

Allegion plc (ALLE)

\$101.02 (As of 07/24/20)

Price Target (6-12 Months): **\$106.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/17/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Allegion's second-quarter 2020 earnings surpassed the Zacks Consensus Estimate by 16.5%, while sales missed the same by 1.8%. Strength in the electronic products business along with product development and a large customer base are expected to be beneficial in the long run. Several cost-control measures along with pricing and productivity actions are likely to benefit margins. Also, the company's shareholder-friendly policies are likely to work in its favor. However, low demand environment owing to the pandemic, persistent weakness across residential markets and business divestitures are likely to hurt its top-line results in 2020. For 2020, it expects revenues to decline 8-9% on an organic basis. High debt level and currency translation-related headwinds remain concerning. It has underperformed the industry over the past six months.

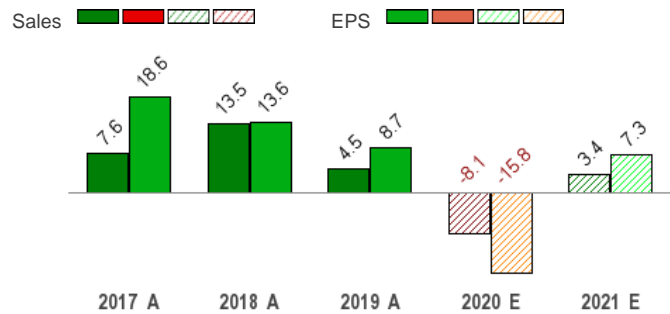
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$139.24 - \$77.37
20 Day Average Volume (sh)	659,846
Market Cap	\$9.3 B
YTD Price Change	-18.9%
Beta	1.18
Dividend / Div Yld	\$1.28 / 1.3%
Industry	Security and Safety Services
Zacks Industry Rank	Top 19% (47 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.5%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	4.5%
Expected Report Date	NA
Earnings ESP	4.6%
P/E TTM	21.5
P/E F1	24.5
PEG F1	2.1
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	655 E	664 E	708 E	684 E	2,710 E
2020	675 A	590 A	678 E	680 E	2,622 E
2019	655 A	731 A	748 A	720 A	2,854 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.00 E	\$1.08 E	\$1.24 E	\$1.18 E	\$4.42 E
2020	\$1.04 A	\$0.92 A	\$1.15 E	\$1.06 E	\$4.12 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, except sales and EPS estimates, is as of 07/24/2020. The reports text and the analyst-provided sales and EPS estimates are as of 07/27/2020.

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.

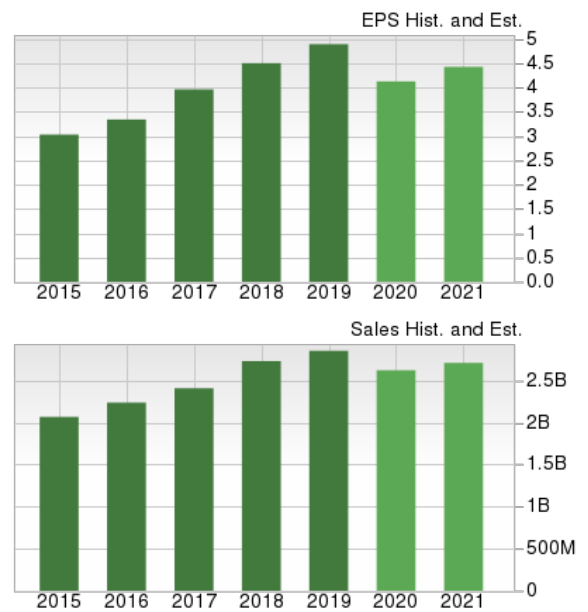
Market-leading brands offered by Allegion include CISA, DEXTER, FALCON, LCN, Interflex, Schlage, Von Duprin, SimonsVoss and many more. The company's products and solutions are sold to end users in residential, institutional and commercial facilities — including residential, government, education, healthcare 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 75.4% — in the second quarter of 2020. On the other hand, the EMEIA segment generated 18.8% of the quarter's revenues and the Asia Pacific segment generated 5.8%.



