

Johnson Controls (JCI)

\$38.34 (As of 08/05/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 08/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Johnson Controls' strategic acquisitions and mergers bode well. Notably, it provides customers with world-class technologies through strong complementary brands and channels. In response to the uncertainty caused by coronavirus, the company initiated a series of meaningful costs savings, 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. Its strong balance sheet allows it to return cash to shareholders through dividend payments and investment in growth opportunities. The company is set to invest \$555 million between 2011 and 2020 to expand AGM production capacity in Germany, the United States and China. As such, the stock warrants a bullish stance.

Price, Consensus & Surprise



Data Overview

52 Week High-Low **\$44.82 - \$22.78**

20 Day Average Volume (sh) **5,407,588**

Market Cap **\$28.5 B**

YTD Price Change **-5.8%**

Beta **1.10**

Dividend / Div Yld **\$1.04 / 2.7%**

Industry **[Security and Safety Services](#)**

Zacks Industry Rank **Top 36% (90 out of 253)**

Last EPS Surprise **34.0%**

Last Sales Surprise **3.9%**

EPS F1 Est- 4 week change **14.5%**

Expected Report Date **11/05/2020**

Earnings ESP **6.3%**

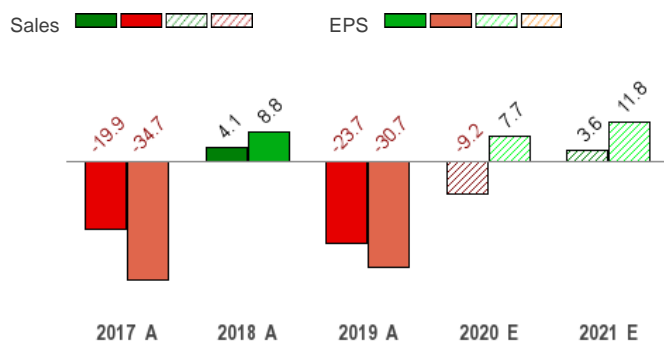
P/E TTM **16.9**

P/E F1 **18.2**

PEG F1 **1.9**

P/S TTM **1.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,388 E	5,630 E	6,026 E	6,044 E	22,554 E
2020	5,576 A	5,444 A	5,343 A	5,507 E	21,767 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	\$0.39 E	\$0.47 E	\$0.80 E	\$0.81 E	\$2.36 E
2020	\$0.40 A	\$0.42 A	\$0.67 A	\$0.68 E	\$2.11 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/05/2020. The reports text is as of 08/06/2020.

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.

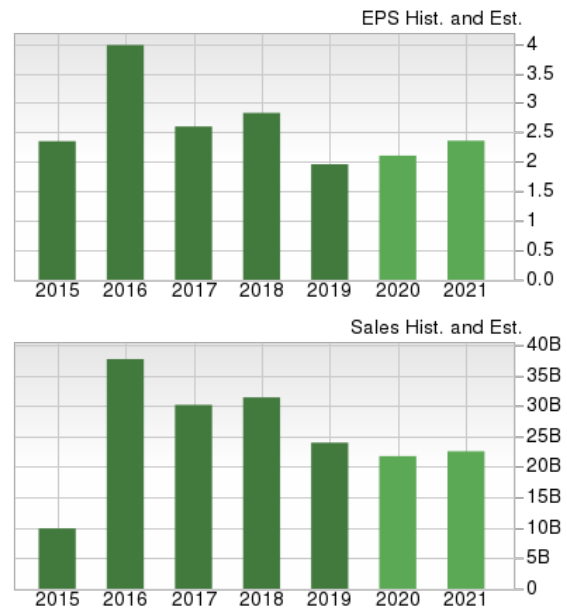
Johnson Controls was originally incorporated in the state of Wisconsin in 1885 as Johnson Electric Service Company. In 1974, the company was renamed to Johnson Controls, Inc. In 1978, the company acquired Globe-Union, Inc. and in 2005, it acquired York International.

