

Allegion plc (ALLE)

\$137.89 (As of 02/11/20)

Price Target (6-12 Months): **\$145.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/15/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: B

Summary

Over the past three months, Allegion's shares have outperformed the industry. The company expects solid product portfolio, healthy demand, product development and a large customer base to drive its top line in 2019 (results are awaited). It predicts organic revenue growth of 4.5-5.5% for the year. Robust top-line prospects along with pricing actions and greater operational efficiency will likely aid earnings. Also, the company is committed rewarding shareholders through share buybacks and dividend payments. However, the stock has been overvalued compared with its industry over the past three months. Also, rising costs of sales remain concerning for its near-term margins. Rising debt levels can increase its financial obligations. In the past 60 days, earnings estimates for the company for fourth-quarter 2019 have been revised downward.

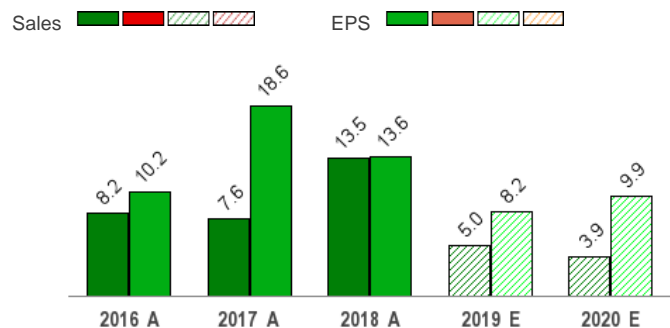
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$138.23 - \$85.96
20 Day Average Volume (sh)	645,337
Market Cap	\$12.8 B
YTD Price Change	10.7%
Beta	1.18
Dividend / Div Yld	\$1.28 / 0.8%
Industry	<u>Security and Safety Services</u>
Zacks Industry Rank	Top 35% (88 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.5%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/18/2020
Earnings ESP	-1.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	679 E	765 E	776 E	769 E	2,981 E
2019	655 A	731 A	748 A	740 E	2,869 E
2018	613 A	705 A	712 A	702 A	2,732 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.02 E	\$1.41 E	\$1.53 E	\$1.40 E	\$5.35 E
2019	\$0.88 A	\$1.26 A	\$1.47 A	\$1.28 E	\$4.87 E
2018	\$0.80 A	\$1.25 A	\$1.23 A	\$1.22 A	\$4.50 A

*Quarterly figures may not add up to annual.

P/E TTM	28.6
P/E F1	25.8
PEG F1	2.2
P/S TTM	4.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

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. Exiting 2018, the company had employee strength of 11,000 people.

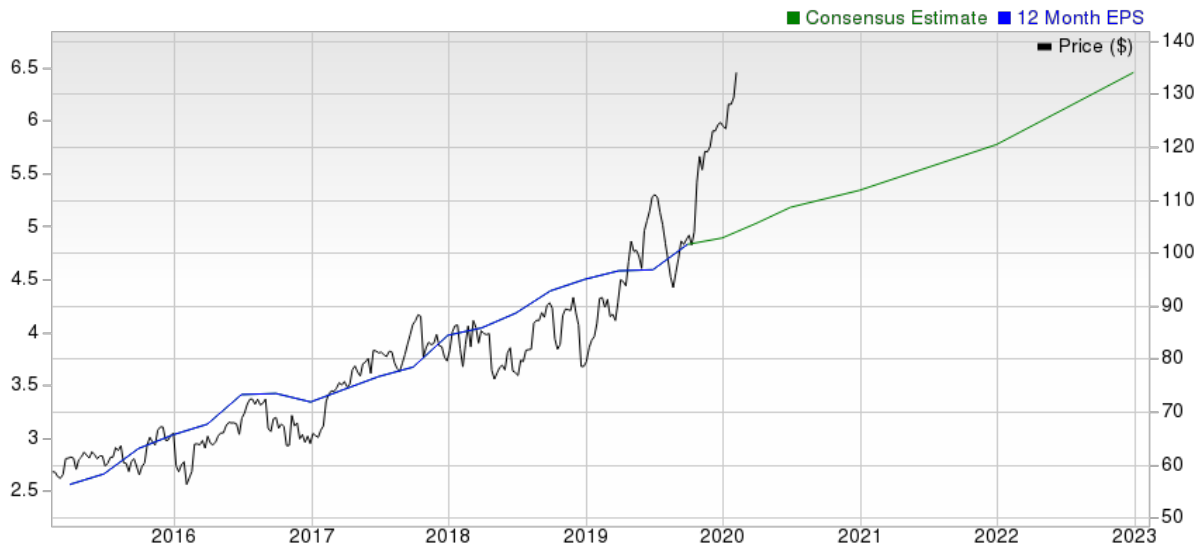
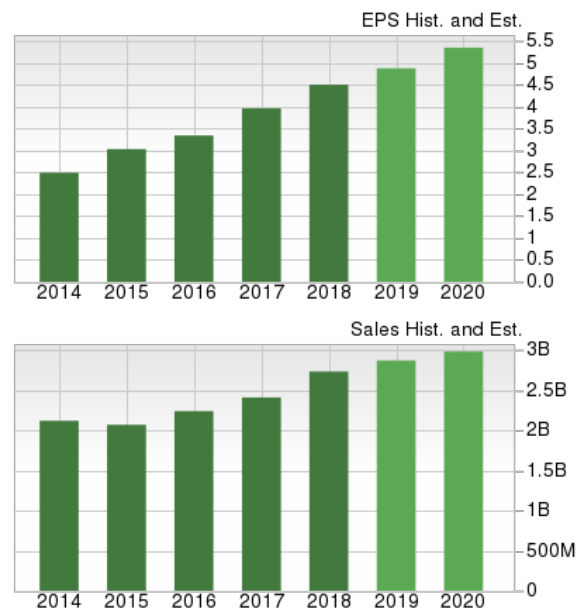
Allegion offers an extensive portfolio of mechanical and electronic security products — including doors and door systems, electronic security products, biometric and mobile access control systems, locks, locksets, exit devices, portable locks, and workforce productivity systems and other accessories. 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. Exiting 2018, it had approximately 34 production and assembly facilities. Of these, 16 facilities operated in the Americas, six in the Asia Pacific and 12 in EMEIA.

