

ABM Industries (ABM)

\$38.54 (As of 02/10/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

Systematic and strategic plans of actions are likely to enhance operations and drive long-term profitable growth for ABM Industries through an industry-based go-to-market approach. The company plans to strengthen its position in existing markets through both inorganic and organic growth. Further, the company's consistent efforts to reward its shareholders through dividend payments and share repurchases are encouraging. Backed by these tailwinds, shares of ABM Industries have outperformed the industry over the past year. On the flip side, ABM Industries continues to grapple with a difficult labor environment that is likely to persist through 2019. Increasing expenses resulting from acquisitions is likely to weigh on ABM Industries' bottom line. Further, high debt may limit the company's future expansion and worsen its risk profile.

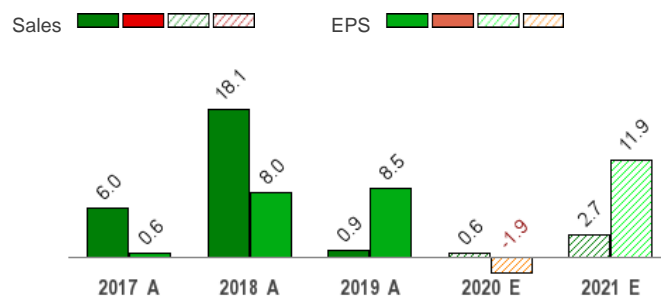
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.67 - \$31.81
20 Day Average Volume (sh)	302,616
Market Cap	\$2.6 B
YTD Price Change	2.2%
Beta	0.64
Dividend / Div Yld	\$0.74 / 1.9%
Industry	Building Products - Maintenance Service
Zacks Industry Rank	Bottom 9% (233 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.5%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	03/04/2020
Earnings ESP	0.0%
P/E TTM	18.9
P/E F1	19.2
PEG F1	NA
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,712 E
2020	1,609 E	1,599 E	1,663 E	1,675 E	6,535 E
2019	1,608 A	1,595 A	1,648 A	1,648 A	6,499 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.30 E	\$0.51 E	\$0.69 E	\$0.75 E	\$2.25 E
2020	\$0.29 E	\$0.48 E	\$0.61 E	\$0.64 E	\$2.01 E
2019	\$0.31 A	\$0.47 A	\$0.60 A	\$0.66 A	\$2.05 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/10/2020. The reports text is as of 02/11/2020.

Overview

New York based ABM Industries is a provider of integrated facility solutions in the United States and internationally.

The company's offerings include janitorial, energy, facilities engineering, electrical and lighting, landscape and turf, HVAC and mechanical, mission critical, and parking solutions. It also offers custom facility solutions in urban, suburban, and rural areas to properties of various sizes, including hospitals, data centers, manufacturing plants, airports, schools and commercial buildings.

During fourth-quarter 2015, ABM sold its Security business to Universal Protection Service for \$131.0 million cash as part of its 2020 Vision Plan.

Effective first-quarter fiscal 2018, the company reorganized its segments to reflect an integrated corporate structure. The new reportable segments are Business & Industry, Aviation, Education, Technology & Manufacturing, Technical Solutions, and Healthcare.

Business & Industry (45% of fiscal 2018 revenues) encompasses janitorial, facilities engineering, and parking services to commercial real estate industries, including sports and entertainment venues.

Aviation (16%) includes services supporting airlines and airports, including parking and janitorial services to passenger assistance, air cabin maintenance, and transportation.

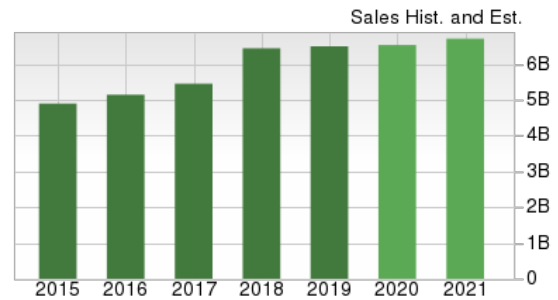
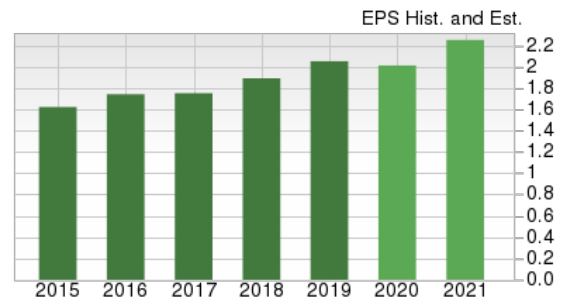
Technology & Manufacturing (14%) provides janitorial, facilities engineering, and parking services for industrial and manufacturing businesses.