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. Further, the company recently launched OpenBlue, its new digital platform, which contains innovative technologies that is anticipated to enhance its core capabilities.
- ▲ 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. In second-quarter 2020, the company benefited from around \$300 million in mitigating cost actions in response to the pandemic-led crisis. The focus on cost discipline is likely to result into potential annualized run-rate savings of around \$400-\$450 million.
- ▲ Johnson Controls' strong balance sheet allows it to return cash to shareholders through dividend payments and investment in growth opportunities. As of Jun 30, 2020, the company's long-term debt declined to \$5,671 million in the reported quarter from \$6,708 million as of Sep 30, 2019. Its total debt-to-capital ratio stands at 0.27, lower than its industry's 0.49. 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.

Risks

- Johnson Controls projects organic revenues to be down 9-11% in fourth-quarter 2020. It also expects adjusted EPS in the range of 68-72 cents in the current quarter, depicting a decline from EPS of 78 cents recorded in the prior year quarter, in response to disruptions to the company's supply chain due to the coronavirus pandemic-led crisis. 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.
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Last Earnings Report

Johnson Controls Q3 Earnings Surpass Estimates, Up Y/Y

Johnson Controls reported adjusted earnings per share of 67 cents in third-quarter fiscal 2020, handily outpacing the Zacks Consensus Estimate of 50 cents. The reported figure also comes in higher than the prior-year quarter's 65 cents per share. This outperformance has been mainly aided by higher EBITA from the company's Building Solutions North America segment.

Johnson Controls reported revenues of \$5,343 million, down 17.2% year over year, in the fiscal third quarter. The revenue figure, however, beat the Zacks Consensus Estimate of \$5,143 million. Gross profit decreased to \$1,832 million from the year-earlier quarter's \$2,144 million.

Selling, general and administrative expenses in the fiscal third quarter totaled \$1,334 million, lower than the prior-year quarter's \$1,388 million.

Segmental Results

Building Solutions North America: This segment's adjusted revenues came in at \$2,020 million, down from the year-ago quarter's \$2,327 million on decline in HVAC & Controls and Fire & Security. The segment's EBITA increased to \$311 million from the \$310 million reported in third-quarter fiscal 2019 driven by cost-mitigation actions during the quarter.

Building Solutions Europe, Middle East, Africa/Latin America: Adjusted revenues in this segment came in at \$756 million, down 18% year over year, due to fall in project installations, and volume declines across all regions and platforms. The segment's EBITA was \$62 million, down from the third-quarter fiscal 2019 level of \$103 million. Significant volume declines during the quarter resulted in this downtrend.

Building Solutions Asia Pacific: Adjusted revenues decreased to \$588 million from the year-ago quarter's \$691 million on declines in project installations and services. This segment's EBITA came in at \$92 million, down from the third-quarter fiscal 2019 level of \$98 million, on lower volume.

Global Products: Adjusted revenues in this segment decreased to \$1,979 million from the prior year's \$2,511 million, mainly due to lower sales within Building Management Systems, HVAC & Refrigeration Equipment and Specialty Products. This segment's EBITA was \$385 million, down from the third-quarter fiscal 2019 level of \$481 million due to dismal volume.

Financial Position

Johnson Controls had cash and cash equivalents of \$2,342 million as of Jun 30, 2020, down from \$2,805 million as of Sep 30, 2019. Long-term debt declined to \$5,671 million in the reported quarter from \$6,708 million as of Sep 30, 2019.

Outlook

The company projects organic revenues to be down 9-11% in fourth-quarter 2020. It also expects adjusted EPS in the range of 68-72 cents in the current quarter.

Quarter Ending 06/2020

Report Date	Jul 31, 2020
Sales Surprise	3.89%
EPS Surprise	34.00%
Quarterly EPS	0.67
Annual EPS (TTM)	2.27

Valuation

Johnson Controls' shares are down 5.8% in the year-to-date period and down 8.5% over the trailing 12-month period. Stocks in the Zacks Security and Safety Services industry and the Zacks Industrial Products sector are down 1.9% and 6.6%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 8.6% and 7.5%, respectively.

The S&P 500 index is up 2.6% in the year-to-date period and up 15% in the past year.

