

Johnson Controls (JCI)

\$28.53 (As of 05/04/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: C

Summary

Johnson Controls' strategic acquisitions and mergers bode well, and provide customers with world-class technologies through strong complementary brands and channels. Its focus on cost discipline amid coronavirus concerns is likely to result into potential annualized run-rate savings of around \$400-\$450 million. Further, it is set to invest \$555 million between 2011 and 2020 to expand AGM production capacity in Germany, the United States and China. However, frequent business divestments are resulting in high separation costs for the company, thereby impacting margins. Moreover, it withdrew the previously issued 2020 guidance and suspended its share repurchase program in response to disruptions to the company's supply chain due to the coronavirus. Hence, investors are recommended to wait for a better entry point.

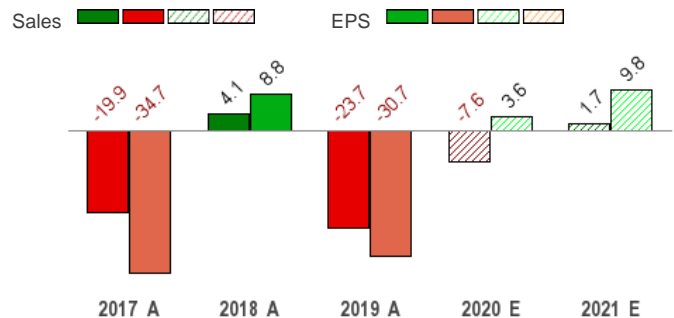
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.82 - \$22.78
20 Day Average Volume (sh)	5,046,470
Market Cap	\$21.2 B
YTD Price Change	-29.9%
Beta	1.05
Dividend / Div Yld	\$1.04 / 3.6%
Industry	Security and Safety Services
Zacks Industry Rank	Bottom 49% (128 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.5%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	-13.9%
Expected Report Date	07/29/2020
Earnings ESP	-11.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,325 E	5,745 E	6,216 E	6,128 E	22,521 E
2020	5,576 A	5,444 A	5,836 E	5,777 E	22,153 E
2019	5,464 A	5,779 A	6,451 A	6,274 A	23,968 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.35 E	\$0.45 E	\$0.60 E	\$0.77 E	\$2.23 E
2020	\$0.40 A	\$0.42 A	\$0.52 E	\$0.66 E	\$2.03 E
2019	\$0.26 A	\$0.32 A	\$0.65 A	\$0.78 A	\$1.96 A

*Quarterly figures may not add up to annual.

P/E TTM	12.7
P/E F1	14.1
PEG F1	1.5
P/S TTM	0.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/04/2020. The reports text is as of 05/05/2020.

Overview

Cork, Ireland-based Johnson Controls International plc is a diversified technology company and a multi industrial leader, with customers spanning over 150 countries. The company's operations include creation of intelligent buildings, providing efficient energy solutions, integrated infrastructure and next generation transportation systems.

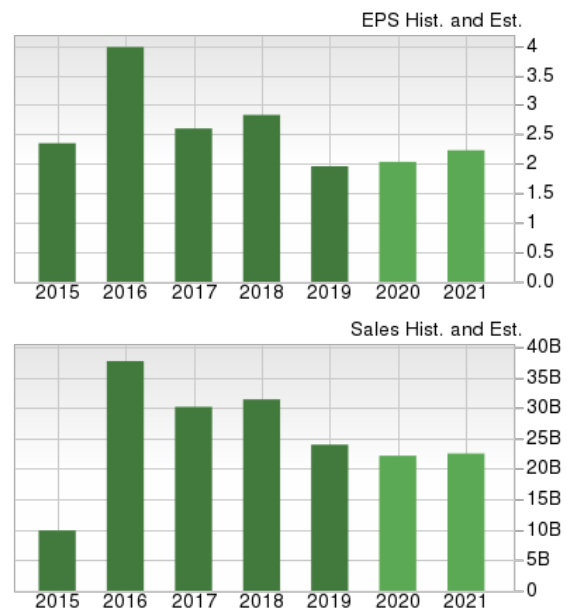
Johnson Controls was originally incorporated in the state of Wisconsin in 1885 as Johnson Electric Service Company. In 1974, the company was renamed to Johnson Controls, Inc. In 1978, the company acquired Globe-Union, Inc. and in 2005, it acquired York International.

