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Jun 04, 2020

Allegion plc (ALLE)

$105.04 (As of 06/03/20)

Price Target (6-12 Months): **$110.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/17/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: F | Growth: C | Momentum: C	**4-Sell** VGM:D

Summary

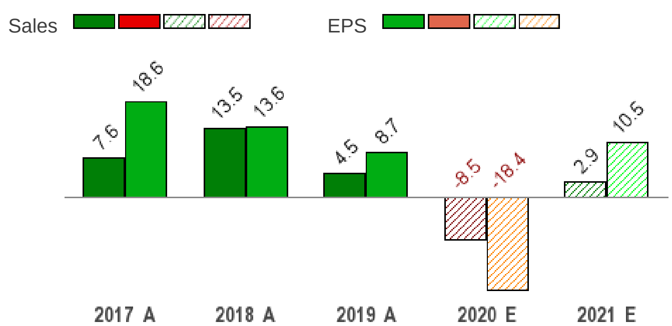
Strength in the electronic products business along with product development and a large customer base is likely to aid Allegion's top line in 2020. Also, several cost-control measures along with pricing and productivity actions, and solid operating leverage will likely benefit the company's margins. The company remains committed in rewarding shareholders handsomely through dividends and share buybacks. However, it anticipates periodic work shutdowns at some of its operations on lower customer demand and material shortages. Also, it withdrew its revenue guidance for 2020 on end-market uncertainties, stemming from the coronavirus outbreak. In the past three months, the company's shares have underperformed the industry and also look comparatively overvalued. High debt levels can increase its financial obligations.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$139.24 - $77.37**
20 Day Average Volume (sh)	**712,605**
Market Cap	**$9.7 B**
YTD Price Change	**-15.7%**
Beta	**1.19**
Dividend / Div Yld	**$1.28 / 1.2%**
Industry	**Security and Safety Services**
Zacks Industry Rank	**Top 25% (64 out of 253)**
Last EPS Surprise	**14.3%**
Last Sales Surprise	**0.7%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**07/23/2020**
Earnings ESP	**0.0%**
P/E TTM	**20.8**
P/E F1	**26.4**
PEG F1	**2.2**
P/S TTM	**3.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	652 E	664 E	706 E	693 E	2,689 E
2020	675 A	593 E	665 E	668 E	2,612 E
2019	655 A	731 A	748 A	720 A	2,854 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.97 E	$1.05 E	$1.24 E	$1.20 E	$4.41 E
2020	$1.04 A	$0.74 E	$1.10 E	$1.06 E	$3.99 E
2019	$0.88 A	$1.26 A	$1.47 A	$1.28 A	$4.89 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 06/03/2020. The reports text is as of 06/04/2020.

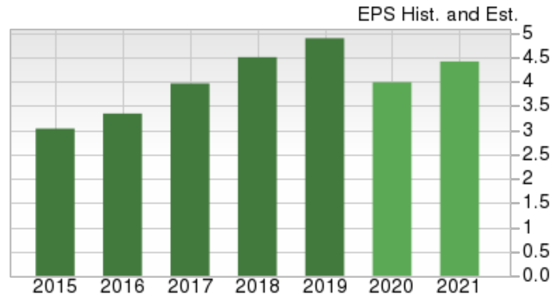
Overview

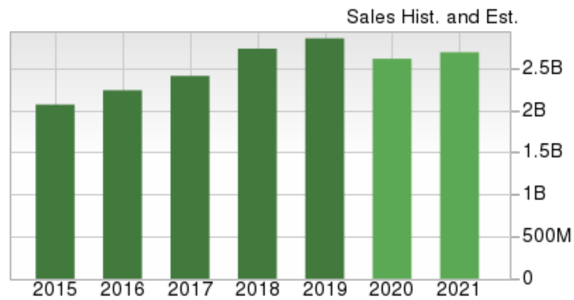
Headquartered in Dublin, Ireland, **Allegion plc** is a leading global provider of security products and solutions for business and domestic purposes. It came into existence on Dec 1, 2013, as a stand-alone public company, after Ingersoll-Rand plc separated its commercial and residential security businesses.

Allegion offers an extensive portfolio of mechanical and electronic security products — including doors and door systems, electronic security products, biometric and mobile access control systems, locks, locksets, exit devices, portable locks, and workforce productivity systems and other accessories. Comprising more than 30 brands, the company sells products in 130 countries in the world.

Market-leading brands offered by Allegion include CISA, DEXTER, FALCON, LCN, Interflex, Schlage, Von Duprin, SimonsVoss and many more. The company's products and solutions are sold to end users in residential, institutional and commercial facilities — including residential, government, education, healthcare and commercial office markets.

