

Allegion plc (ALLE)

\$82.84 (As of 03/20/20)

Price Target (6-12 Months): **\$87.00**

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:C

Value: D

Growth: A

Momentum: C

Summary

Healthy demand for products along with product development and a large customer base is likely to drive Allegion's top line in 2020. It predicts organic revenue growth of 3.5-4.5% for the year. Robust top-line prospects along with pricing and productivity actions, and solid operating leverage will likely aid margins. Also, the company is committed to rewarding shareholders through share buybacks and dividend payments. However, the stock has been overvalued compared with its industry over the past three months. Its shares have declined 33.1% during the same time. Also, rising costs of sales weigh on its near-term margins and high debt levels can increase its financial obligations. The company's earnings estimates have been lowered for 2020 and 2021 in the past couple of months.

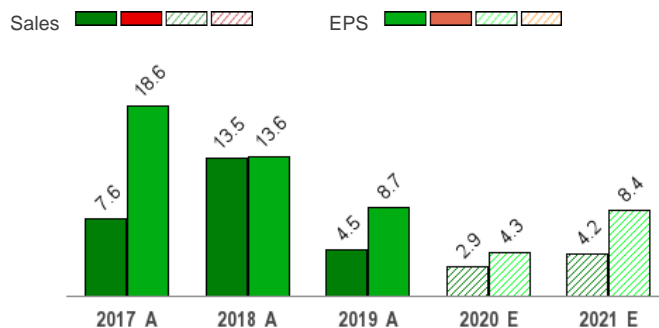
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$139.24 - \$79.56
20 Day Average Volume (sh)	1,065,956
Market Cap	\$7.7 B
YTD Price Change	-33.5%
Beta	1.20
Dividend / Div Yld	\$1.28 / 1.5%
Industry	Security and Safety Services
Zacks Industry Rank	Bottom 40% (152 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-2.7%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	04/23/2020
Earnings ESP	-2.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	698 E	787 E	803 E	777 E	3,060 E
2020	670 E	756 E	772 E	747 E	2,938 E
2019	655 A	731 A	748 A	720 A	2,854 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.04 E	\$1.44 E	\$1.62 E	\$1.43 E	\$5.53 E
2020	\$0.95 E	\$1.31 E	\$1.52 E	\$1.33 E	\$5.10 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.

P/E TTM	16.9
P/E F1	16.2
PEG F1	1.4
P/S TTM	2.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/20/2020. The reports text is as of 03/23/2020.

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.