Again, in 2014, the company acquired Air Distribution Technologies, Inc. in North America. On Oct 1, 2015, the company formed a joint venture with Hitachi to expand its building product offerings. In September 2016, Johnson Controls completed its merger with Tyco, a global fire protection and security company. The combined company has been named Johnson Controls International plc.

The company functions through two segments:

Building Technologies & Solutions: This segment sells integrated control systems, security systems, fire-detection systems, equipment and services through its wide network of offices having operations in 60 countries. Third-party channel sales have also contributed to the segment's total sales.

Power Solutions: This segment offers advanced battery technology, along with systems engineering, marketing and service expertise to both automotive OEMs and the battery aftermarket. Being the world's largest producer of lead-acid automotive batteries, it produces and distributes roughly 154 million lead-acid batteries annually. Additionally, investments in order to develop its product line has led to an expanded product offerings, ranging from absorbent glass mat (AGM) to enhanced flooded battery (EFB) technologies that power start-stop vehicles, as well as lithium-ion battery technology for certain hybrid and electric vehicles.



Reasons To Buy:

- ▲ Johnson Controls' strategic acquisitions and mergers bode well. Notably, it provides customers with world-class technologies through strong complementary brands and channels. The firm's buyout of Synchrony and EasyIO Building and Energy Management System (BEMS) are likely to boost prospects. The company's investor-friendly moves via dividend hikes lift its shareholders' confidence.
- ▲ In response to the uncertainty caused by coronavirus pandemic, the company initiated a series of meaningful costs savings throughout the enterprise, including substantial staffing adjustments and reduction in production levels to help mitigate the business disruption. The focus on cost discipline is likely to result into potential annualized run-rate savings of around \$400-\$450 million. Also, as of Mar 31, 2019, the company's long-term debt declined to \$5.64 billion from \$6.71 billion as of Sep 30, 2019. Its total debt-to-capital ratio stands at 0.31, lower than its industry's 0.4. This favorable reading indicates that the firm is not a very leveraged company.
- ▲ Johnson Controls has been working to enhance the AGM battery manufacturing capacity for addressing the rising demand for Start-Stop technology due to government pressure for better fuel efficiency and reduced carbon emissions. The company is set to invest \$555 million between 2011 and 2020 to expand AGM production capacity in Germany, the United States and China. It expects the market for new vehicle and aftermarket Start-Stop batteries to rise to 56 million units worldwide by 2020.

Johnson Controls has been focusing on acquisitions and mergers to provide customers with world-class technologies.

Reasons To Sell:

- ▼ Johnson Controls withdrew the previously issued 2020 guidance and suspended its existing share repurchase program in response to disruptions to the company's supply chain due to the coronavirus pandemic-led crisis. The company now projects fiscal 2020 organic revenues to be down 15-20%. Weak consumer sentiment amid the pandemic is likely to hurt the firm's sales and earnings in the near future.
- ▼ The divestiture of several businesses including the Power Solutions segment, Scott Safety and ADT South Africa, among others, is negatively impacting the company's profits. Owing to these divestitures and high separation costs, its revenues and profits may get affected in the coming quarters.
- ▼ Johnson Controls is exposed to volatility in commodity prices, especially as a result of trade tensions. Commodities with highly volatile prices include steel, aluminum, copper and fuel in the Building Efficiency business. Rising tariffs in China remains a concern, since Johnson Controls has been focusing on market expansion in China as it anticipates significant growth opportunities therein. The company is also facing pricing challenges in Asia-Pacific.

Currency headwinds, divestiture of several businesses and volatility in commodity prices are headwinds for Johnson Controls.

Last Earnings Report

Johnson Controls Q2 Earnings Surpass Estimates, Up Y/Y

Johnson Controls reported adjusted earnings per share of 42 cents in second-quarter fiscal 2020, surpassing the Zacks Consensus Estimate of 38 cents. The reported figure also comes in higher than the prior-year quarter's 32 cents per share. This outperformance was mainly aided by higher EBITA from the company's Building Solutions Europe, Middle East, Africa/Latin America segment.

Johnson Controls reported revenues of \$5,444 million, down 6% year over year, in the fiscal second quarter. The revenue figure also missed the Zacks Consensus Estimate of \$5,536 million. Gross profit increased to \$1.8 billion from the year-earlier quarter's \$1.72 billion.

Selling, general and administrative expenses in the fiscal second quarter totaled \$1,451 million, lower than the prior-year quarter's \$1,458 million.