In one hand, the company's Americas segment generated the largest share of revenues — roughly 75.9% — in the third quarter of 2019. On the other hand, the EMEIA segment generated 18.4% of the quarter's revenues and the Asia Pacific segment generated 5.7%.



Reasons To Buy:

- ▲ Over the past three months, Allegion's shares have rallied 18.1% compared with the industry's decline of 0.4%. The company's revenues in the third quarter were 5.2% higher than the year-ago figure and increased 6.4% on an organic basis. Notably, the year-over-year improvement in revenues came on the back of continued strength in non-residential business, led by solid institutional markets and improving residential markets in the Americas along with pricing benefits. As a matter of fact, the company expects these tailwinds to continue bolstering its revenues in rest of the 2019. It noted that the strength in the electronic business driven by robust demand environment, expanded product portfolio, technical partnerships and a large customer base will benefit its top line for rest of the year. Notably, for 2019, the company continues to expect revenue growth on both reported and organic basis in the band of 4.5-5.5%.

Strength in end markets, greater operational excellence and pricing benefits are likely to enhance Allegion's near-term competency.
 - ▲ Allegion reported better-than-expected earnings in the third quarter. The bottom line beat the Zacks Consensus Estimate by about 10.5%, and also improved 19.5% year over year. The company noted that this upswing was driven solid top-line growth, strong operational performance and lower share count. The company believes that pricing actions, greater operational efficacy and operating leverage will strengthen the bottom line. For 2019, the company anticipates adjusted earnings per share to be in the range of \$4.85 to \$4.90 compared with \$4.80 to \$4.90 guided earlier.
 - ▲ 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, sales of such electronic security products are growing at a steady rate compared with the traditional mechanical counterparts. For instance, robust demand for the company's Schlage Encode residential lock product will be beneficial. Also, Allegion expects its smart WiFi deadbolt product to boost revenues of its residential business. In addition, the company is trying to chalk out channel strategies, invest in digital demand creation and gain enterprise excellence to accelerate core market expansion. Furthermore, it is committed toward increasing 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 and share buyback program of \$800 million. Also, the company repurchased shares worth \$179.7 million in the first nine months of 2019 versus \$30 million in the year-ago comparable period. Such diligent capital deployment strategies are expected to boost shareholders' wealth.
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Reasons To Sell:

- ▼ On an Enterprise Value/EBITDA (TTM) basis, Allegion's shares look overvalued compared to the industry, with respective tallies of 22.96x and 11.44x. Notably, the company's multiple is higher than the industry's three-month highest level of 12.07x. This makes us cautious about the stock. In addition, analysts have become increasingly bearish about Allegion over the past 60 days. The company's earnings estimates for fourth-quarter 2019 have been lowered from \$1.30 to \$1.28 on two downward estimate revisions versus one upward.
- ▼ Allegion has been dealing with rising costs of sales over the past few quarters. For instance, in the second and third quarter of 2019, the company's cost of sales jumped 2.9% and 2.7%, respectively, on a year-over-year basis. Also, the metric recorded an increase of 4.3% (CAGR) in the last five years (2014-2018). Rising costs, if unchecked, will continue to dent Allegion's margins in the quarters ahead. Although Allegion's incremental investments for new product development, channel strategies and demand creation spending hold good for long-term growth, high capital expenditure incurred will negatively impact its short-term earnings. Notably, in the second and third quarter of 2019, capital expenditures incurred to support growth investments had an adverse impact of 4 cents and 2 cents on earnings, respectively. These actions are likely to put pressure on the company's profitability in the upcoming quarters.
- ▼ Allegion's long-term debt in the last five years (2014-2018) increased 3% (CAGR). Notably, at the end of third-quarter 2019, the company's long-term debt was \$1,427 million, up 1.2% from 2018 end. Also, in the quarter, interest expenses jumped 11.4% year over year. We believe, if unchecked, high-debt levels can increase the company's financial obligations and prove detrimental to its profitability. In addition, the company intends to expand its business in new overseas markets. However, this exposes it to economic, social and environmental risks. For instance, unfavorable foreign exchange movements hurt Allegion's overseas revenues and profitability in the past and reported quarter as well. As a matter of fact, in the second and third quarter of 2019, currency translation had an adverse impact of 1.5% and 1.2%, respectively, on its revenues. 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.

Rising cost of sales and unfavorable movements in foreign currencies might hurt Allegion's near-term results.

Last Earnings Report

Allegion Q3 Earnings and Revenues Beat Estimates

Allegion reported better-than-expected results for third-quarter 2019, wherein both adjusted earnings and revenues beat the Zacks Consensus Estimate.

Earnings/Revenues

Quarterly adjusted earnings came in at \$1.47 per share, surpassing the Zacks Consensus Estimate of \$1.33. Moreover, the bottom line was 19.5% higher than the year-ago figure. The upside can be primarily attributed to solid sales growth and improved operating income.

Revenues came in at \$748.3 million, up 5.2% year over year. In addition, the top line beat the consensus estimate of \$739 million. Revenues jumped 6.4% on an organic basis. The rise was backed by strength in Americas non-residential and residential businesses and strong pricing benefits, partially offset by adverse impact of unfavorable foreign exchange movements.

Revenues in the **Americas** rose 7.1% year over year to \$567.8 million. **EMEIA** (Europe, Middle East, India and Africa) revenues increased 2.5% to \$137.8 million. Revenues in **Asia-Pacific** fell 9.1% to \$42.7 million in the reported quarter.

Costs/Margins

In the third quarter, Allegion's cost of sales jumped 2.7% year over year to \$412.8 million. Gross profit grew 8.4% to \$335.5 million while gross margin improved 130 basis points (bps) to 44.8%.

Selling and administrative expenses increased 0.2% year over year to \$167.4 million.

Adjusted operating margin expanded 220 bps to 23.1%.

Balance Sheet/Cash Flow

As of Sep 30, 2019, Allegion had cash and cash equivalents of \$232.9 million, down from \$283.8 recorded on Dec 31, 2018. Long-term debt was \$1,427 million, up from \$1,409.5 million recorded at the end of 2018.

In the first nine months of 2019, the company generated net cash of \$279.4 million from operating activities, up 7.3% from the year-ago period. Capital expenditures totaled \$49.4 million compared with \$31.8 million a year ago.

2019 Guidance

Adjusted earnings per share are now expected in the range of \$4.85 to \$4.90 compared with \$4.80-\$4.90 guided earlier.

The company expects full-year 2019 revenue growth on both reported and organic basis in the band of 4.5-5.5%.

Full-year adjusted effective tax rate is anticipated to be 15.5%.

Available cash flow is targeted to be approximately \$410-\$430 million.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	1.29%
EPS Surprise	10.53%
Quarterly EPS	1.47
Annual EPS (TTM)	4.83

Recent News

Dividend Hike, Share Buyback

On **Feb 6, 2020**, Allegion announced twin rewards for its shareholders in the form of share buyback authorization and a hike in its quarterly dividend rate. These rewards were approved by its board of directors.

Under the new buyback program, Allegion is allowed to repurchase up to \$800 million worth shares. Notably, the company's new buyback plan replaces the one that was authorized by its board in 2017. Also, the company announced 19% or 5 cents per share rise in the quarterly dividend rate, which now increased from 27 cents to 32 cents. On an annualized basis, the dividend raised to \$1.28 per share from \$1.08. This increment marks the company's 6th consecutive year of dividend raise.

Allegion will pay out the revised dividend on Mar 31, 2020 to its shareholders of record as of Mar 17.

Valuation

Allegion's shares have rallied 10.7% year to date and 47.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have moved down 1.2% and 0.2%, respectively, on a year-to-date basis. Over the past year, the Zacks sub-industry and the sector have increased 11.6% and 8.4% respectively.

The S&P 500 Index has moved up 4% year to date and 20.9% in the past year.