Notably, the company sells products through distribution and retail channels like specialty distribution, wholesalers, e-commerce and several retail channels — including online platforms and small specialty showroom outlets.





Allegion's business is classified in three reportable segments — **Americas**; **Europe, Middle East, India and Africa** (EMEIA); and **Asia Pacific** — based on geographical locations served.

In one hand, the company's Americas segment generated the largest share of revenues — roughly 75.9% — in the first quarter of 2020. On the other hand, the EMEIA segment generated 19.2% of the quarter's revenues and the Asia Pacific segment generated 4.9%.

Reasons To Buy:

- Allegion's revenues in the first quarter were 3% higher than the year-ago figure and increased 4.3% on an organic basis. Notably, the year-over-year improvement in revenues came on the back of continued strength in both the non-residential and residential businesses, led by solid institutional end markets in the Americas region. Also, the growth was boosted by solid price realization. Going forward, the company expects the Americas region to show resilience during the coronavirus-led global market downturn, backed by strength in its electronic products business, expanded product portfolio, strong channel relationship and a large customer base. In the long run, the company's ongoing initiatives to optimize and simplify business operations, boost customer service and address cost structure will act as tailwinds for its EMEIA and Asia Pacific operations.

Strength in electronic products business, greater operational excellence and several cost-control measures are likely to enhance Allegion's long-run performance.

- In the first quarter, Allegion's earnings recorded an increase of 18.2% on a year-over-year basis. The company noted that the upswing was driven by top-line growth, higher operating income and lower share count. In addition, its adjusted operating margin increased 190 basis points (bps), backed by solid operating leverage along with pricing and productivity initiatives. Also, in response to the coronavirus crisis, the company has been executing several cost-control measures to maintain a healthy capital structure. Some of the actions taken by the company include the reduction of discretionary expenses, eliminating unnecessary investments, a hiring freeze and re-prioritization of its capital expenditure. In the quarters ahead, the measures will help the company to maintain a healthy margin performance amid the crisis.

- Allegion continuously updates its products and develops new ones to keep up with the changing market sentiment toward electronic security products and solutions. In fact, over the past few quarters, sales of such electronic security products have grown at a steady rate. Of late, the company has been investing in its Schlage brand of products, which hold good for its residential business. In addition, the company's effort to bring SimonsVoss and Interflex businesses under one management team will enable it to execute the decision-making process, investments, innovation development and marketing work more effectively.

- Allegion is committed toward increasing the wealth of shareholders through share repurchase programs and dividend payments. In February 2020, the board of directors approved a 19% hike in the quarterly dividend rate. Also, in the first quarter of 2020, it paid out dividends worth $29 million, higher than $25.2 million paid out in the year-ago quarter. Moreover, the company repurchased shares worth $94.1 million in the first quarter versus $63.8 million a year ago. Such diligent capital-deployment strategies are expected to boost shareholders' wealth.

Reasons To Sell:

Coronavirus-led market downturn, rising cost of sales and unfavorable movements in foreign currencies might hurt Allegion's near-term results.

- In the first quarter, Allegion's business operations suffered temporary shutdowns in several countries, including Mexico, Italy and Spain, on account of the coronavirus outbreak. Going forward, it anticipates periodic work shutdowns at some of its operations on lower customer demand and material shortages. The duration of the coronavirus pandemic and the impacts of the governmental regulations imposed in response to the crisis will likely have a bearing on the company's results. Notably, on uncertainties, regarding the impacts of the outbreak on financial and operating results, the company has withdrawn its previously-issued revenue and earnings guidance for 2020.

- Rising costs of sales and expenses have been major concerns for Allegion. For instance, in the last five years (2015-2019), the company's cost of sales recorded an increase of 6% (CAGR). Also, in the first quarter of 2020, the metric increased 0.9% on a year-over-year basis. In addition, although the company's investments for product development, channel strategies and demand creation are good for its long-term growth, it negatively impacts its short-term earnings. Notably, in both fourth-quarter 2019 and first-quarter 2020, incremental investments incurred had an adverse impact of 2 cents on earnings. Escalating costs and expenses, if not checked, might continue to hurt Allegion's margins in the quarters ahead.

- Allegion's long-term debt in the last six years (2014-2019) increased 2.7% (CAGR). At the end of the first quarter of 2020, its long-term debt was $1,428 million. Also, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 69.9%, higher than the industry's 43.8%. We believe high-debt levels can increase the company's financial obligations and prove detrimental to its profitability. Also, over the past three months, Allegion's shares have moved down 14.3% compared with the industry's decline of 5.7%. Also, on a EV/EBITDA (TTM) basis, the company's shares look overvalued compared to the industry, with respective tallies of 15.09x and 12.29x. This makes us cautious about the stock. In addition, analysts have become increasingly bearish about the company over the past 60 days. Its earnings estimates have been lowered by 15.6% for 2020 and 16% for 2021. Its earnings estimates for the second quarter of 2020 have been lowered by 38.8% to 74 cents per share over the same time frame.