The stock is currently trading at 18.36X forward 12-month earnings, which compares to 19.26X for the Zacks sub-industry, 21.28X for the Zacks sector and 22.58X 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 14.96X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$44 price target reflects 20.95X 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	18.36	19.26	21.28	22.58
	5-Year High	22.06	20.18	21.53	22.58
	5-Year Low	9.11	10.95	12.55	15.25
	5-Year Median	14.96	16.51	17.15	17.55
EV/EBITDA TTM	Current	16.68	13.4	16.94	12.8
	5-Year High	20.28	16.16	17.46	12.85
	5-Year Low	8.27	7.35	10.82	8.24
	5-Year Median	11.72	11.66	14.94	10.89
P/B TTM	Current	1.51	2.71	5.85	4.52
	5-Year High	6.79	5.61	5.94	4.56
	5-Year Low	0.88	1.22	3.34	2.83
	5-Year Median	1.62	2.12	4.51	3.73

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Top 36% (90 out of 253)



Top Peers

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

Industry Comparison Industry: Security And Safety Services				Industry Peers		
	JCI	X Industry	S&P 500	DKILY	HON	MTOR
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	C	-	-	C	C	D
Market Cap	28.53 B	198.47 M	22.93 B	52.02 B	105.84 B	1.74 B
# of Analysts	8	3	14	2	10	2
Dividend Yield	2.71%	0.00%	1.76%	0.58%	2.39%	0.00%
Value Score	C	-	-	C	B	B
Cash/Price	0.08	0.09	0.07	NA	0.14	0.17
EV/EBITDA	16.94	8.67	13.16	NA	12.03	5.09
PEG Ratio	1.88	3.86	2.99	NA	2.83	NA
Price/Book (P/B)	1.51	4.74	3.20	3.97	5.76	4.32
Price/Cash Flow (P/CF)	12.02	16.20	12.45	19.93	15.25	4.77
P/E (F1)	18.17	24.35	21.78	39.96	21.78	26.46
Price/Sales (P/S)	1.26	2.37	2.47	NA	3.07	0.53
Earnings Yield	5.50%	3.85%	4.33%	2.47%	4.59%	3.78%
Debt/Equity	0.30	0.09	0.77	NA	0.96	2.96
Cash Flow (\$/share)	3.19	0.46	6.94	0.89	9.89	5.05
Growth Score	C	-	-	B	C	F
Hist. EPS Growth (3-5 yrs)	-1.90%	12.25%	10.46%	NA	7.45%	22.00%
Proj. EPS Growth (F1/F0)	7.40%	-7.54%	-7.14%	-25.21%	-15.15%	-76.18%
Curr. Cash Flow Growth	-26.61%	1.02%	5.47%	1.00%	-1.43%	15.83%
Hist. Cash Flow Growth (3-5 yrs)	6.22%	5.93%	8.55%	NA	5.69%	19.94%
Current Ratio	1.08	2.33	1.32	NA	1.63	1.88
Debt/Capital	23.10%	20.04%	44.59%	NA	48.93%	74.75%
Net Margin	3.54%	3.54%	10.15%	NA	16.94%	8.63%
Return on Equity	8.77%	11.63%	14.46%	NA	29.93%	35.42%
Sales/Assets	0.54	0.78	0.51	NA	0.58	1.12
Proj. Sales Growth (F1/F0)	-9.18%	0.00%	-1.68%	-5.73%	-12.89%	-32.08%
Momentum Score	B	-	-	D	D	D
Daily Price Chg	-0.05%	0.00%	0.59%	-5.48%	2.37%	3.13%
1 Week Price Chg	4.57%	0.77%	0.14%	-2.30%	-0.04%	-3.19%
4 Week Price Chg	12.27%	4.67%	5.31%	3.79%	3.59%	26.34%
12 Week Price Chg	40.85%	18.58%	19.84%	35.21%	22.65%	41.81%
52 Week Price Chg	-8.45%	2.15%	2.73%	43.16%	-7.69%	21.86%
20 Day Average Volume	5,407,588	178,955	2,098,555	82,374	3,255,090	697,462
(F1) EPS Est 1 week change	13.99%	0.00%	0.00%	-16.85%	0.00%	4.00%
(F1) EPS Est 4 week change	14.51%	0.00%	1.10%	-12.94%	-0.04%	1.49%
(F1) EPS Est 12 week change	12.82%	0.00%	1.04%	-37.29%	-0.33%	3.41%
(Q1) EPS Est Mthly Chg	11.61%	0.00%	0.39%	NA	-7.15%	-7.14%

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	C
Growth Score	C
Momentum Score	B
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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