The stock is currently trading at 25.58x forward 12-month earnings per share, which compares to 18.11x for the Zacks sub-industry, 18.27x 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 25.61x and as low as 15.32x, with a 5-year median of 19.33x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$145 reflects 26.86x 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	25.58	18.11	18.27	19.27
	5-Year High	25.61	20.18	19.89	19.34
	5-Year Low	15.32	10.95	12.6	15.18
	5-Year Median	19.33	16.5	16.62	17.47
EV/EBITDA F12M	Current	17.77	14.76	17.81	12.66
	5-Year High	17.77	21.49	18.2	12.66
	5-Year Low	12.19	5.75	10.68	9.08
	5-Year Median	14.27	9.41	14.03	10.79
EV/Sales F12M	Current	4.35	2.29	3.14	3.26
	5-Year High	4.35	2.96	3.14	3.37
	5-Year Low	2.88	1.49	1.76	2.3
	5-Year Median	3.33	2	2.28	2.79

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 254)



Top Peers

ADT Inc. (ADT)	Neutral
Alarm.com Holdings, Inc. (ALRM)	Neutral
Brady Corporation (BRC)	Neutral
Fortune Brands Home & Security, Inc. (FBHS)	Neutral
Frontdoor, Inc. (FTDR)	Neutral
NAPCO Security Technologies, Inc. (NSSC)	Neutral
Spectrum Brands Holdings Inc. (SPB)	Neutral
Net 1 UEPS Technologies, Inc. (UEPS)	Neutral

Industry Comparison Industry: Security And Safety Services				Industry Peers		
	ALLE Neutral	X Industry	S&P 500	ALRM Neutral	BRC Neutral	SPB Neutral
VGM Score	B	-	-	F	A	D
Market Cap	12.81 B	189.00 M	24.31 B	2.27 B	2.90 B	2.71 B
# of Analysts	3	2	13	8	2	3
Dividend Yield	0.78%	0.00%	1.78%	0.00%	1.60%	2.84%
Value Score	D	-	-	D	D	C
Cash/Price	0.02	0.07	0.04	0.07	0.10	0.05
EV/EBITDA	22.75	6.58	13.97	68.64	13.81	13.22
PEG Ratio	2.18	2.46	2.06	2.19	2.73	1.03
Price/Book (P/B)	18.64	2.68	3.24	NA	3.30	1.85
Price/Cash Flow (P/CF)	25.38	17.06	13.65	25.55	18.57	5.92
P/E (F1)	25.76	20.78	19.12	32.84	20.51	16.32
Price/Sales (P/S)	4.52	1.75	2.67	4.79	2.51	0.72
Earnings Yield	3.87%	4.10%	5.23%	3.04%	4.88%	6.12%
Debt/Equity	2.08	0.06	0.70	-4.31	0.05	1.58
Cash Flow (\$/share)	5.43	0.44	6.94	1.83	2.93	9.99
Growth Score	A	-	-	F	A	D
Hist. EPS Growth (3-5 yrs)	14.60%	14.96%	10.85%	73.08%	15.32%	NA
Proj. EPS Growth (F1/F0)	9.68%	12.66%	7.30%	-0.79%	7.72%	26.69%
Curr. Cash Flow Growth	15.57%	8.52%	8.92%	55.38%	16.64%	64.31%
Hist. Cash Flow Growth (3-5 yrs)	5.85%	7.21%	8.36%	35.32%	4.55%	16.24%
Current Ratio	1.90	2.52	1.22	4.65	2.32	1.42
Debt/Capital	67.50%	16.99%	42.90%	22.80%	4.38%	61.20%
Net Margin	16.00%	0.85%	11.81%	10.23%	11.97%	14.35%
Return on Equity	69.28%	3.20%	16.98%	-122.34%	16.47%	8.25%
Sales/Assets	1.00	0.81	0.54	0.98	1.01	0.72
Proj. Sales Growth (F1/F0)	3.90%	4.54%	3.90%	14.23%	0.92%	1.30%
Momentum Score	B	-	-	F	A	D
Daily Price Chg	1.11%	0.00%	0.65%	-0.87%	-0.29%	0.61%
1 Week Price Chg	3.65%	0.00%	2.47%	3.44%	-1.44%	-3.32%
4 Week Price Chg	10.56%	0.00%	1.35%	8.65%	-4.20%	-6.34%
12 Week Price Chg	15.67%	3.48%	5.63%	10.66%	-1.02%	-5.04%
52 Week Price Chg	48.21%	4.60%	16.19%	-27.52%	15.79%	20.18%
20 Day Average Volume	645,337	81,302	1,995,746	381,593	144,553	491,899
(F1) EPS Est 1 week change	0.09%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.16%	0.00%	-0.28%
(F1) EPS Est 12 week change	0.00%	0.00%	-0.19%	0.16%	1.53%	-5.72%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.80%	0.00%	8.33%

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	D
Growth Score	A
Momentum Score	B
VGM Score	B

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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