Education (13%) encompasses janitorial, facilities engineering, and parking services for public and private schools, colleges and universities.

Technical Solutions (7%) offers specialized mechanical and electrical services.

Healthcare (4%) provides janitorial, environmental services, facilities management, food and nutrition, laundry and linen, parking and guest services, and patient transportation at traditional hospitals and non-acute facilities.

The company operates in an environment where competition is based mainly on price, efficiency and service quality.



Reasons To Buy:

- ▲ ABM Industries' **2020 Vision** outlines its long-term plan and hinges on three primary phases, the first of which is aimed to increase the efficiency of the company through diligent execution of the operating plan and stringent cost-reduction activities. The second phase focused on driving growth across the realigned verticals through effective realization of the cost savings from procurement, account management and other organizational changes. The final phase includes accelerated growth impetus from the vertical alignment and account planning systems with a continuous focus on additional cost savings. These systematic and strategic plans of actions are likely to drive long-term profitable growth for ABM Industries through an industry-based go-to-market approach.
- ▲ ABM Industries has developed a platform to deliver an end-to-end service model to its clients by **realigning its operational structure** (first phase of 2020 Vision) to an on-site, mobile and on-demand market-based structure. This realignment has improved its long-term growth prospects and has provided higher margin opportunities by enabling it to better deliver end-to-end services to its clients across urban, suburban and rural areas. The company further expects to extend its global footprint and strengthen its position in existing markets through both inorganic and organic growth across the industry verticals.
- ▲ ABM Industries' strategy entails growth through **strategic acquisitions** while maintaining desirable profit margins. The acquisition of GCA Services Group has expanded the company's long term operational and financial position. The GCA integration has been completed and is making meaningful contributions to ABM Industries' overall operational results predominantly within Technology & Manufacturing, Business & Industry and Education segments. Revenues related to GCA acquisition were more than \$1 billion in fiscal 2018.
- ▲ We are also impressed with ABM Industries' endeavors in rewarding its shareholders through **dividend payments and share repurchases**. In fiscal 2019 and fiscal 2018, the company returned \$47.7 million and \$46 million of dividend payments to its shareholders, respectively. However, no share repurchases were done during fiscal 2019 and fiscal 2018. In 2017, it paid \$39.5 million in dividend and repurchased shares worth \$7.9 million. In 2016, the company returned \$36.9 million through dividend payment and \$46.6 million through share buyback. Such shareholder-friendly moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These initiatives not only instill investors' confidence but also positively impact the company's earnings. This might have positively impacted the company's share price, which has improved 9.7% over the past year, against 1.2% decline of the industry it belongs to.

Systematic and strategic plans of actions under 2020 Vision are likely to drive long-term profitable growth for ABM.

Reasons To Sell:

▼ **Increasing expenses** has become a concern for ABM Industries as it is likely to weigh on its bottom line. The company's growth strategy through acquisitions has led to \$682 million of operating expenses from the GCA acquisition. These expenses have led to a significant rise of the company's operating expenses (17.7% y/y) in fiscal 2018. In fiscal 2019, operating expenses rose 0.3% year over year.

▼ ABM Industries is a labor company at core with **direct labor cost** comprising majority of its expense line. The U.S. labor market has been witnessing low unemployment levels for both skilled and unskilled labor since the beginning of the year. While the economy continues to create new jobs despite the record low jobless rate, a tight labor market is compelling companies like ABM Industries to pay higher to attract and retain employees. Labor related headwind is weighing on ABM Industries' operating performance.

▼ ABM Industries' **balance sheet is highly leveraged**. At the end of fourth-quarter fiscal 2019, long-term debt was \$744.2 million while cash and cash equivalents were \$58.5 million. Such a cash position implies that ABM Industries needs to generate adequate amount of operating cash flow to service its debt. Also, high debt may limit the company's future expansion and worsen its risk profile.

Rising expenses and high debt are likely to hurt ABM Industries.