Reasons To Buy:

- ▲ Allegion's fundamental business strength and wide geographical presence are expected to be beneficial over the long term. The company expects its residential businesses to show resilience during the coronavirus outbreak-led global market downturn and recover quickly, backed by healthy backlog and strength across the institutional end markets in the Americas segment. Of late, it has been witnessing improvement in demand across home builder markets and point-of-sales in the e-commerce channels. The company expects its electronic products business to be a long-term growth driver, backed by a solid product portfolio, strong channel relationship and a large customer base.
- ▲ Allegion's pricing and productivity initiatives along with its ongoing actions to optimize and simplify business operations and address cost structure will act as tailwinds in the quarters ahead. 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 restructuring 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 time, sales of such electronic security products have grown at a steady rate. Of late, growing popularity for its Schlage, LCN, VON Duprin, interflex and Simons Voss branded products hold good for the company. In addition, it brought SimonsVoss and Interflex businesses under one management team, which has been enabling 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 six months of 2020, it paid out dividends worth \$58.7 million, higher than \$50.5 million paid out in the year-ago comparable period. Moreover, the company repurchased shares worth \$94.1 million in the same time frame. Such diligent capital-deployment strategies are expected to boost shareholders' wealth. In addition, analysts have become increasingly bullish about the company over the past seven days. Its earnings estimates for 2020 have been increased by 1.7% over the same time frame. Also, its earnings estimates for the third quarter of 2020 have been increased by 0.9% to \$1.15 per share in the past seven days.

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

Reasons To Sell:

- ▼ Allegion's revenues in the second quarter were 19.4% lower than the year-ago figure and decreased 18.5% on an organic basis. The decline was primarily attributable to a significant global fall in customer demand across all business verticals, owing to the coronavirus outbreak-related market downturn. For 2020, the company anticipates low demand environment across all regions owing to the pandemic, persistent weakness across residential markets, especially in China and Australia, and impacts of business divestiture in Colombia and Turkey continue to have a bearing on the company's results. For the Americas operations, it anticipates organic revenue decline of 7.5-8.5% in 2020, whereas the same for EMEA and the Asia Pacific are expected to be down by 9-10% and 10.5-12.5%, respectively. Notably, the company expects 2020 overall revenues to decline 9-10% on a reported basis and 8-9% on an organic basis. In the past six months, Allegion's shares have lost 22.1% compared with the industry's decline of 11.3%.

The coronavirus outbreak-led market downturn, high long-term debt level and unfavorable movements in foreign currencies might hurt Allegion's near-term results.
 - ▼ In the second quarter, Allegion's earnings recorded a decline of 27% on a year-over-year basis due to lower revenues and operating income. For 2020, earnings per share are expected to be \$4.15 to \$4.30, suggesting a year-over-year decline of 13.6% at the mid-point. 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, for 2020, the company anticipates incremental investments to have an adverse impact of 5 cents on earnings.
 - ▼ Allegion's long-term debt in the last six years (2014-2019) increased 2.7% (CAGR). At the end of the second quarter of 2020, its long-term debt was \$1,428.5 million, up from \$1,427.6 million recorded at 2019 end. Also, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 67.8%, higher than the industry's 38.9%. We believe high-debt levels can increase the company's financial obligations and prove detrimental to its profitability. In addition, on an EV/EBITDA (TTM) basis, the company's shares look overvalued compared with the industry, with respective tallies of 13.59X and 12.67X. Also, the stock's multiple is higher than the industry's six-month figure of 13.10X. This makes us cautious about the stock.
 - ▼ 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 first quarter of 2020 and the second quarter of 2020, currency translation had an adverse impact of 0.9% and 0.6% 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.
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Last Earnings Report

Allegion Q2 Earnings Surpass Estimates, Revenues Miss

Allegion has reported mixed results for second-quarter 2020, wherein its adjusted earnings surpassed the Zacks Consensus Estimate, while revenues missed the same.

Earnings & Revenues Declines

Quarterly adjusted earnings were 92 cents per share, beating the Zacks Consensus Estimate of 79 cents. Notably, the bottom line was 27% lower than the year-ago figure of \$1.26. The decline can be primarily attributed to lower sales.

Revenues totaled \$589.5 million, down 19.4% year over year. Also, the top line missed the consensus estimate of \$600 million. Revenues fell 18.5% on an organic basis. The top-line performance was adversely impacted by operational shutdowns across all regions, owing to the coronavirus outbreak-related issues.

