

ModernGraham Valuation

Company Name:

A. O. Smith Corp

Company Ticker AOS

Date of Analysis

3/8/2018



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	\$11,096,333,508	Pass
2. Sufficiently Strong Financial Condition	Current Ratio > 2	2.24	Pass
3. Earnings Stability	Positive EPS for 10 years prior		Fail
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	87.83%	Pass
5. Earnings Growth			
6. Moderate PEmg Ratio	PEmg < 20	58.14	Fail
7. Moderate Price to Assets	PB Ratio < 2.5 OR PB*PEmg < 50	6.80	Fail

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	2.24	Pass
2. Sufficiently Strong Financial Condition	Debt to NCA < 1.1	0.41	Pass
3. Earnings Stability	Positive EPS for 5 years prior		Fail
4. Dividend Record	Currently Pays Dividend		Pass
5. Earnings Growth	EPSmg greater than 5 years ago		Pass
	Score		

Suitability

Defensive	No
Enterprising	Yes

Stage 2: Determination of Intrinsic Value

EPSmg	\$1.11
MG Growth Estimate	0.80%
MG Value	\$11.20
MG Value based on 3% Growth	\$16.10
MG Value based on 0% Growth	\$9.44
Market Implied Growth Rate	24.82%

MG Opinion

Current Price	\$64.54
% of Intrinsic Value	576.03%
Opinion	Overvalued
MG Grade	C+

Stage 3: Information for Further Research

Net Current Asset Value (NCAV)	\$1.26
Graham Number	\$0.00
PEmg	58.14
Current Ratio	2.24
PB Ratio	6.80
Current Dividend	\$0.56
Dividend Yield	0.87%
Number of Consecutive Years of Dividend Growth	20

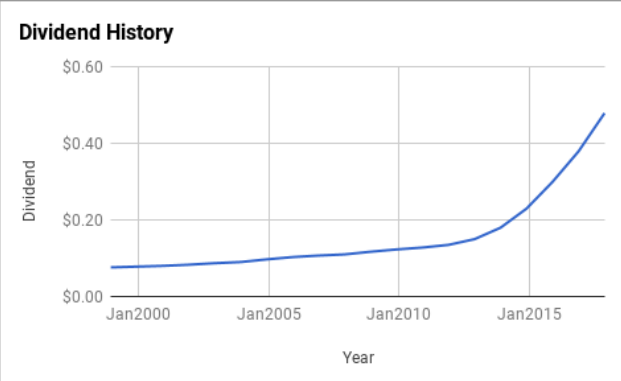
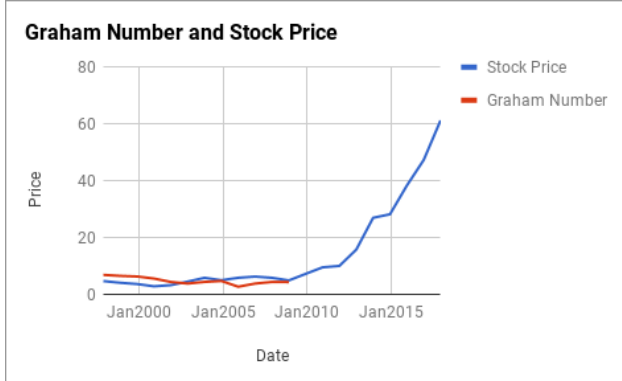
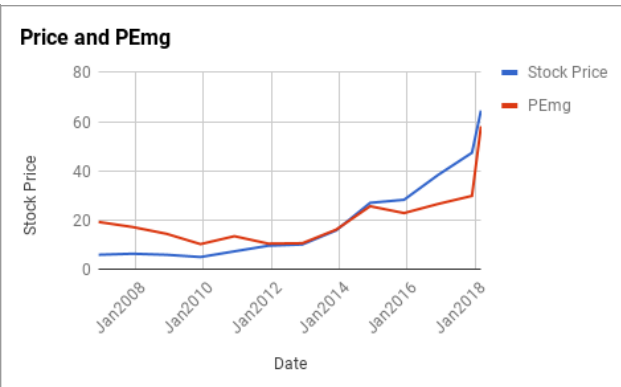
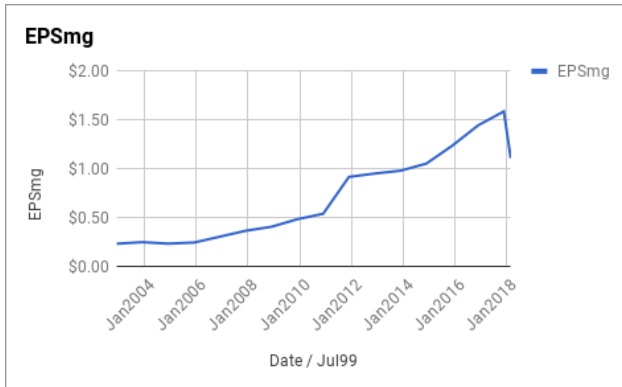
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EPS History		EPSmg History	
Next Fiscal Year Estimate		Next Fiscal Year Estimate	
Dec2017	\$1.70	Dec2017	\$1.11
Dec2016	\$1.85	Dec2016	\$1.59
Dec2015	\$1.58	Dec2015	\$1.45
Dec2014	\$1.14	Dec2014	\$1.24
Dec2013	\$0.92	Dec2013	\$1.05
Dec2012	\$0.86	Dec2012	\$0.98
Dec2011	\$1.64	Dec2012	\$0.95
Dec2010	\$0.61	Dec2011	\$0.92
Dec2009	\$0.59	Dec2010	\$0.54
Dec2008	\$0.45	Dec2009	\$0.48
Dec2007	\$0.48	Dec2008	\$0.41
Dec2006	\$0.41	Dec2007	\$0.37
Dec2005	\$0.26	Dec2006	\$0.31
Dec2004	\$0.20	Dec2005	\$0.24
Dec2003	\$0.29	Dec2004	\$0.23
Dec2002	\$0.31	Dec2003	\$0.25
Dec2001	\$0.10	Dec2002	\$0.23
Dec2000	\$0.21	Balance Sheet Information 12/1/2017	
Dec1999	\$0.30	Total Current Assets	\$1,766,800,000
Dec1998	\$0.31	Total Current Liabilities	\$788,500,000
		Long-Term Debt	\$402,900,000
		Total Assets	\$3,197,300,000
		Intangible Assets	\$825,400,000
		Total Liabilities	\$1,548,500,000
		Shares Outstanding (Diluted Average)	173,766,000





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
[A.O. Smith Corp Valuation – November 2015 Update \\$AOS](#)
[A.O. Smith Corporation Analysis – Initial Coverage \\$AOS](#)

Other ModernGraham posts about related companies
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