

Johnson Controls (JCI)

\$40.98 (As of 01/10/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

Johnson Controls' strategic acquisitions and mergers bode well, and provide customers with world-class technologies through strong complementary brands and channels. The strong fiscal 2020 outlook of the company strengthens investors' confidence. Increasing free cash flow and strengthening balance sheet enables it to engage in share repurchase programs. However, frequent business divestments are resulting in high separation costs for the company, thereby impacting margins. High transportation and logistics costs may impact profits of its Power Solution segment. Moreover, increasing cost of raw materials amid trade war tiff is likely to dent the company's profit margins. It also faces pricing challenges in Asia-Pacific and unfavorable foreign exchange translation. Hence, investors are recommended to wait for a better entry point.

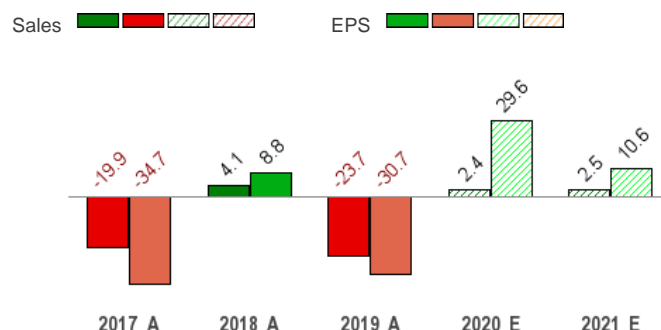
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.82 - \$31.44
20 Day Average Volume (sh)	4,614,500
Market Cap	\$31.6 B
YTD Price Change	0.7%
Beta	0.92
Dividend / Div Yld	\$1.04 / 2.5%
Industry	Security and Safety Services
Zacks Industry Rank	Bottom 37% (159 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.6%
Last Sales Surprise	-2.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/07/2020
Earnings ESP	0.0%
P/E TTM	20.4
P/E F1	16.1
PEG F1	1.7
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,789 E	6,109 E	6,845 E	6,671 E	25,166 E
2020	5,558 E	5,903 E	6,608 E	6,495 E	24,547 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	\$0.44 E	\$0.53 E	\$0.87 E	\$0.99 E	\$2.81 E
2020	\$0.38 E	\$0.48 E	\$0.82 E	\$0.87 E	\$2.54 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 01/10/2020. The reports text is as of 01/13/2020.

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.

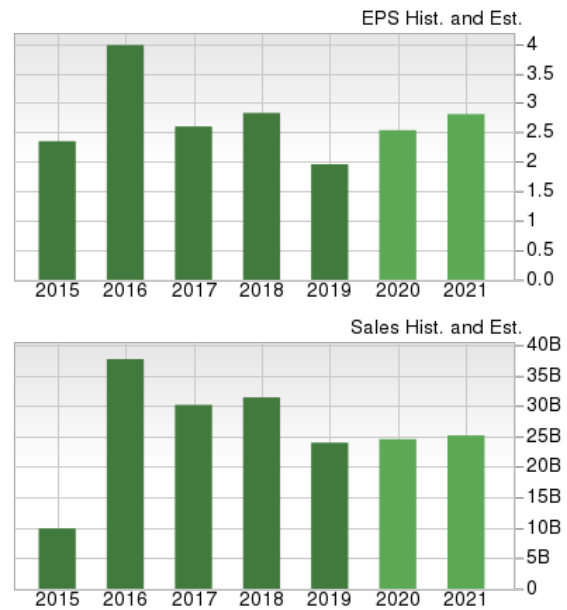
Johnson Controls was originally incorporated in the state of Wisconsin in 1885 as Johnson Electric Service Company. In 1974, the company was renamed to Johnson Controls, Inc. In 1978, the company acquired Globe-Union, Inc. and in 2005, it acquired York International.

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 Smartvue and merger with Tyco International are likely to boost prospects. The company's investor-friendly moves via dividend hikes and buyback programs lift its shareholders' confidence.
- ▲ The strong outlook of the company strengthens investors' confidence. Johnson Controls anticipates fiscal 2020 adjusted EPS from continuing operations of \$2.50-\$2.60, suggesting a 28-33% increase from the year-ago reported figure. Fiscal 2020 EBIT margin is targeted to rise 60-80 basis points to 11.0-11.2%, up from an adjusted 10.4% EBIT margin in 2019.
- ▲ Johnson Controls' increasing free cash flow and strengthening balance sheet enables it to consistently enhance shareholder value through buybacks. In fiscal 2020, it plans about \$2.2 billion of additional share repurchase. Also, the company's low leverage of around 27% provides it with enough financial flexibility to tap onto growth opportunities
- ▲ 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:

- ▼ Increased original equipment global shipments within the power solution segment have increased transportation and logistics costs for Johnson Controls. Although the company is trying to balance costs with pricing and productivity initiatives, it is not being able to strike off the negative impact of these expenses.
- ▼ The divestiture of several businesses including 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 are declining.
- ▼ Johnson Controls is exposed to volatility in commodity prices, especially as a result of escalating trade war tensions. Commodities with highly volatile prices include steel, aluminum, copper and fuel in the Building Efficiency business, and lead in the Power Solutions 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. Further, it anticipates a \$75 million headwind to sales due to unfavorable foreign exchange in 2020.

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

Last Earnings Report

Johnson Controls Q4 Earnings Top, Revenue Miss Estimates

Johnson Controls International plc reported adjusted earnings per share of 78 cents in fourth-quarter fiscal 2019, surpassing the Zacks Consensus Estimate of 76 cents, mainly aided by higher Building Solutions North America and Building Solutions Asia Pacific segment revenues. Earnings were 93 cents per share in fourth-quarter fiscal 2018.

For the quarter under review, Johnson Controls reported revenues of \$6.3 billion, up 25% year over year. However, revenues missed the Zacks Consensus Estimate of \$6.42 billion. Gross profit declined to \$1.98 billion from \$2.06 billion a year ago.

Selling, general and administrative expenses in the fiscal fourth quarter totaled \$1.96 billion, higher than the prior-year quarter's \$1.39 billion.

Segmental Results

Building Solutions North America: This segment's adjusted revenues were \$2.4 billion, up from the year-ago quarter's \$2.32 billion on strong growth in HVAC & Controls and Fire & Security. The segment's EBITA rose to \$357 million from \$336 million in fourth-quarter fiscal 2018 backed by favorable volume leverage as well as cost synergies and productivity savings.

Building Solutions Europe, Middle East, Africa/Latin America: Adjusted revenues in this segment were \$948 million, flat year over year. Segment's EBITA was \$111 million, up from the fourth-quarter fiscal 2018 level of \$103 million. The increase was mainly driven by favorable volume as well as cost synergies and productivity savings.

Building Solutions Asia Pacific: Adjusted revenues at the segment rose to \$726 million from \$689 million a year ago, primarily aided by strong growth in project installations and solid growth in China. This segment's EBITA was \$103 million, down from fourth-quarter fiscal 2018 level of \$105 million due to unfavorable mix.

Global Products: Adjusted revenues at this segment dropped to \$2,199 million from \$2,222 million a year ago, mainly driven by a slight revenue decline in HVAC & Refrigeration Equipment. This segment's EBITA was \$419 million, up from fourth-quarter fiscal 2018 level of \$395 million, mainly aided by positive price/cost as well as cost synergies and productivity savings.

Financial Position

Johnson Controls had cash and cash equivalents of \$2.81 billion as of Sep 30, 2019, up from \$185 million as of Sep 30, 2018. Long-term debt declined to \$6.71 billion in the quarter under review from \$9.62 billion as of Sep 30, 2018. The debt-to-capital ratio stands at 26.75%.

In the reported quarter, the company repurchased 20 million shares for \$861 million.

2020 Guidance

The company anticipates fiscal 2020 adjusted EPS from continuing operations of \$2.50-\$2.60, suggesting a 28-33% increase from the year-ago reported figure.

The company is expected to repurchase shares worth \$2.2 billion with incremental synergy and productivity savings of \$150 million in fiscal 2020.

Quarter Ending 09/2019

Report Date	Nov 07, 2019
Sales Surprise	-2.36%
EPS Surprise	2.63%
Quarterly EPS	0.78
Annual EPS (TTM)	2.01

Valuation

Johnson Controls' shares are up 29.9% over the trailing 12-month period. Stocks in the Zacks Security and Safety Services industry and the Zacks Industrial Products sector are up 28.3% and up 10.8%, respectively, over the past year.

The S&P 500 index is up 28.3% in the past year.