- Allegion intends to expand its business in new overseas markets. However, this exposes it to social and environmental risks as well as forex woes. For instance, in the fourth quarter of 2019 and the first quarter of 2020, currency translation had an adverse impact of 0.8% and 0.9% on its revenues, respectively. A stronger U.S. dollar might further depress the company's overseas business results in the quarters ahead. Moreover, Allegion's businesses are subject to seasonality, depending on the product line. Any uncertainties or adversities can be a huge drag on the company's sales, going forward.

Last Earnings Report

Allegion Q1 Earnings & Revenues Surpass Estimates

Quarter Ending	03/2020
Report Date	Apr 23, 2020
Sales Surprise	0.69%
EPS Surprise	14.29%
Quarterly EPS	1.04
Annual EPS (TTM)	5.05

Allegion reported better-than-expected results for first-quarter 2020, wherein both adjusted earnings and revenues surpassed the Zacks Consensus Estimate.

Earnings & Revenues Rise

Quarterly adjusted earnings were $1.04 per share, beating the Zacks Consensus Estimate of 91 cents. Notably, the bottom line was 18.2% higher than the year-ago figure of 88 cents. The upside can be primarily attributed to solid sales growth.

Revenues totaled $674.7 million, up 3% year over year. Moreover, the top line surpassed the consensus estimate of $670 million. Revenues rose 4.3% on an organic basis. The rise was backed by strength in businesses in the Americas region, partially offset by weakness in end markets in the EMEIA and Asia Pacific regions as well as the initial impact of coronavirus-led issues.

Segmental Breakup

Revenues in the Americas rose 7.7% year over year to $512.1 million, driven by growth in non-residential and residential businesses as well as strength in the electronics business. EMEIA (Europe, Middle East, India and Africa) revenues declined 9.1% to $129.9 million on account of soft end markets, coronavirus related issues, adverse impacts of divestitures, and unfavorable foreign exchange movements. Revenues in the Asia Pacific fell 11.1% to $32.7 million in the quarter, reflecting weak end markets in Australia and adverse impacts of unfavorable foreign exchange movements.

Costs Increase, Margins Improve

In the first quarter, Allegion's cost of sales increased 0.9% year over year to $381.6 million. Gross profit grew 5.9% to $293.1 million, while gross margin improved 110 basis points (bps) to 43.4%.

Selling and administrative expenses decreased 0.6% year over year to $167.9 million.

Adjusted operating margin expanded 190 bps to 19%.

Balance Sheet & Cash Flow

As of Mar 31, 2020, Allegion had cash and cash equivalents of $245.3 million, down from $355.3 recorded on Dec 31, 2019. Long-term debt was $1,428 million, slightly up from $1,427.6 million recorded at the end of 2019.

In the first three months of 2020, the company generated net cash of $30.8 million from operating activities compared with $12.6 million used in the year-ago comparable period. Capital expenditure totaled $11.8 million compared with $12.3 million in the year-ago comparable period.

2020 Guidance

On uncertainties, regarding the impacts of the coronavirus outbreak on financial and operating results, Allegion has withdrawn its revenue and earnings guidance for 2020.

Recent News

Dividend

On **Mar 31, 2020**, Allegion's board of directors approved the payout of a quarterly cash dividend of 32 cents per share to shareholders of record as of Jun 16, 2020. The payment will be made on Jun 30, 2020.

Valuation

Allegion's shares have declined 15.7% year to date and increased 1.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have moved down 13.6% and 13.2%, respectively, on a year-to-date basis. Over the past year, the Zacks sub-industry and the sector have decreased 4.6% and 5.2% respectively.

The S&P 500 index has moved down 4.4% year to date and increased 9.1% in the past year.

The stock is currently trading at 25.21x forward 12-month earnings per share, which compares to 18.49x for the Zacks sub-industry, 21.8x for the Zacks sector and 22.29x for the S&P 500 Index.

Over the past five years, the stock has traded as high as 25.73x and as low as 15.12x, with a 5-year median of 19.29x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of $110 reflects 26.47x forward 12-month earnings.

The table below shows summary valuation data for ALLE.