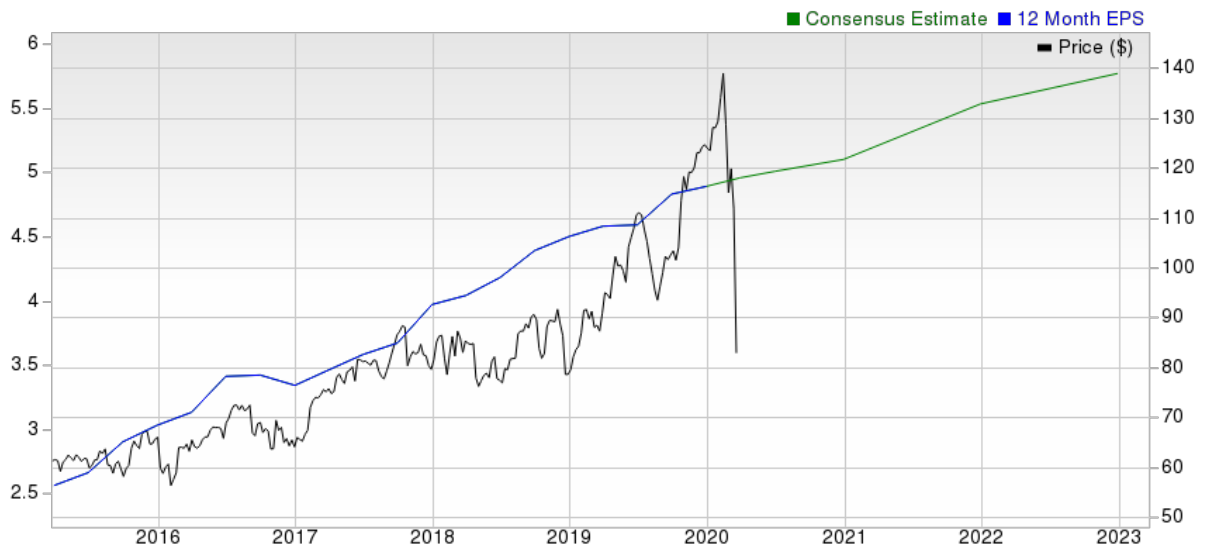
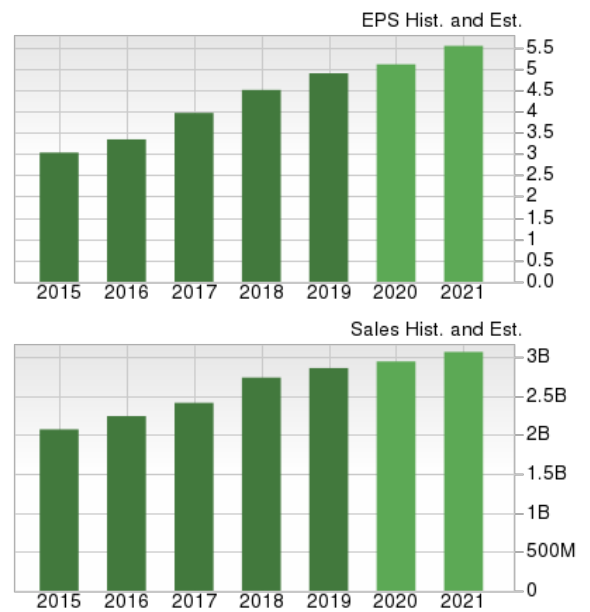
Market-leading brands offered by Allegion include CISA, DEXTER, FALCON, LCN, Interflex, Schlage, Von Duprin, SimonsVoss and many more. The company's products and solutions are sold to end users in residential, institutional and commercial facilities — including residential, government, education, healthcare 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 73.1% — in the fourth quarter of 2019. On the other hand, the EMEIA segment generated 20.8% of the quarter's revenues and the Asia Pacific segment generated 6.1%.



Reasons To Buy:

▲ Allegion's revenues in the fourth quarter were 2.4% higher than the year-ago figure and increased 3.5% on an organic basis. Notably, the year-over-year improvement in revenues came on the back of strength in both the non-residential and residential businesses, led by solid institutional markets in the Americas region. As a matter of fact, the company expects these tailwinds to continue bolstering its revenues for 2020. It noted that the strength in the electronic business driven by a continued strong demand environment, expanded product portfolio and a large customer base will benefit its top line for the year. Notably, for 2020, the company expects revenue growth in the band of 3-4% on reported basis and 3.5-4.5% on an organic basis.

Strength in end markets, greater operational excellence and pricing benefits are likely to enhance Allegion's near-term competency.

▲ In the fourth quarter, Allegion's earnings recorded an increase of 4.9% on a year-over-year basis. The company noted that this upswing was driven by top-line growth, higher operating income and lower share count. In addition, the company's adjusted operating margin increased 30 basis points (bps) backed by solid operating leverage along with pricing and productivity initiatives. For 2020, the company anticipates adjusted earnings per share to be in the range of \$5.10 to \$5.20, reflecting an increase of 5.3% on a year-over-year basis.

▲ 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. For instance, robust demand for the company's Schlage Encode residential lock product will be beneficial. Also, growing popularity for its smart WiFi deadbolt, Schlage Sense and Schlage Connect products is likely to boost revenues of its residential business. In addition, the company is trying to chalk out channel strategies, invest in demand creation and gain enterprise excellence to accelerate core market expansion.

▲ Allegion 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, in 2019, it paid out dividends worth \$100.6 million, higher than \$79.4 million in 2018. Moreover, the company repurchased shares worth \$226 million in 2019 versus \$67.3 million a year ago. Such diligent capital deployment strategies are expected to boost shareholders' wealth.