Segmental Breakup

Revenues in the Americas fell 18.5% year over year to \$444.3 million, owing to softness in non-residential, residential and electronics businesses.

EMEIA (Europe, Middle East, India and Africa) revenues declined 21.9% to \$111 million on soft end markets amid the pandemic, adverse impacts of divestitures, and unfavorable foreign exchange movements.

Revenues in the Asia Pacific fell 22.1% to \$34.2 million in the quarter, reflecting weak end markets in Australia and the residential market in China as well as adverse impacts of unfavorable foreign exchange movements.

Costs & Margins Details

In the second quarter, Allegion's cost of sales decreased 16.5% year over year to \$342.9 million. Gross profit fell 23.1% to \$246.6 million, while gross margin contracted 210 basis points (bps) to 41.8%.

Selling and administrative expenses decreased 14.2% year over year to \$150.1 million.

Adjusted operating margin contracted 260 bps to 18.9%.

Balance Sheet & Cash Flow

As of Jun 30, 2020, Allegion had cash and cash equivalents of \$302.4 million, down from \$355.3 recorded on Dec 31, 2019. Long-term debt was \$1,428.5 million, up from \$1,427.6 million recorded at the end of 2019.

In the first six months of 2020, the company generated net cash of \$128 million from operating activities compared with \$107 million generated in the year-ago comparable period. Capital expenditure totaled \$24.4 million compared with \$29.3 million in the year-ago period.

2020 Guidance

Allegion re-issued outlooks for 2020, assuming no further disruptions associated with the COVID-19 outbreak.

Adjusted earnings per share are expected to be \$4.15 to \$4.30, suggesting a year-over-year decline of 13.6% at the mid-point.

The company expects 2020 revenues to decline 9-10% on a reported basis, and 8-9% on an organic basis.

Adjusted effective tax rate is anticipated to be 13.5-14.5% for the year.

Available cash flow is expected to be \$350-\$370 million.

Quarter Ending **06/2020**

Report Date	Jul 23, 2020
Sales Surprise	-1.82%
EPS Surprise	16.46%
Quarterly EPS	0.92
Annual EPS (TTM)	4.71

Recent News

Dividend

On **Jun 30, 2020**, Allegion paid a quarterly cash dividend of 32 cents per share to shareholders of record as of Jun 16, 2020.

Valuation

Allegion's shares have declined 18.9% year to date and decreased 2.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector have moved down 9.1% and 6.7%, respectively, on a year-to-date basis. Over the past year, the Zacks sub-industry decreased 2.6%, while the sector increased 1.4%.

The S&P 500 index has remained at a break-even level on a year-to-date basis and increased 6.9% in the past year.

The stock is currently trading at 23.52x forward 12-month earnings per share, which compares to 18.62x for the Zacks sub-industry, 21.82x for the Zacks sector and 22.51x for the S&P 500 Index.

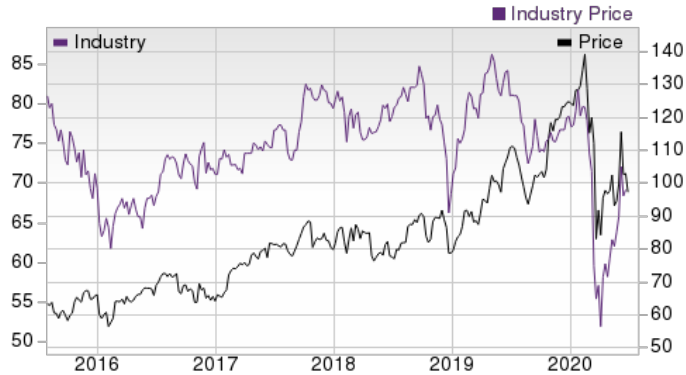
Over the past five years, the stock has traded as high as 27.44x and as low as 15.12x, with a 5-year median of 19.30x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$106 reflects 24.68x forward 12-month earnings.

The table below shows summary valuation data for ALLE.