Valuation Multiples - ALLE

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.21	18.49	21.8	22.29
	5-Year High	25.73	20.18	21.8	22.29
	5-Year Low	15.12	10.95	12.55	15.23
	5-Year Median	19.29	16.45	16.58	17.49
EV/EBITDA F12M	Current	17.51	10.72	19.12	13.52
	5-Year High	19.03	21.49	19.12	14.17
	5-Year Low	12.28	5.75	10.6	9.02
	5-Year Median	14.51	9.4	14.15	10.92
EV/Sales F12M	Current	3.92	2.2	3.1	3.21
	5-Year High	4.67	2.96	3.13	3.52
	5-Year Low	2.96	1.37	1.76	2.28
	5-Year Median	3.43	1.94	2.31	2.82

As of 06/03/2020

Industry Analysis **Zacks Industry Rank:** Top 25% (64 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
ADT Inc. **(ADT)**	Neutral	3
Alarm.com Holdings, Inc. **(ALRM)**	Neutral	3
Brady Corporation **(BRC)**	Neutral	3
Fortune Brands HomeSecurity, Inc. **(FBHS)**	Neutral	4
Frontdoor, Inc. **(FTDR)**	Neutral	3
NAPCO Security Technologies, Inc. **(NSSC)**	Neutral	3
Spectrum Brands Holdings Inc. **(SPB)**	Neutral	3
Net 1 UEPS Technologies, Inc. **(UEPS)**	Neutral	3

Industry Comparison Industry: Security And Safety Services

	ALLE	X Industry	S&P 500	ALRM	BRC	SPB
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	D	-	-	C	B	A
Market Cap	9.69 B	189.63 M	22.50 B	2.73 B	2.70 B	2.04 B
# of Analysts	4	3	14	8	2	3
Dividend Yield	1.22%	0.00%	1.88%	0.00%	1.67%	3.54%
Value Score	F	-	-	D	B	C
Cash/Price	0.03	0.11	0.06	0.07	0.09	0.22
EV/EBITDA	17.69	8.37	12.98	29.29	13.06	12.37
PEG Ratio	2.25	3.31	3.05	3.31	3.01	1.21
Price/Book (P/B)	15.78	3.52	3.11	7.44	3.30	1.78
Price/Cash Flow (P/CF)	17.95	14.76	12.18	27.69	17.79	4.75
P/E (F1)	26.50	24.16	22.19	39.35	21.08	16.09
Price/Sales (P/S)	3.37	2.33	2.40	5.03	2.40	0.53
Earnings Yield	3.79%	3.73%	4.31%	2.54%	4.74%	6.22%
Debt/Equity	2.33	0.09	0.76	0.42	0.04	2.45
Cash Flow ($/share)	5.85	0.46	7.01	2.02	2.93	9.99
Growth Score	C	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	13.48%	12.86%	10.87%	76.79%	17.05%	NA
Proj. EPS Growth (F1/F0)	-18.51%	-9.44%	-10.74%	-7.71%	0.41%	3.03%
Curr. Cash Flow Growth	5.29%	1.05%	5.48%	11.76%	16.64%	64.31%
Hist. Cash Flow Growth (3-5 yrs)	13.35%	5.65%	8.55%	38.49%	4.55%	16.24%
Current Ratio	2.02	2.33	1.29	3.98	2.33	2.39
Debt/Capital	69.94%	19.89%	44.75%	30.96%	3.79%	71.05%
Net Margin	11.20%	2.47%	10.59%	9.84%	10.78%	-6.31%
Return on Equity	69.68%	8.81%	16.29%	18.82%	15.36%	10.92%
Sales/Assets	1.00	0.81	0.55	0.99	0.95	0.74
Proj. Sales Growth (F1/F0)	-8.48%	0.00%	-2.65%	5.03%	-7.25%	-3.95%
Momentum Score	C	-	-	D	C	B
Daily Price Chg	5.03%	0.00%	2.42%	9.45%	3.09%	1.28%
1 Week Price Chg	5.74%	2.01%	4.60%	2.01%	4.20%	6.03%
4 Week Price Chg	7.19%	7.71%	13.40%	25.35%	22.99%	17.03%
12 Week Price Chg	-8.49%	4.05%	12.78%	44.79%	16.08%	-3.50%
52 Week Price Chg	1.67%	-1.25%	0.89%	3.63%	8.75%	-19.30%
20 Day Average Volume	712,605	214,350	2,528,787	863,847	244,204	391,505
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-1.59%	-0.14%	-6.79%	-5.36%	0.00%
(F1) EPS Est 12 week change	-22.51%	-23.58%	-16.00%	-8.48%	-7.14%	-18.68%
(Q1) EPS Est Mthly Chg	0.00%	-15.71%	-0.02%	-21.21%	-15.71%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Growth Score	C
Momentum Score	C
VGM Score	D

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.

Disclosures

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.