Segmental Results

Building Solutions North America: This segment's adjusted revenues came in at \$2,175 million, down from the year-ago quarter's \$2,187 million on decline in HVAC & Controls and Fire & Security. The segment's EBITA decreased to \$253 million from the \$259 million reported in second-quarter fiscal 2019 on dismal volume.

Building Solutions Europe, Middle East, Africa/Latin America: Adjusted revenues in this segment came in at \$850 million, down 3% year over year, due to decline in project installations, HVAC & Controls and Fire & Security. The segment's EBITA was \$85 million, up from the second-quarter fiscal 2019 level of \$81 million. This upswing was mainly driven by cost synergies and productivity savings.

Building Solutions Asia Pacific: Adjusted revenues decreased to \$525 million from the year-ago quarter's \$628 million due to decline in project installations and services. Moreover, the sharp decline in China was predominately within HVAC & Controls. This segment's EBITA was \$65 million, down from the second-quarter fiscal 2019 level of \$76 million on lower volume.

Global Products: Adjusted revenues in this segment increased to \$1,894 million from the prior year's \$2,086 million, mainly due to lower sales within HVAC & Refrigeration Equipment and Specialty Products. This segment's EBITA was \$216 million, down from the second-quarter fiscal 2019 level of \$255 million due to dismal volume.

Financial Position

Johnson Controls had cash and cash equivalents of \$1 billion as of Mar 31, 2020, down from \$2.81 billion as of Sep 30, 2019. Long-term debt declined to \$5.64 billion in the reported quarter from \$6.71 billion as of Sep 30, 2019. The debt-to-capital ratio stands at 31.2%.

In the fiscal second quarter, the company suspended its existing share-repurchase program until further notice on the heightening coronavirus scare.

2020 Guidance

Johnson Controls scrapped the fiscal 2020 guidance as it expects that the pandemic's impact will strain the company's operations in the days to come.

The company now projects fiscal 2020 organic revenues to be down 15-20%. It has reduced production levels and implemented a company-wide cost-reduction plan that targets \$400-\$450 million in savings in response to the pandemic and related setbacks.

Quarter Ending 03/2020

Report Date	May 01, 2020
Sales Surprise	-1.66%
EPS Surprise	10.53%
Quarterly EPS	0.42
Annual EPS (TTM)	2.25

Valuation

Johnson Controls' shares are down 29.9% in the year-to-date period and down 27.9% over the trailing 12-month period. Stocks in the Zacks Security and Safety Services industry and the Zacks Industrial Products sector are down 24.8% and 23.2%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 21.5% and 22.1%, respectively.

The S&P 500 index is down 29.9% in the year-to-date period and down 3.3% in the past year.

The stock is currently trading at 13.18X forward 12-month earnings, which compares to 15.18X for the Zacks sub-industry, 17.73X for the Zacks sector and 20.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.06X and as low as 9.11X, with a 5-year median of 15.06X.

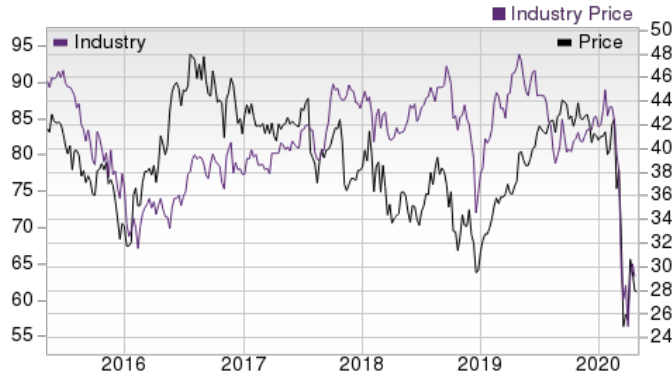
Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$30 price target reflects 13.89X forward 12-month earnings per share.

