

Johnson Controls (JCI)

\$30.60 (As of 03/16/20)

Price Target (6-12 Months): **\$32.00**

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' fiscal first quarter earnings and sales beat the respective Zacks Consensus Estimate. Its 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. 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 - \$28.58
20 Day Average Volume (sh)	8,869,843
Market Cap	\$23.4 B
YTD Price Change	-24.8%
Beta	0.90
Dividend / Div Yld	\$1.04 / 3.4%
Industry	Security and Safety Services
Zacks Industry Rank	Bottom 32% (171 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.3%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-0.4%
Expected Report Date	05/06/2020
Earnings ESP	-8.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,745 E	6,000 E	6,788 E	6,699 E	25,246 E
2020	5,576 A	5,855 E	6,588 E	6,512 E	24,507 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	\$0.45 E	\$0.52 E	\$0.89 E	\$1.00 E	\$2.83 E
2020	\$0.40 A	\$0.45 E	\$0.81 E	\$0.89 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.

P/E TTM	14.2
P/E F1	12.1
PEG F1	1.3
P/S TTM	1.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/16/2020. The reports text is as of 03/17/2020.

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.

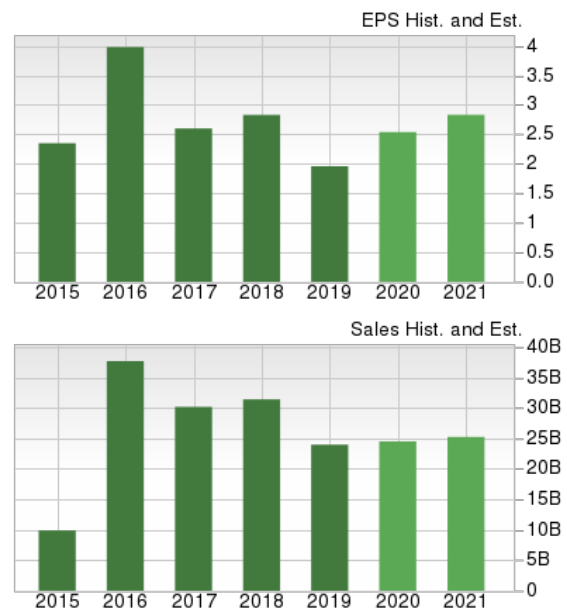
Johnson Controls was originally incorporated in the state of Wisconsin in 1885 as Johnson Electric Service Company. In 1974, the company was renamed to Johnson Controls, Inc. In 1978, the company acquired Globe-Union, Inc. and in 2005, it acquired York International.

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 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 11-11.2%, up from an adjusted 10.4% EBIT margin in 2019. Further, in fiscal 2020, it plans about \$2.2 billion of additional share repurchase. Also, the company's low leverage of around 27.36% 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:

- ▼ 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. 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' Q1 Earnings & Revenues Beat Estimates

Johnson Controls reported adjusted earnings per share of 40 cents in first-quarter fiscal 2020, surpassing the Zacks Consensus Estimate of 38 cents. The reported figure also comes in higher than the prior-year quarter earnings of 26 cents per share. This outperformance was mainly aided by higher revenues and EBITA across all its segments.

Johnson Controls reported revenues of \$5,576 million, up 2% year over year, in the first quarter. The revenue figure also beat the Zacks Consensus Estimate of \$5,547 billion. Gross profit increased to \$1.8 billion from the year-earlier quarter's \$1.72 billion.

Selling, general and administrative expenses in the fiscal first quarter totaled \$1,427 million, lower than the prior-year quarter's \$1,438 million.

Segmental Results

Building Solutions North America: This segment's adjusted revenues were \$2,167 million, up from the year-ago quarter's \$2,116 million on strong growth in HVAC & Controls and Fire & Security. The segment's EBITA rose to \$259 million from the \$253 million reported in first-quarter fiscal 2019 on favorable volume leverage, and cost synergies and productivity savings.

Building Solutions Europe, Middle East, Africa/Latin America: Adjusted revenues in this segment was \$928 million, up 2.3% year over year, owing to solid growth in project installations and service. Segment's EBITA was \$90 million, up from the first-quarter fiscal 2019 level of \$77 million. This upswing was mainly driven by favorable volume as well as cost synergies and productivity savings.

Building Solutions Asia Pacific: Adjusted revenues rose to \$629 million from the year-ago quarter's \$613 million on growth in project installations, particularly in Fire & Security. This segment's EBITA was \$72 million, up from the first-quarter fiscal 2019 level of \$66 million, owing to solid volume as well as cost synergies and productivity savings.

Global Products: Adjusted revenues in this segment increased to \$1,852 million from the prior year's \$1,828 million, mainly driven by robust growth in Building Management Systems and to a lesser extent, Specialty Products. This segment's EBITA was \$204 million, up from the first-quarter fiscal 2019 level of \$194 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 \$2.16 billion as of Dec 31, 2019, down from \$2.81 billion as of Sep 30, 2019. Long-term debt declined to \$5.92 billion in the quarter from \$6.71 billion as of Sep 30, 2019. The debt-to-capital ratio stands at 27.36%.

