



TE Connectivity (TEL)

Updated July 25th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$158	5 Year CAGR Estimate:	6.2%	Market Cap:	\$48 B
Fair Value Price:	\$136	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	08/23/24
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date:	09/06/24
Dividend Yield:	1.5%	5 Year Price Target	\$200	Years Of Dividend Growth:	15
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

TE Connectivity (TEL) is a company that manufactures and sells connectivity and sensor solutions worldwide. The company operates through 3 segments: Transportation Solutions, Industrial Solutions, and Communications Solutions, which made up 60%, 28%, and 12% of sales, respectively, for the full fiscal year 2023.

The Transportation Solutions segment provides sensor and connectivity components for the automotive and commercial transportation industry. The Industrial Solutions segment provides components for industrial sectors like the aerospace, defense, oil & gas, medical, and energy markets. Lastly, the Communications Solutions segment supplies components for the data and devices and appliances markets. We expect the company will benefit over the intermediate term from its investments in electric vehicles, factory automation, the cloud, and renewable energy.

On December 12th, 2023, the company authorized a \$1.5 billion addition to its share repurchase program, and announced it increased its dividend by 10% starting with the June 2024 payment.

On July 24th, 2024, TE Connectivity reported third quarter 2024 results for the period ending June 28th, 2024. The company reported \$1.91 in adjusted earnings-per-share for the quarter, which beat analysts' estimates by \$0.05.

However, revenue declined by 0.5% year-over-year to \$3.98 billion, missing analysts' consensus estimates by \$30 million. For the quarter, sales in the Transportation Solutions segment fell 4% year-over-year to \$2.33 billion, and sales in the Industrial Solutions segment decreased 1% year-over-year to \$1.13 billion, while sales in the Communications Solutions segment increased 22% year-over-year to \$516 million.

Overall, adjusted operating margins rose by 200 basis points year-over-year to 19.3%, a quarterly record.

The share price of TEL rose by 4% on the day of the report, signaling that investors were impressed with the results.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$3.79	\$3.60	\$4.08	\$4.83	\$5.61	\$5.54	\$4.26	\$6.52	\$7.33	\$6.74	\$7.56	\$11.11
DPS	\$1.08	\$1.24	\$1.40	\$1.54	\$1.68	\$1.80	\$1.88	\$1.96	\$2.12	\$2.30	\$2.36	\$3.01
Shares	408	394	355	352	345	335	331	327	321	321	310	300

Over the past nine and five years, TE Connectivity has seen earnings-per-share grow at an average annualized rate of 6.6% and 3.7%, respectively. For the next quarter, management expects net sales of about \$4.0 billion and adjusted earnings-per-share for the quarter of approximately \$1.94. For the full fiscal year 2024, we expect \$7.56 in earnings-per-share.

We forecast that the company can grow earnings-per-share by 8% annually over the intermediate term, which guides our 2029 earnings-per-share estimate of about \$11.11. The company will rely on growth in its Transportation Solutions segment, most notably in its Automotive business.

The company has also actively repurchased its shares, and has decreased its share count by -2.6% since 2014.

Over the past nine and five years, TE Connectivity has increased its dividend by 8.8% and 6.5% annually. Over the next five years, we forecast that the company could increase dividends by 5% annually, which is below our EPS growth

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estimate and the historic dividend growth rate. This guides our 2029 dividend estimate of \$3.01 per share. TE Connectivity has grown dividend payments for 15 consecutive years, which is a solid track record.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.3	18.0	14.9	15.3	17.0	15.3	20.3	19.9	17.4	17.0	20.9	18.0
Avg. Yld.	1.9%	1.9%	2.3%	2.1%	1.8%	2.1%	2.2%	1.5%	1.6%	1.7%	1.5%	1.5%

Over the trailing nine and five years, TE Connectivity has averaged a P/E ratio of 17 and 18, respectively. We estimate that a P/E ratio of 18 could be fair for the business over the intermediate term. Today, the stock offers a low but growing 1.5% dividend yield, which is in-line with the overall market.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28%	34%	34%	32%	30%	32%	44%	30%	29%	34%	31%	27%