Reasons To Sell:

- ▼ Over the past three months, Allegion's shares have moved down 33.1% compared with the industry's decline of 37.2%. Also, on a P/E (TTM) basis, the company's shares look overvalued compared to the industry, with respective tallies of 16.94x and 16.21x. 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 have been lowered by 4.9% to \$5.10 for 2020 and 4.2% to \$5.53 for 2021. Its earnings estimates for the first quarter of 2020 have been lowered from \$1.02 to 95 cents per share in the past 60 days.
- ▼ Rising costs of sales has been a major concern 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 2019, the metric jumped 2.8%, on a year-over-year basis. Rising costs are likely to continue denting Allegion's margins in the quarters ahead. Allegion invests significantly in new product development, channel strategies and demand creation, which hold good for its long-term growth. However, high incremental investments incurred will negatively impact its short-term earnings. Notably, in both the third and fourth quarters of 2019, incremental investments incurred had an adverse impact of 2 cents on earnings. These are likely to weigh the company's profitability in the upcoming quarters.
- ▼ At the end of 2019, Allegion's long-term debt was \$1,427.6 million, up 1.3% from 2018 end. Also, in 2019, interest expenses increased 3.7%, year over year. Moreover, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 65.2%, higher than the industry's 37.4%. We believe high-debt levels can increase the company's financial obligations and prove detrimental to its profitability.
- ▼ Alleg 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, currency translation had an adverse impact of 0.8% 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 Q4 Earnings Meet Estimates, Revenues Miss

Allegion fourth-quarter 2019 adjusted earnings came in line with estimates, while revenues missed the same.

Earnings/Revenues

Quarterly adjusted earnings came in at \$1.28 per share, meeting the Zacks Consensus Estimate. Notably, the bottom line was 4.9% higher than the year-ago figure of \$1.22. The upside can be primarily attributed to solid sales growth and improved operating income.

In full-year 2019, Allegion's adjusted earnings came in at \$4.89 per share, up 8.7% on a year-over-year basis.

Revenues totaled \$719.5 million, up 2.4% year over year. However, the top line missed the consensus estimate of \$740 million. Revenues jumped 3.5% on an organic basis. The rise was backed by strength in businesses in the Americas region and strong pricing benefits, partially offset by adverse impact of unfavorable foreign exchange movements.

In 2019, Allegion generated revenues of \$2,854 million, up 4.5% on a year-over-year basis.

Segmental Breakup

Revenues in the Americas rose 6.8% year over year to \$526.3 million, driven by strength in non-residential and residential businesses. EMEA (Europe, Middle East, India and Africa) revenues declined 5% to \$149.6 million, on account of adverse impacts of divestitures and unfavorable foreign exchange movements. Revenues in Asia-Pacific fell 16.6% to \$43.6 million in the quarter, reflecting weak residential end markets in Australia and market softness in China.

Costs/Margins

In the fourth quarter, Allegion's cost of sales decreased 0.4% year over year to \$400.3 million. Gross profit grew 6.2% to \$319.2 million while gross margin improved 160 basis points (bps) to 44.4%.

Selling and administrative expenses increased 10.6% year over year to \$175.9 million.

Adjusted operating margin expanded 30 bps to 21%.

Balance Sheet/Cash Flow

As of Dec 31, 2019, Allegion had cash and cash equivalents of \$355.3 million, up from \$283.8 recorded on Dec 31, 2018. Long-term debt was \$1,427.6 million, up from \$1,409.5 million recorded at the end of 2018.

In 2019, the company generated net cash of \$488.2 million from operating activities, up 6.6% on a year-over-year basis. Capital expenditures totaled \$65.6 million compared with \$49.1 million a year ago.

2020 Guidance

Adjusted earnings per share are expected in the range of \$5.10 to \$5.20, reflecting an increase of 5.3% on a year-over-year basis.

The company expects full-year 2020 revenue growth in the band of 3-4% on reported basis, and 3.5-4.5% on an organic basis.

Full-year adjusted effective tax rate is anticipated to be 16.5-17%.

Available cash flow is expected to be \$450-\$470 million.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	-2.73%
EPS Surprise	0.00%
Quarterly EPS	1.28
Annual EPS (TTM)	4.89

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 declined 33.5% year to date and 5.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have moved down 36.7% and 36.6%, respectively, on a year-to-date basis. Over the past year, the Zacks sub-industry and the sector have decreased 26.7% and 30.8% respectively.

The S&P 500 Index has moved down 28.2% year to date and 18.2% in the past year.

The stock is currently trading at 15.94x forward 12-month earnings per share, which compares to 11.56x for the Zacks sub-industry, 11.92x for the Zacks sector and 13.75x for the S&P 500 Index.

