



CAIRN
INVESTMENT
GROUP

COMPANY SPOTLIGHT:

ABB Ltd.

COMPANY DESCRIPTION

Based in Zurich, Switzerland, ABB Ltd is a Swedish-Swiss industrial technology company providing technological solutions for utility, industrial, transport, and infrastructure customers. ABB Ltd's products (power drives and switches) enhance energy efficiency through the use of high end materials and technology.

Ulrich Spiesshofer has been the President and CEO since 2013. He began with ABB Ltd in 2005.

COMPANY HIGHLIGHTS AND FINANCIALS

ABB Ltd creates products, systems, and software that integrate with digital systems and equipment. The company organizes these solutions into four divisions: electrification products, robotics and motion, industrial automation, and power grids. ABB Ltd implements many of these solutions through partnerships with other companies and governmental departments. Recent partnerships include collaborations to imple-

ment electric bus and transit systems in several countries, a system to manage the entire lifecycle of energy generation (especially renewable), and R&D research for high-power electric charging stations. Much of ABB's recent partnerships focus on sustainability and integrating renewable sources into existing systems. Within their robotics division ABB Ltd has started producing industrial robots in the U.S. (previously produced in Sweden and China) with the goal of having over 75% of all North American models made in the U.S.

KEY POINTS

- :: A leader in power and automation technologies.
- :: Leading supplier of industrial robots and intelligent motor solutions.
- :: Excellent financial health with \$5.9 billion in debt and \$5.5 billion in cash.
- :: Compelling upside as valuations and growth remain attractive due to growth in power generation and robotics.

VALUATION AND RISKS

As of the date of this report, ABB Ltd is trading at a slight discount compared to its historical valuations and below fair value based on our scenario analysis of free cash flow growth. ABB Ltd has a dividend yield of 3.3% and generates over \$3 billion in free cash flow creating the flexibility to continue to raise the dividend over time. On a free cash flow basis, we expect ABB Ltd to grow cash flow at 4% annually over the next decade, which is also in line with its last 10 year growth rate. Modeling

our conservative estimation places a price of \$27.61 on shares, which is almost a 22% premium based on the current price. If our conservative assumptions turn out to be overly optimistic, we still feel there is a margin of safety built into the current price based on the company's strong cash flow generation and dominant market presence.

Though considered a leader in the power generation market, ABB Ltd operates in a highly competitive environment; Siemens is their primary competitor in this market. We would like to see management's continued discipline in regard to capital allocation and cost efficiency. Their continued focus on competitive pressures within the U.S. and growth initiatives will be monitored closely.

Weighing the risks and rewards, we feel ABB Ltd currently offers a good long-term opportunity.

—Patrick Mason, Investment Analyst, Cairn Investment Group



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