The stock is currently trading at 15.67X forward 12-month earnings, which compares to 18.61X for the Zacks sub-industry, 18.05X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.06X and as low as 9.33X, with a 5-year median of 15.49X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 16.41X 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	15.67	18.61	18.05	18.88
	5-Year High	22.06	20.29	19.9	19.34
	5-Year Low	9.33	10.93	12.59	15.17
	5-Year Median	15.49	16.5	16.54	17.44
P/B TTM	Current	1.52	2.08	5.63	4.46
	5-Year High	6.79	5.64	5.7	4.47
	5-Year Low	1.17	1.47	3.44	2.85
	5-Year Median	1.68	2.23	4.44	3.61
EV/EBITDA TTM	Current	14.65	11.78	17	11.99
	5-Year High	20.28	16.24	17.43	12.86
	5-Year Low	8.51	7.35	10.89	8.48
	5-Year Median	11.33	11.44	14.71	10.67

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 254)



Top Peers

Autoliv, Inc. (ALV)	Neutral
DAIKIN INDS LTD (DKILY)	Neutral
Genuine Parts Company (GPC)	Neutral
Honeywell International Inc. (HON)	Neutral
Lear Corporation (LEA)	Neutral
Lennox International, Inc. (LII)	Neutral
SORL Auto Parts, Inc. (SORL)	Neutral
United Technologies Corporation (UTX)	Neutral

Industry Comparison Industry: Security And Safety Services				Industry Peers		
	JCI Neutral	X Industry	S&P 500	DKILY Neutral	HON Neutral	UTX Neutral
VGM Score	C	-	-	-	D	B
Market Cap	31.61 B	184.90 M	24.03 B	41.30 B	127.67 B	131.10 B
# of Analysts	7	2.5	13	0	10	6
Dividend Yield	2.54%	0.00%	1.78%	0.82%	2.01%	1.94%
Value Score	B	-	-	-	C	C
Cash/Price	0.09	0.08	0.04	0.09	0.10	0.06
EV/EBITDA	18.88	7.80	14.04	11.81	14.09	13.93
PEG Ratio	1.67	2.42	2.02	NA	2.20	1.98
Price/Book (P/B)	1.57	2.70	3.32	3.15	6.97	3.06
Price/Cash Flow (P/CF)	12.85	18.36	13.52	15.79	18.22	14.15
P/E (F1)	16.13	23.09	18.82	NA	20.28	17.43
Price/Sales (P/S)	1.32	1.75	2.63	NA	3.46	1.74
Earnings Yield	6.20%	4.06%	5.31%	NA%	4.93%	5.74%
Debt/Equity	0.32	0.04	0.72	0.26	0.61	0.93
Cash Flow (\$/share)	3.19	0.44	6.94	0.89	9.81	10.73
Growth Score	C	-	-	NA	D	A
Hist. EPS Growth (3-5 yrs)	1.57%	14.96%	10.56%	NA	8.86%	3.31%
Proj. EPS Growth (F1/F0)	29.44%	12.43%	7.49%	NA	8.29%	7.09%
Curr. Cash Flow Growth	-26.61%	8.13%	14.83%	1.00%	8.22%	15.39%
Hist. Cash Flow Growth (3-5 yrs)	6.22%	8.20%	9.00%	NA	7.62%	2.98%
Current Ratio	1.37	2.29	1.23	1.75	1.32	1.06
Debt/Capital	24.36%	15.91%	42.99%	20.74%	37.76%	48.29%
Net Margin	23.67%	0.85%	11.08%	NA	17.06%	6.72%
Return on Equity	8.04%	5.42%	17.16%	NA	32.01%	16.81%
Sales/Assets	0.53	0.81	0.55	NA	0.63	0.55
Proj. Sales Growth (F1/F0)	2.41%	4.43%	4.20%	9.10%	3.59%	3.47%
Momentum Score	F	-	-	-	F	C
Daily Price Chg	-0.85%	0.00%	-0.33%	-0.42%	-0.22%	-1.17%
1 Week Price Chg	-0.97%	0.00%	-0.30%	-0.28%	1.35%	2.04%
4 Week Price Chg	-2.45%	0.00%	1.71%	-2.96%	0.73%	1.64%
12 Week Price Chg	-3.76%	3.60%	6.05%	5.17%	6.66%	9.91%
52 Week Price Chg	28.54%	0.00%	22.39%	24.91%	29.71%	37.54%
20 Day Average Volume	4,614,500	56,630	1,580,816	50,609	2,220,014	2,394,965
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	NA	0.00%	-0.30%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	NA	0.00%	-0.30%
(F1) EPS Est 12 week change	-1.33%	-1.85%	-0.50%	NA	-0.17%	-0.70%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	0.00%	0.87%

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	C
Momentum Score	F
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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