Last Earnings Report

ABM Industries Q4 Earnings Top, Revenues Lag Estimates

ABM Industries reported mixed fourth-quarter fiscal 2019 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues lagged the same.

Adjusted earnings (from continuing operations) came in at 66 cents per share, which outpaced the consensus mark by 6.5% and the year-ago quarter's reported figure by 13.8%. The bottom line benefited from higher revenue contribution from the Technical Solutions segment, higher margin revenue mix and improved labor management primarily within the Business & Industry segment, and favorable impact of the adoption of Accounting Standards Codification ("ASC") 606.

Total revenues of \$1.65 billion missed the consensus estimate by 0.7% and decreased 0.1% year over year. Organic revenue growth of 0.6% (excluding the adoption of ASC 606 and ASC 853) was driven by growth within the Technical Solutions segment, partially offset by a decline in revenues at Business & Industry and Aviation segments, inclusive of the loss of lower-margin contracts.

Revenues by Segment

Business & Industry revenues decreased 1.9% year over year to \$806.9 million. Aviation revenues decreased 6.5% year over year to \$251.5 million. Technology & Manufacturing revenues declined 2% year over year to \$229.7 million. Education revenues of \$213.8 million decreased 2.4% from the prior-year quarter.

Technical Solutions revenues increased 25.5% year over year to \$175.5 million.

Operating Results

Adjusted EBITDA of \$93 million increased 3.4% year over year in the quarter under review. Also, adjusted EBITDA margin of 5.5% improved 10 basis points year over year. Adjusted income from continuing operations was \$44.7 million, up 15.2% year over year.

Operating expenses decreased 0.8% from the year-ago quarter to \$1.45 billion. Selling, general and administrative expenses increased 0.8% from the year-ago quarter to \$112.1 million.

Balance Sheet & Cash Flow

ABM Industries exited fourth-quarter fiscal 2019 with cash and cash equivalents of \$58.5 million compared with \$60.5 million at the end of the prior quarter. Long-term debt was \$744.2 million compared with \$872.2 million at the end of the prior quarter. Net cash provided by operating activities totaled \$148.8 million in the reported quarter.

Dividend Payout

ABM Industries paid out a quarterly cash dividend of 18 cents per share, leading to \$12 million of total dividend payout in the reported quarter. Additionally, the company's board of directors approved a 2.8% dividend hike, raising the quarterly cash dividend to 18.5 cents per common share, payable on Feb 3, 2020 to stockholders of record on Jan 2, 2020. This marks the 215th consecutive quarterly cash dividend declared by the company.

Share Repurchase Program

The company's board of directors authorized a \$150 million share repurchase program replacing its existing share repurchase program, which was authorized in 2015.

Fiscal 2020 Guidance

ABM Industries unveiled its fiscal 2020 guidance. The company expects adjusted income of \$1.90-\$2.10 per share from continuing operations.

Quarter Ending **10/2019**

Report Date	Dec 18, 2019
Sales Surprise	-0.72%
EPS Surprise	6.45%
Quarterly EPS	0.66
Annual EPS (TTM)	2.04

Recent News

On **Jan 24, 2020**, ABM announced that it has started providing into-plane fueling services for Spirit Airlines at Dallas Fort Worth International Airport (DFW) in Texas.

On **Nov 12, 2019**, ABM announced appointment of Josh Feinberg as Executive Vice President and Chief Strategy and Transformation Officer.

Valuation

ABM shares are up 9.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 1.2% while those in the Zacks Business Services sector are up 25.6%, over the past year. The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 18.56X price to forward 12 months' earnings, which compares to 33.7X for the Zacks sub-industry, 26.23X for the Zacks sector and 19.27X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.08X and as low as 12.7X, with a 5-year median of 18.26X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41.00 price target reflects 19.1X price to forward 12 months' earnings.

