

ABB (ABBNY-US)

Sector: Industrials

Company Overview

ABB is a technology leader in electrification and automation, enabling a more sustainable and resource-efficient future. The company's solutions connect engineering know-how and software to optimize how things are manufactured, moved, powered, and operated.

Suitability/Ethical Considerations

ABB has the highest ESG rating from MSCI driven by improvements in ABB's corporate governance practices—which now lead those of most global peers. ABB's pollution management program leads that of peers. The company recorded a YoY decrease of 58% in its hazardous waste intensity (t/USD million sales) in 2022 and targets zero waste to landfills by 2030. ABB maintains a diverse portfolio of clean technology offerings, ranging from automation solutions to energy-efficient motor systems. The company invested an average of 4.2% of sales in R&D (2020–22), higher than the industry average of 3.7% (as of June 2023); this may indicate strong long-term innovation capacity relative to peers. Relative to peers, the company has strong labor management programs such as annual surveys to gauge staff satisfaction and stock option plans that may help retain talent. The ABB board of directors includes a fully independent audit committee and at least one member of that committee meets MSCI's standards for financial expertise. ABB continued to make good progress towards its sustainability targets. For instance, it cut emissions in its own operations by an additional 32 percent, putting it well on track to achieve our 2030 target of reducing emissions by 80 percent compared with a 2019 baseline.

Investment Thesis

JP Morgan (JPM) views ABB as positioned to be a beneficiary of a number of structural growth drivers. In particular, JPM expects ABB to deliver sustainably stronger organic growth in the coming years compared to history. The stronger growth combined with the decentralized model should lead to stronger margins, while cash conversion has improved in recent years.

Recent Developments

ABB outlined a 2024 guide that reflects a still supportive backdrop - one also confirmed by electrical peers in recent days. Given the group's momentum, JPM sees a likely conservative guide and the high likelihood of a buy-back with the AGM.

The "about 5%" organic sales guide for 2024 was broken down further qualitatively by business area, with Electrification and Process Automation expected to be above the group average, Motion below and Robotics & Discrete Automation clearly below given the pressure on orders. Given recent order trends, management is not relying on China contributing to sales growth in 2024.

Price Target & Methodology

JPM's CHF36 price target and is based on a reverse DCF valuation. The target multiple is 12.5x EV/adj. EBITA applied to JPM's 2025 forecasts.

Key Risks

1) Growth and margin performance starts to undershoot the raised targets; 2) expensive M&A in high growth areas disappoints; 3) CEO transition at some point proves more disruptive/challenging than expected.

ABB Ltd. Shs Sponsored American Depositary Receipt Repr 1 Sh			
JPM Rating	Neutral	Target Price	36.00
Current Price	46.51	Dividend	0.80
52-Week High	47.98	Yield	1.73%
52-Week Low	32.54	BVPS	7.28
Market Cap (\$M)	87,529	P/ BV	6.4x
FYE (MM/ DD) 12/ 31	2023A	2024E	2025E
EPS	2.02	2.14	2.34
P/ E	23.0x	21.7x	19.8x
EPS Growth	-	5.9%	9.6%

Note – target price is in CHF which converts to US\$40 (all above estimates are derived from the ADR)