Over the past five years, the stock has traded as high as 25.73x and as low as 15.32x, 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 \$87 reflects 16.74x 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	15.94	11.56	11.92	13.75
	5-Year High	25.73	20.18	19.96	19.34
	5-Year Low	15.32	10.95	11.92	13.75
	5-Year Median	19.33	16.42	16.48	17.42
EV/EBITDA F12M	Current	12.28	7.13	12.01	9.82
	5-Year High	19.03	21.49	18.21	14.18
	5-Year Low	12.28	5.75	10.61	9.07
	5-Year Median	14.52	9.39	14.11	10.84
EV/Sales F12M	Current	2.96	1.38	2.11	2.35
	5-Year High	4.67	2.96	3.13	3.52
	5-Year Low	2.96	1.38	1.77	2.3
	5-Year Median	3.4	1.99	2.3	2.8

As of 03/20/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (152 out of 254)



Top Peers

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
ADT Inc. (ADT)	Underperform

Industry Comparison Industry: Security And Safety Services				Industry Peers		
	ALLE Neutral	X Industry	S&P 500	ALRM Neutral	BRC Neutral	SPB Neutral
VGM Score	C	-	-	C	C	C
Market Cap	7.70 B	142.77 M	15.82 B	1.89 B	2.02 B	1.22 B
# of Analysts	3	2	13	8	2	3
Dividend Yield	1.55%	0.00%	2.79%	0.00%	2.29%	6.32%
Value Score	D	-	-	D	C	C
Cash/Price	0.03	0.10	0.06	0.07	0.12	0.07
EV/EBITDA	14.27	7.56	9.77	24.18	9.26	9.19
PEG Ratio	1.38	2.02	1.42	2.02	2.08	0.46
Price/Book (P/B)	10.12	2.25	2.07	NA	2.25	0.83
Price/Cash Flow (P/CF)	14.15	12.37	8.39	19.18	12.97	2.66
P/E (F1)	16.23	15.75	12.42	26.21	14.54	7.34
Price/Sales (P/S)	2.70	1.74	1.68	3.76	1.76	0.32
Earnings Yield	6.16%	6.16%	7.97%	3.82%	6.88%	13.61%
Debt/Equity	1.88	0.03	0.70	-10.04	0.04	1.58
Cash Flow (\$/share)	5.85	0.28	7.01	2.02	2.93	9.99
Growth Score	A	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	14.06%	14.44%	10.85%	68.35%	16.85%	NA
Proj. EPS Growth (F1/F0)	4.29%	6.67%	4.90%	-4.06%	6.10%	26.69%
Curr. Cash Flow Growth	5.29%	2.06%	6.03%	11.76%	16.64%	64.31%
Hist. Cash Flow Growth (3-5 yrs)	13.35%	5.64%	8.55%	38.49%	4.55%	16.24%
Current Ratio	1.98	2.50	1.23	3.21	2.68	1.42
Debt/Capital	65.25%	12.67%	42.57%	23.85%	3.95%	61.20%
Net Margin	14.08%	1.60%	11.57%	10.66%	12.40%	14.35%
Return on Equity	67.06%	2.81%	16.74%	-194.90%	16.51%	8.25%
Sales/Assets	0.99	0.81	0.54	0.98	0.97	0.72
Proj. Sales Growth (F1/F0)	2.96%	0.54%	3.13%	9.83%	-0.80%	1.30%
Momentum Score	C	-	-	B	D	A
Daily Price Chg	-12.02%	-2.22%	-4.39%	-3.82%	-3.73%	-1.70%
1 Week Price Chg	-6.67%	-13.63%	-11.01%	-18.71%	-8.87%	-18.43%
4 Week Price Chg	-36.20%	-26.98%	-36.57%	-18.52%	-22.51%	-55.88%
12 Week Price Chg	-33.54%	-29.78%	-34.28%	-9.17%	-33.88%	-58.15%
52 Week Price Chg	-6.82%	-28.11%	-27.95%	-38.55%	-19.31%	-52.85%
20 Day Average Volume	1,065,956	184,018	3,981,936	865,952	372,360	738,393
(F1) EPS Est 1 week change	-0.83%	0.00%	-0.01%	0.00%	-1.88%	0.00%
(F1) EPS Est 4 week change	-1.73%	-0.72%	-0.85%	3.16%	-1.14%	0.00%
(F1) EPS Est 12 week change	-4.58%	-1.01%	-1.70%	3.33%	-1.51%	-0.28%
(Q1) EPS Est Mthly Chg	-5.33%	-0.38%	-0.88%	-1.46%	1.59%	-2.80%

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	C
VGM Score	C

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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