625
Net Margin	7.9%	7.2%	6.6%	4.5%	8.8%	7.3%	4.9%	4.5%	7.5%	4.4%
Free Cash Flow	239	291	535	620	580	527	723	694	558	565
Income Tax	293	262	306	580	211	468	397	65	195	289

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,228	8,826	8,835	9,788	10,095	9,702	16,029	16,575	16,994	14,453
Cash & Equivalents	798	578	444	545	739	832	1,650	1,844	1,083	1,534
Acc. Receivable	1,201	1,424	1,448	1,736	1,728	1,713	2,636	2,522	2,133	2,519
Inventories	506	724	641	766	781	807	1,286	1,534	1,217	1,313
Goodwill & Int.	1,357	2,302	2,166	2,375	2,292	2,244	3,723	4,370	3,597	3,577
Total Liabilities	3,537	5,194	5,533	5,962	5,750	4,858	9,305	9,313	9,486	8,387
Accounts Payable	979	1,226	1,259	1,546	1,485	1,325	2,352	2,276	2,146	2,546
Long-Term Debt	1,340	2,550	2,220	2,188	2,114	1,960	3,787	4,327	4,200	3,780
Total Equity	3,616	3,554	3,218	3,717	4,226	4,706	6,428	6,948	7,224	5,828
LTD/E Ratio	0.37	0.72	0.69	0.59	0.50	0.42	0.59	0.62	0.58	0.65

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.3%	7.2%	6.7%	4.7%	9.4%	7.5%	3.9%	3.3%	5.6%	4.0%
Return on Equity	17.9%	15.8%	17.2%	12.3%	22.8%	16.2%	8.6%	7.7%	12.8%	9.2%
ROIC	13.3%	10.3%	10.2%	7.6%	14.9%	11.2%	5.8%	4.9%	8.1%	5.8%
Shares Out.	226	219	212	211	208	206	239	240	235	234
Revenue/Share	36.28	35.56	42.13	46.33	50.26	49.17	47.50	49.28	53.36	60.57
FCF/Share	1.04	1.29	2.49	2.93	2.77	2.55	3.38	2.90	2.36	2.41

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.