

EATON CORP. PLC Ticker: ETN Sector: Industrials Industry: Electrical Components & Equipment	Intrinsic Value: \$ 87.2 Current Price: \$61.44 Stop Loss: \$ 47 Upside Review: \$ 85	TTM P/E: 14.16 Forward P/E: 13.60 Beta: 1.3	Market Cap: \$ 28.335B Dividend Yield: \$1.96 (2.9%) 52 Week Range: \$ 57.11– \$79.98
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**Business Summary:** Eaton is a diversified company that makes electrical systems and components for power management, truck transmissions and fluid power systems, and provides services for industrial, mobile and aircraft equipment. Cooper Industries plc was acquired in late 2012. The integration was completed in 2013.

**Industry Trends:** Greater demand for energy-efficient electrical equipment will drive growth in the industry over the next five years to 2019. During this period exports will grow at an average annual rate of 6.0% to total \$26.9 billion. Consequently, revenue will grow an average annual rate of 2.8% to \$47.3 billion over the five years as well, slightly offsetting anticipated increases in import penetration. Some of the industry's major players have shifted production capacities to countries with lower production costs. As a result, import penetration is forecasted to increase, negatively affecting industry revenue. The number of domestic industry establishments is forecast to decline at an average annual rate of 0.3% to 2,045 in the next five years. Acquisition activity will also contribute to this trend as larger companies look to expand their product lines and develop operational efficiencies to realize economies of scale.

**Investment Thesis:** As the economic expansion continues main street is beginning to feel the benefits with growth IPI, higher employment rates, and consumer confidence. These macro factors will generate additional demands for ETN's products. Also, the stock is undervalued by 30% based on dividends cash flow model.

**Competitive Analysis:** Eaton has always been a company with very advanced technologies and a tremendous reputation for having been able to apply that technology to create commercial advantages for their customers. Through successfully acquisitions, Eaton has enlarged its product and geographic breadth and significantly enhanced its capabilities in key end markets, such as oil and gas, mining, data centers, machine building and residential and non-residential construction.

**Pros:**

- The rising cost of energy drives the need to find a way to offset that cost with improved efficiency. Eaton provides many of these technologies that allow their customers to reduce costs and increase efficiencies.
- Businesses segments are balanced through the economic cycle which reduces its earnings volatility by 40 percent.
- Ranked a global leader by CDP (Carbon Disclosure Project) with a score of 100—No. 1 among all global industrial companies.

**Risk Factors:**

- Rising value of US dollar could hurt profitability of international sales.
- Rising commodity costs can lead to lower margins
- A worsening in global economies

5 Year Stock Performance:



(Yahoo!)

**Total Return Estimates**

3 Yr FV Reversion: 13%  
5 Yr FV Reversion: 7%

**Key Valuation Assumptions**

Est Revenue Growth: 12.7%  
WACC: 8.17%  
Expected Inflation: 1.7%  
Terminal Growth Rate: 6%  
10 Yr Risk Free Rate: 2.4%  
Equity Risk Premium: 5.1%  
Tax Rate: 17%

**Key Financial Data**

Est 2014 EPS: \$4.6  
Est 2015 EPS: \$5.35  
3-5 Yr Est EPS Growth: 12.7%

PEG (TTM): 1.37  
Credit Quality: BBB+ (Fitch)

ROE: 12.5%  
ROA: 9.0%  
Price/Book: 2.15  
Price/Cash Flow: 15.77  
Debt/Equity: 53%  
Current Ratio: 1.78  
Quick Ratio: 1.09

**CSR Characteristics (Eaton/Industry)**

Human Rights: 1/1 Business Ethics Policy: 1/1  
ESG Disclosure: 42.15/25.75 Equal Opportunity: 1/1  
Emission Reduction: 1/1 Environment Disclosure: 34.88/28.20

Prepared by Xiaoying Gan (October 18, 2014)

Competitor Comparison:

Name	Mkt Cap (USD)	Last Px (USD)	Chg Pct 1D	Chg Pct 1M	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	ESG Disc Score:Y
Average	11.61B	78.57	1.66%	-7.58%	6.56%	26.35%	19.52	20.00%	19.96
001 EATON CORP PLC	29.24B	61.44	2.54%	-7.69%	35.16%	11.02%	14.16	9.88%	42.15
001 EMERSON ELECTRIC CO	42.73B	61.22	1.24%	-5.44%	1.05%	3.73%	16.76	24.19%	23.97
002 PRECISION CASTPARTS CORP	32.47B	226.32	1.59%	-8.39%	15.01%	23.24%	18.42	16.60%	19.42
003 DANA HOLDING CORP	2.76B	17.74	0.23%	-16.64%	-6.30%	N.A.	N.A.	-1.55%	11.16
004 ROCKWELL COLLINS INC	10.30B	76.25	2.72%	-1.99%	-2.45%	10.50%	16.50	38.86%	26.03
005 TRANSIGM GROUP INC	9.18B	174.85	1.11%	-7.97%	13.19%	-59.97%	57.68	N.A.	16.53
006 L-3 COMMUNICATIONS HOL...	9.40B	110.63	1.28%	-4.21%	-3.93%	7.69%	13.75	12.47%	16.53
007 B/E AEROSPACE INC	8.09B	76.83	4.11%	-12.24%	12.91%	54.59%	18.97	15.40%	14.05
008 WABCO HOLDINGS INC	5.53B	92.50	2.00%	-1.47%	9.81%	121.14%	12.14	69.03%	16.53
009 TRIUMPH GROUP INC	3.13B	60.93	1.87%	-10.76%	1.64%	-33.39%	13.94	11.38%	13.22
010 SPIRIT AEROSYSTEMS HOLD...	5.17B	36.60	3.19%	-7.37%	10.44%	N.A.	21.58	-11.12%	11.16
011 HEICO CORP	2.97B	48.40	-1.55%	-5.52%	12.42%	18.83%	28.30	19.04%	11.16
012 BARNES GROUP INC	1.77B	32.64	1.02%	-2.28%	17.53%	-8.22%	16.39	9.37%	11.98

Information from: Bloomberg, Value Line, S&P Net Advantage, Yahoo