Valuation Multiples - ALLE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.52	18.62	21.82	22.51
	5-Year High	27.44	20.18	21.82	22.51
	5-Year Low	15.12	10.95	12.55	15.25
	5-Year Median	19.3	16.5	16.81	17.52
P/Sales F12M	Current	3.48	1.76	2.82	3.55
	5-Year High	4.31	2.92	2.82	3.55
	5-Year Low	2.31	1.04	1.52	2.53
	5-Year Median	2.97	1.55	2.01	3.02

As of 07/24/2020

Industry Analysis Zacks Industry Rank: Top 19% (47 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Fortune Brands HomeSecurity, Inc. (FBHS)	Outperform	1
NAPCO Security Technologies, Inc. (NSSC)	Outperform	3
ADT Inc. (ADT)	Neutral	3
Alarm.com Holdings, Inc. (ALRM)	Neutral	4
Brady Corporation (BRC)	Neutral	3
Frontdoor, Inc. (FTDR)	Neutral	4
Spectrum Brands Holdings Inc. (SPB)	Neutral	3
Net 1 UEPS Technologies, Inc. (UEPS)	Neutral	2

Industry Comparison Industry: Security And Safety Services

	ALLE	X Industry	S&P 500	ALRM	BRC	SPB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	3	3
VGM Score	A	-	-	B	B	A
Market Cap	9.32 B	178.11 M	22.16 B	3.30 B	2.44 B	2.08 B
# of Analysts	5	3	14	7	2	3
Dividend Yield	1.27%	0.00%	1.81%	0.00%	1.86%	3.47%
Value Score	B	-	-	F	B	B
Cash/Price	0.03	0.08	0.06	0.05	0.10	0.22
EV/EBITDA	17.09	7.59	13.07	35.56	11.66	12.49
PEG Ratio	2.08	4.02	3.03	4.06	2.99	1.40
Price/Book (P/B)	13.70	4.16	3.11	9.02	2.97	1.82
Price/Cash Flow (P/CF)	17.26	14.87	12.27	33.57	16.03	4.85
P/E (F1)	24.52	22.80	21.88	48.28	20.94	16.67
Price/Sales (P/S)	3.41	2.36	2.38	6.10	2.17	0.54
Earnings Yield	4.08%	4.03%	4.34%	2.06%	4.78%	5.99%
Debt/Equity	2.10	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	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	13.48%	12.86%	10.82%	76.79%	17.05%	NA
Proj. EPS Growth (F1/F0)	-15.66%	-9.34%	-9.01%	-8.81%	-8.94%	1.51%
Curr. Cash Flow Growth	5.29%	1.05%	5.47%	11.76%	16.64%	64.31%
Hist. Cash Flow Growth (3-5 yrs)	13.35%	5.93%	8.55%	38.49%	4.55%	16.24%
Current Ratio	2.11	2.33	1.31	3.98	2.33	2.39
Debt/Capital	67.75%	19.89%	44.41%	30.96%	3.79%	71.05%
Net Margin	10.48%	3.95%	10.46%	9.84%	10.78%	-6.31%
Return on Equity	64.29%	11.63%	15.13%	18.82%	15.36%	10.92%
Sales/Assets	0.96	0.78	0.54	0.99	0.95	0.74
Proj. Sales Growth (F1/F0)	-7.57%	0.00%	-2.06%	5.03%	-5.94%	-2.65%
Momentum Score	A	-	-	A	D	A
Daily Price Chg	-1.50%	-0.14%	-0.65%	-5.32%	-1.03%	-1.57%
1 Week Price Chg	5.26%	1.29%	3.82%	0.18%	5.07%	8.40%
4 Week Price Chg	3.08%	1.36%	4.96%	4.45%	2.56%	7.77%
12 Week Price Chg	0.48%	16.67%	9.30%	51.58%	7.72%	12.42%
52 Week Price Chg	-3.62%	-2.40%	-2.82%	35.76%	-7.39%	-7.40%
20 Day Average Volume	659,846	177,243	2,026,477	379,399	170,352	345,969
(F1) EPS Est 1 week change	4.37%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	4.53%	0.00%	0.15%	0.00%	0.00%	0.35%
(F1) EPS Est 12 week change	-3.89%	-2.60%	-3.24%	-6.79%	-7.66%	17.39%
(Q1) EPS Est Mthly Chg	1.93%	0.00%	0.00%	0.00%	0.00%	10.83%

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	B
Growth Score	B
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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