

ModernGraham Valuation

Company Name:

A. O. Smith Corp

Company Ticker AOS

Date of Analysis

8/21/2015



Stage 1: Is this company suitable for the Defensive Investor or the Enterprising Investor?

Defensive Investor; must pass 6 out of the following 7 tests.

1. Adequate Size of the Enterprise	Market Cap > \$2Bil	Pass
2. Sufficiently Strong Financial Condition	Current Ratio > 2	Pass
3. Earnings Stability	Positive EPS for 10 years prior	Pass
4. Dividend Record	Dividend Payments for 10 years prior	Pass
	Increase of 33% in EPS in past 10 years using 3 year averages at beginning and end	Pass
5. Earnings Growth	PEmg < 20	Fail
6. Moderate PEmg Ratio	PB Ratio < 2.5 OR PB*PEmg < 50	Fail
7. Moderate Price to Assets		

Enterprising Investor; must pass 4 out of the following 5 tests, or be suitable for the Defensive Investor.

1. Sufficiently Strong Financial Condition	Current Ratio > 1.5	Pass
2. Sufficiently Strong Financial Condition	Debt to NCA < 1.1	Pass
3. Earnings Stability	Positive EPS for 5 years prior	Pass
4. Dividend Record	Currently Pays Dividend	Pass
5. Earnings Growth	EPSmg greater than 5 years ago	Pass

Suitability

Defensive	No
Enterprising	Yes

Stage 2: Determination of Intrinsic Value

EPSmg	2.42
MG Growth Estimate	4.80%
MG Value	\$43.86
MG Value based on 3% Growth	\$35.15
MG Value based on 0% Growth	\$20.61
Market Implied Growth Rate	9.55%

MG Opinion

Current Price	\$66.93
% of Intrinsic Value	152.60%
Opinion	Overvalued

Stage 3: Information for Further Research

Net Current Asset Value (NCAV)	\$2.75
PEmg	27.61
Current Ratio	2.42
PB Ratio	4.19
Dividend Yield	1.02%
Number of Consecutive Years of Dividend Growth	20

Useful Links:

ModernGraham tagged articles	Morningstar
Google Finance	MSN Money
Yahoo Finance	Seeking Alpha
GuruFocus	SEC Filings

EPS History		EPSmg History	
Next Fiscal Year Estimate	\$3.01	Next Fiscal Year Estimate	\$2.42
Dec14	\$2.28	Dec14	\$2.11
Dec13	\$1.83	Dec13	\$1.96
Dec12	\$1.71	Dec12	\$1.91
Dec11	\$3.29	Dec11	\$1.84
Dec10	\$1.21	Dec10	\$1.08
Dec09	\$1.18	Dec09	\$0.97
Dec08	\$0.90	Dec08	\$0.81
Dec07	\$0.95	Dec07	\$0.73
Dec06	\$0.82	Dec06	\$0.61
Dec05	\$0.51	Dec05	\$0.49
Dec04	\$0.39	Dec04	\$0.47
Dec03	\$0.59	Dec03	\$0.50
Dec02	\$0.62	Dec02	\$0.46
Dec01	\$0.20	Dec01	\$0.50
Dec00	\$0.42	Dec00	\$0.71
Dec99	\$0.59	Dec99	\$0.86
Dec98	\$0.61	Balance Sheet Information Jun15	
Dec97	\$1.82	Total Current Assets	\$1,400,000,000
Dec96	\$0.69	Total Current Liabilities	\$579,100,000
Dec95	\$0.65	Long-Term Debt	\$266,200,000
		Total Assets	\$2,589,800,000
		Intangible Assets	\$725,300,000
		Total Liabilities	\$1,153,300,000
		Shares Outstanding (Diluted Average)	89,825,000



Disclaimer:

This valuation is not investment advice. Anyone who is considering making an investment decision should speak to a registered investment advisor.

The author did not hold a position in any company mentioned in this article at the time of publication and had no intention of changing those holdings within the next 72 hours.

Recommended Reading:

Other
ModernGraham
posts about the
company

#N/A

Other
ModernGraham
posts about related
companies

[The Best Companies of the Machinery Industry – August 2015](#)

[Danaher Corporation Analysis – August 2015 Update \\$DHR](#)

[Pall Corporation Analysis – August 2015 Update \\$PLL](#)

[AGCO Corporation Analysis – Initial Coverage \\$AGCO](#)

[Snap-on Inc. Analysis – August 2015 Update \\$SNA](#)

[Joy Global Inc. Analysis – August 2015 Update \\$JOY](#)

[Rockwell Automation Analysis – July 2015 Update \\$ROK](#)

[Caterpillar Inc. Analysis – 2015 Update \\$CAT](#)

[W.W. Grainger Inc. Analysis – July 2015 Update \\$GWW](#)

[Deere & Company Analysis – June 2015 Update \\$DE](#)