The table below shows summary valuation data for JCI:

Valuation Multiples - JCI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.18	15.18	17.73	20.16
	5-Year High	22.06	20.18	19.93	20.16
	5-Year Low	9.11	10.95	12.55	15.19
	5-Year Median	15.06	16.45	16.56	17.44
EV/EBITDA TTM	Current	11.58	9	13.6	10.37
	5-Year High	20.28	16.17	17.4	12.86
	5-Year Low	8.27	7.35	10.8	8.28
	5-Year Median	11.53	11.47	14.7	10.78
P/B TTM	Current	1.14	1.53	4.25	3.77
	5-Year High	6.79	5.61	5.63	4.55
	5-Year Low	0.88	1.22	3.32	2.84
	5-Year Median	1.64	2.12	4.45	3.64

As of 05/04/2020

Industry Analysis Zacks Industry Rank: Bottom 49% (128 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
DAIKIN INDS LTD (DKILY)	Neutral	3
Genuine Parts Company (GPC)	Neutral	4
Honeywell International Inc. (HON)	Neutral	4
Lennox International, Inc. (LII)	Neutral	4
Meritor, Inc. (MTOR)	Neutral	3
SORL Auto Parts, Inc. (SORL)	Neutral	3
Autoliv, Inc. (ALV)	Underperform	5
Lear Corporation (LEA)	Underperform	5

Industry Comparison Industry: Security And Safety Services				Industry Peers		
	JCI	X Industry	S&P 500	DKILY	HON	MTOR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	C	-	-	A	C	A
Market Cap	21.22 B	184.43 M	19.65 B	36.51 B	94.89 B	1.35 B
# of Analysts	8	3	14	2	10	3
Dividend Yield	3.65%	0.00%	2.19%	0.92%	2.66%	0.00%
Value Score	A	-	-	C	D	A
Cash/Price	0.05	0.12	0.06	NA	0.09	0.37
EV/EBITDA	13.75	7.37	11.76	NA	10.84	3.92
PEG Ratio	1.47	2.33	2.48	NA	2.25	NA
Price/Book (P/B)	1.11	2.70	2.63	2.79	5.31	3.18
Price/Cash Flow (P/CF)	8.95	10.70	10.38	13.99	13.67	3.69
P/E (F1)	14.24	18.64	18.81	21.15	17.43	28.10
Price/Sales (P/S)	0.89	1.63	2.02	NA	2.61	0.34
Earnings Yield	7.12%	4.32%	5.07%	4.73%	5.74%	3.54%
Debt/Equity	0.30	0.09	0.73	NA	0.65	2.84
Cash Flow (\$/share)	3.19	0.46	7.01	0.89	9.89	5.05
Growth Score	D	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	-1.07%	14.15%	10.87%	NA	8.38%	26.99%
Proj. EPS Growth (F1/F0)	3.77%	0.00%	-8.14%	0.00%	-4.94%	-82.64%
Curr. Cash Flow Growth	-26.61%	3.06%	5.88%	1.00%	-1.43%	15.83%
Hist. Cash Flow Growth (3-5 yrs)	6.22%	5.65%	8.55%	NA	5.69%	19.94%
Current Ratio	1.05	2.44	1.25	NA	1.30	1.64
Debt/Capital	22.81%	19.90%	44.07%	NA	39.26%	73.94%
Net Margin	21.80%	2.56%	11.00%	NA	17.38%	10.29%
Return on Equity	8.81%	8.81%	16.43%	NA	33.60%	64.86%
Sales/Assets	0.56	0.85	0.55	NA	0.62	1.36
Proj. Sales Growth (F1/F0)	-7.57%	0.00%	-1.76%	2.08%	-10.48%	-36.00%
Momentum Score	C	-	-	A	A	F
Daily Price Chg	2.40%	0.00%	-0.01%	-0.94%	-1.49%	-3.12%
1 Week Price Chg	-0.18%	0.00%	0.53%	2.48%	1.28%	18.69%
4 Week Price Chg	4.09%	4.09%	6.66%	2.34%	0.90%	27.06%
12 Week Price Chg	-29.63%	-23.20%	-20.38%	-15.69%	-23.59%	-23.64%
52 Week Price Chg	-27.94%	-27.94%	-13.44%	-1.75%	-21.67%	-18.64%
20 Day Average Volume	5,046,470	168,805	2,567,149	100,292	3,274,823	860,847
(F1) EPS Est 1 week change	-0.51%	0.00%	0.00%	0.00%	-0.72%	-49.62%
(F1) EPS Est 4 week change	-13.93%	-9.76%	-6.96%	0.00%	-3.91%	-58.11%
(F1) EPS Est 12 week change	-23.14%	-16.06%	-13.90%	NA	-12.10%	-75.88%
(Q1) EPS Est Mthly Chg	-25.18%	-1.69%	-13.62%	NA	-5.63%	-308.82%

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	A
Growth Score	D
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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