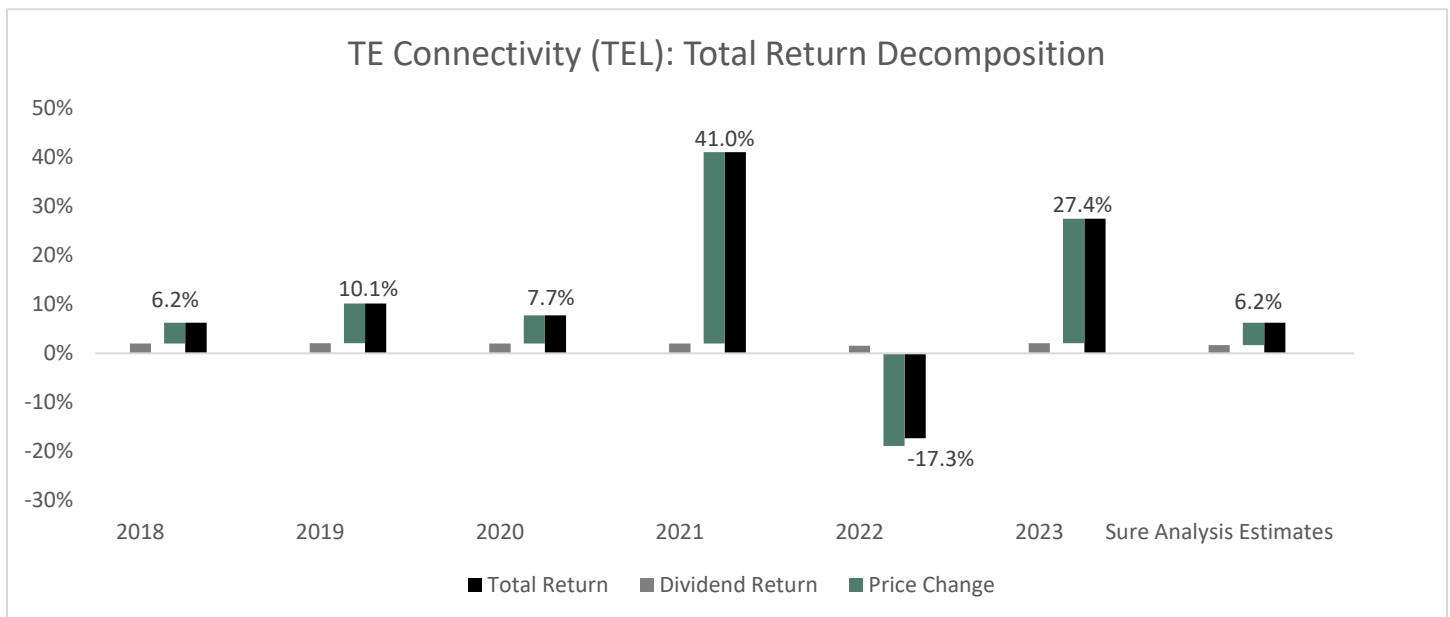
The business has averaged a low payout ratio of 33% over the past ten years, and we expect the dividend to continue to be safe. We believe TE Connectivity has a competitive advantage due to its expertise in the field of electronics, components, and networking for aerospace, medicine, defense, and other industries.

As of the most recent quarterly report, TE Connectivity held \$1.5 billion in cash, \$7.7 billion in current assets and \$22.9 billion in total assets against \$5.1 billion in current liabilities and \$10.1 billion in total liabilities. Additionally, long-term debt stood at \$3.0 billion.

Final Thoughts & Recommendation

TE Connectivity is a growing sensor and connectivity company that is likely to benefit from secular trends in electric vehicles, factory automation, the cloud, and renewable energy. Following the 12% share price increase in the last one year, the valuation has become unattractive. At today's price, we rate the stock as a hold with total return prospects coming in at 6.2% annually, driven by an 8.0% annual earnings-per-share growth rate, and a 1.5% dividend yield, partly offset by -2.9% multiple compression.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	11,973	12,233	11,352	12,185	13,988	13,448	12,172	14,923	16,281	16030
Gross Profit	3,972	4,087	3,827	4,183	4,745	4,394	3,735	4,887	5,244	5055
Gross Margin	33.2%	33.4%	33.7%	34.3%	33.9%	32.7%	30.7%	32.7%	32.2%	31.5%
SG&A Exp.	1,534	1,504	1,396	1,543	1,594	1,490	1,392	1,512	1,584	1670
D&A Exp.	551	616	560	611	667	690	711	769	785	794
Operating Profit	1,855	1,956	1,828	2,029	2,471	2,260	1,730	2,698	2,942	2677
Op. Margin	15.5%	16.0%	16.1%	16.7%	17.7%	16.8%	14.2%	18.1%	18.1%	16.7%
Net Profit	1,781	2,420	2,009	1,683	2,565	1,844	(241)	2,261	2,428	1910
Net Margin	14.9%	19.8%	17.7%	13.8%	18.3%	13.7%	-2.0%	15.2%	14.9%	11.9%
Free Cash Flow	1,448	1,330	1,344	1,642	1,516	1,673	1,432	1,986	1,700	2400
Income Tax	146	337	(826)	180	(344)	(15)	783	123	306	364

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	20,152	20,589	17,608	19,403	20,386	19,694	19,242	21,462	20,782	21710
Cash & Equivalents	2,457	3,329	647	1,218	848	927	945	1,203	1,088	1661
Acc. Receivable	2,057	2,120	2,046	2,138	2,361	2,320	2,377	2,928	2,865	2967
Inventories	1,509	1,615	1,596	1,647	1,857	1,836	1,950	2,511	2,676	2552
Goodwill & Int.	4,813	6,379	7,371	7,492	7,388	7,336	6,817	7,139	6,546	6638
Total Liabilities	11,139	11,004	9,123	9,652	9,555	9,124	9,747	10,714	9,885	10060
Accounts Payable	1,230	1,143	1,090	1,387	1,548	1,357	1,276	1,911	1,593	1563
Long-Term Debt	3,858	3,884	4,070	4,344	4,000	3,965	4,146	4,092	4,206	4211
Total Equity	9,007	9,585	8,485	9,751	10,831	10,570	9,383	10,634	10,802	11550
LTD/E Ratio	0.43	0.41	0.48	0.45	0.37	0.38	0.44	0.38	0.39	0.36

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	9.2%	11.9%	10.5%	9.1%	12.9%	9.2%	-1.2%	11.1%	11.5%	9.0%
Return on Equity	20.5%	26.0%	22.2%	18.5%	24.9%	17.2%	-2.4%	22.6%	22.7%	17.1%
ROIC	14.7%	18.4%	15.4%	12.6%	17.7%	12.6%	-1.7%	15.9%	16.2%	12.3%
Shares Out.	408	394	355	352	345	335	331	327	325	317
Revenue/Share	28.71	29.76	30.76	34.04	39.63	39.55	36.66	44.81	50.10	50.58
FCF/Share	3.47	3.24	3.64	4.59	4.29	4.92	4.31	5.96	5.23	7.57

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

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