The table below shows summary valuation data for ABM

Valuation Multiples - ABM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	18.56	33.7	26.23	19.27
	5-Year High	24.08	40.63	26.23	19.34
	5-Year Low	12.7	18.48	18.77	15.18
	5-Year Median	18.26	26.02	20.57	17.47
P/S F12M	Current	0.39	3.18	4.15	3.55
	5-Year High	0.49	4.77	5.13	3.55
	5-Year Low	0.26	2.4	3.09	2.54
	5-Year Median	0.36	3.1	3.63	3
P/B TTM	Current	1.66	6.83	5.13	4.32
	5-Year High	2.73	12.53	6.72	4.42
	5-Year Low	1.17	6.26	4.13	2.85
	5-Year Median	1.77	10.29	5.27	3.62

As of 02/10/2019

Industry Analysis Zacks Industry Rank: Bottom 9% (233 out of 255)



Top Peers

Aramark (ARMK)	Neutral
EMCOR Group, Inc. (EME)	Neutral
Johnson Controls International plc (JCI)	Neutral
Limbach Holdings, Inc. (LMB)	Neutral
Rollins, Inc. (ROL)	Neutral
ServiceMaster Global Holdings, Inc. (SERV)	Neutral
SP Plus Corporation (SP)	Neutral
Team, Inc. (TISI)	Neutral

Industry Comparison Industry: Building Products - Maintenance Service				Industry Peers		
	ABM Neutral	X Industry	S&P 500	ARMK Neutral	JCI Neutral	SP Neutral
VGM Score	A	-	-	D	C	A
Market Cap	2.57 B	2.57 B	24.17 B	10.26 B	30.97 B	1.00 B
# of Analysts	3	3	13	11	7	2
Dividend Yield	1.92%	0.00%	1.77%	1.08%	2.57%	0.00%
Value Score	A	-	-	C	C	B
Cash/Price	0.02	0.02	0.04	0.03	0.07	0.03
EV/EBITDA	10.22	34.48	13.89	11.52	18.47	15.83
PEG Ratio	NA	0.92	2.05	2.12	1.64	1.45
Price/Book (P/B)	1.66	1.66	3.27	2.97	1.52	2.66
Price/Cash Flow (P/CF)	10.47	10.47	13.60	8.69	12.72	13.89
P/E (F1)	19.30	25.24	19.00	17.47	15.90	14.55
Price/Sales (P/S)	0.40	0.40	2.66	0.63	1.29	0.62
Earnings Yield	5.22%	3.97%	5.26%	5.73%	6.29%	6.87%
Debt/Equity	0.48	0.65	0.71	2.05	0.29	1.79
Cash Flow (\$/share)	3.68	1.62	6.89	4.68	3.19	3.15
Growth Score	A	-	-	F	B	A
Hist. EPS Growth (3-5 yrs)	2.31%	3.96%	10.85%	12.13%	-0.04%	29.09%
Proj. EPS Growth (F1/F0)	-1.95%	9.40%	7.22%	3.98%	30.10%	7.89%
Curr. Cash Flow Growth	2.86%	-40.32%	8.88%	5.25%	-26.61%	21.73%
Hist. Cash Flow Growth (3-5 yrs)	10.89%	9.57%	8.36%	6.35%	6.22%	8.90%
Current Ratio	1.41	1.26	1.22	1.23	1.17	0.58
Debt/Capital	32.55%	39.27%	42.90%	67.28%	22.47%	64.22%
Net Margin	1.96%	0.11%	11.81%	2.12%	22.75%	3.03%
Return on Equity	9.16%	9.16%	16.98%	16.88%	8.43%	16.39%
Sales/Assets	1.75	1.24	0.54	1.17	0.55	1.17
Proj. Sales Growth (F1/F0)	0.56%	5.51%	4.06%	3.49%	2.38%	2.41%
Momentum Score	A	-	-	A	F	D
Daily Price Chg	0.31%	0.98%	0.45%	-0.22%	1.83%	0.69%
1 Week Price Chg	0.73%	0.73%	2.47%	-7.63%	0.91%	4.02%
4 Week Price Chg	-1.73%	-1.73%	0.95%	-9.86%	-1.51%	4.94%
12 Week Price Chg	0.39%	0.39%	5.05%	-7.42%	-4.68%	-1.51%
52 Week Price Chg	9.33%	-6.59%	16.18%	29.51%	18.99%	26.05%
20 Day Average Volume	302,616	302,616	1,999,386	2,360,690	4,868,451	76,495
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.04%	-0.06%	0.00%
(F1) EPS Est 4 week change	0.50%	0.00%	0.00%	-0.04%	0.51%	0.00%
(F1) EPS Est 12 week change	-3.98%	-3.98%	-0.18%	-5.06%	0.51%	0.00%
(Q1) EPS Est Mthly Chg	4.76%	-2.74%	0.00%	0.58%	-2.66%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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