In the reported quarter, the company repurchased 15 million shares for \$651 million.

2020 Guidance

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

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	0.52%
EPS Surprise	5.26%
Quarterly EPS	0.40
Annual EPS (TTM)	2.15

Valuation

Johnson Controls' shares are down 24.8% in the year-to-date period and down 16% over the trailing 12-month period. Stocks in the Zacks Security and Safety Services industry and the Zacks Industrial Products sector are down 31% and 28.5%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 21.2% and 20.7%, respectively.

The S&P 500 index is down 25.8% in the year-to-date period and down 16.5% in the past year.

The stock is currently trading at 11.44X forward 12-month earnings, which compares to 12.14X for the Zacks sub-industry, 12.41X for the Zacks sector and 13.88X 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 15.33X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$32 price target reflects 11.98X 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	11.44	12.14	12.41	13.88
	5-Year High	22.06	18.12	19.96	19.34
	5-Year Low	9.33	11.68	12.41	13.88
	5-Year Median	15.33	15.79	16.48	17.42
EV/EBITDA TTM	Current	11.69	5.84	12.17	8.81
	5-Year High	20.28	7.72	17.38	12.88
	5-Year Low	8.27	5.32	10.72	8.31
	5-Year Median	11.47	6.72	14.76	10.78
P/B TTM	Current	1.14	1.38	3.63	3.21
	5-Year High	6.79	5.61	5.63	4.55
	5-Year Low	1.14	1.38	3.46	2.85
	5-Year Median	1.66	2.15	4.46	3.63

As of 03/16/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (171 out of 253)



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)	Underperform

Industry Comparison Industry: Security And Safety Services				Industry Peers		
	JCI Neutral	X Industry	S&P 500	DKILY Neutral	HON Neutral	UTX Underperform
VGM Score	C	-	-	A	C	B
Market Cap	23.38 B	141.40 M	16.36 B	30.92 B	96.39 B	78.76 B
# of Analysts	8	2	13	1	10	7
Dividend Yield	3.40%	0.00%	2.63%	1.09%	2.66%	3.23%
Value Score	B	-	-	C	C	C
Cash/Price	0.09	0.10	0.06	0.11	0.10	0.08
EV/EBITDA	14.43	6.89	10.54	8.83	10.78	8.16
PEG Ratio	1.25	1.93	1.46	NA	1.68	1.36
Price/Book (P/B)	1.14	2.09	2.26	2.36	5.15	1.77
Price/Cash Flow (P/CF)	9.60	11.84	8.80	11.83	13.68	7.19
P/E (F1)	12.05	16.27	13.18	17.02	15.37	10.99
Price/Sales (P/S)	0.97	1.76	1.78	NA	2.63	1.02
Earnings Yield	8.30%	5.21%	7.56%	5.88%	6.51%	9.11%
Debt/Equity	0.29	0.03	0.70	0.26	0.59	0.90
Cash Flow (\$/share)	3.19	0.28	7.01	0.89	9.89	12.65
Growth Score	C	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	-0.04%	14.44%	10.85%	NA	8.56%	4.27%
Proj. EPS Growth (F1/F0)	29.53%	9.21%	5.72%	5.08%	7.83%	0.21%
Curr. Cash Flow Growth	-26.61%	2.06%	6.15%	1.00%	-1.43%	26.99%
Hist. Cash Flow Growth (3-5 yrs)	6.22%	5.64%	8.55%	NA	5.69%	5.99%
Current Ratio	1.17	2.50	1.24	1.75	1.34	1.08
Debt/Capital	22.47%	12.67%	42.57%	20.74%	37.28%	47.51%
Net Margin	22.75%	1.60%	11.64%	NA	16.73%	7.19%
Return on Equity	8.43%	2.81%	16.74%	NA	32.21%	16.60%
Sales/Assets	0.55	0.81	0.54	NA	0.62	0.56
Proj. Sales Growth (F1/F0)	2.25%	2.25%	3.50%	4.72%	1.89%	1.15%
Momentum Score	F	-	-	A	B	B
Daily Price Chg	-6.74%	-4.13%	-12.67%	-9.13%	-9.46%	-13.73%
1 Week Price Chg	-14.02%	-13.63%	-11.01%	-11.24%	-8.91%	-16.67%
4 Week Price Chg	-27.07%	-27.43%	-32.63%	-23.05%	-25.19%	-40.75%
12 Week Price Chg	-25.75%	-27.62%	-30.17%	-25.60%	-23.33%	-39.31%
52 Week Price Chg	-15.98%	-25.00%	-23.26%	-5.13%	-13.80%	-28.35%
20 Day Average Volume	8,869,843	189,144	3,457,426	122,276	4,806,121	8,826,999
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.44%	-0.44%	-0.48%	NA	-0.29%	-0.48%
(F1) EPS Est 12 week change	0.06%	-0.51%	-0.93%	-1.59%	-0.11%	-5.26%
(Q1) EPS Est Mthly Chg	-1.95%	-0.57%	-0.60%	NA	-0.27%	-2.92%

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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