

Allegion PLC

Research Report | October 20 2021 | NYSE: **ALLE**

Closing Price: \$136.85
12 Month Target: \$152.16

Recommendation: **BUY**
Investment Risk: Low

Sector: Security Systems
Industry: Industrials

ALLE vs. Relevant Indexes

1-Yr Return Against Benchmarks



Business Description

Allegion PLC develops and manufactures security products and solutions for both residential and commercial applications. Allegion is headquartered in Dublin, Ireland offers extensive mechanical and electronic security products within its global portfolio of brands which sells products in more than 130 countries with the largest revenues coming from the United States, Australia, Canada, China, Europe, Korea, Mexico, New Zealand and the Middle East.

Allegion's revenues major product categories include locksets/portable locks (36%), door closers/controls (24%), and electronic products/access control/workforce productivity (21%) which combine to represent 81% of revenues. The leading brands within Allegion's portfolio that offer these products include CISA, Interflex, Schlage, SimonsVoss and Von Duprin.

ALLE Summary Statistics

Shares held by Institutions	92%
52-Week Range	\$95.67 - \$148.70
Market Cap	\$12.28 Billion
P/E	24.2
P/S	4.3
EPS (Trailing 12M)	5.66
Beta	1.17
Dividend Yield (%)	1.07%

Investment Summary

Allegion PLC offers an attractive long-term growth prospect from the overall transition from mechanical security products to electronic security. As constructions halted during the Covid-19 pandemic, Allegion's product sales were adversely impacted and have since recovered amid economic recovery. Furthermore, the outlook for residential and commercial markets for the rest of 2021 and foreseeably into 2022, is positive based on the increasing new housing starts and robust growth of the Architecture Billings Index which shows non-residential construction activity (lead time of 9 months) Allegion also has the highest institutional ownership among its peer group, by far at 92% of shares held by institutions, indicating bullish outlook over the long run among major financial groups. Overall, ALLE is a top-tier competitor in a lucrative industry.

Industry Overview & Competitive Positioning

Allegion's products are found in commercial, institutional, and residential facilities worldwide and are used in the education, healthcare, government, office, and multi-family markets. Allegion sells its products through channel networks including wholesalers, specialty distributions, and retailers. Allegion's largest 10 customers represented 24% of revenue in 2020 and is composed of major retailers and wholesalers including Home Depot, Lowe's, Taylor Morrison, AECOM, Amazon, and Walmart.

Allegion's principal global competitors are Assa Abloy AB and Dormakaba Group which have \$32.5 billion and \$3.07 billion market cap, respectively compared to Allegion's market cap of \$12.09 billion. The security products market is also fragmented and highly fragmented. Allegion is likely to face more specialized competition in the future as it transitions into more technologically advanced product categories but it also benefits from the strength of its brand reputations, integration with popular technology platforms and the overall breadth of its product offerings which address the highly-variable security needs of the user.

Allegion has 70% exposure in nonresidential markets and 30% on residential markets indicating it has significant exposure to trends in commercial real estate developments and new construction. Furthermore, it is important to note that Allegion's sales are split evenly between aftermarket and new construction sales so the company would see tailwinds from a high level of housing-starts and completion of developments.

Valuation

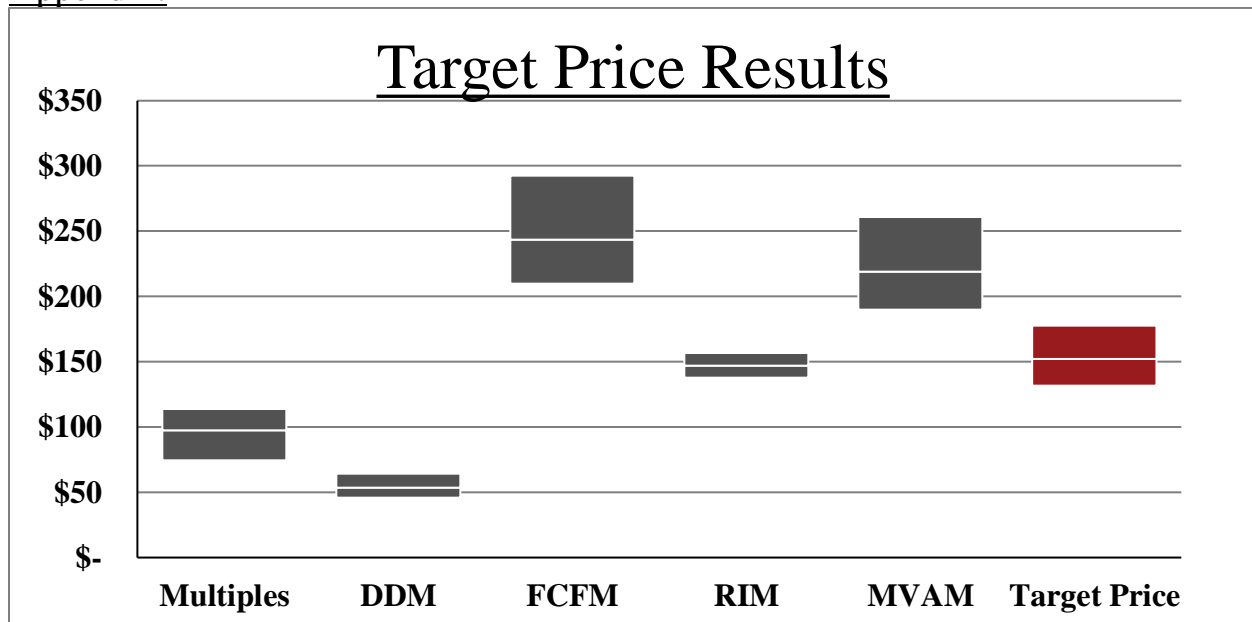
A BUY recommendation is being initiated with a target price of \$152.16 which was derived by weighing five valuation models: DCF, DDM, Peer Multiples, RIM and MVA. The target price yields a 11.19 % upside over the current price of \$136.85, reflecting bullish estimates of double-digit EPS growth.

The risk-free rate of 1.6% is based on the 10-year US Government Treasury yield and the market returns of 7.2% is based on the historical market premiums of the US markets. On the lower end of the valuations, the DDM returned an intrinsic value of \$52.35, the Market-Multiple returned an intrinsic value of \$97.37. the RIM returned an intrinsic value of \$146.81. On the other hand, an intrinsic value of \$237.38 was derived using the DCF model, reflecting the strong estimated growth in its cash flow and an intrinsic value of \$210.74 was derived using the MVA model. Each model was weighted the same when determining the final intrinsic value and target price in order to account for the under-valuing of the dividend-based models and the over-valuing of the cash flow models.

To summarize, my weighted valuation arrived at an intrinsic value of \$152.16 as seen in the football analysis. Overall, ALLE is a top-tier competitor in an attractive industry and should be held over the long-run due to confidence in the ongoing demand for its products in both new constructions and existing security system sales.

	Multiples	DDM	FCFM	RIM	MVAM	Target Price
Bull	\$ 113.78	\$ 64.45	\$ 292.73	\$ 156.59	\$ 260.81	\$ 177.67
	\$ 16.41	\$ 10.70	\$ 49.01	\$ 9.78	\$ 41.67	\$ 25.51
Base	\$ 97.37	\$ 53.76	\$ 243.73	\$ 146.81	\$ 219.14	\$ 152.16
	\$ 22.76	\$ 7.64	\$ 34.09	\$ 8.77	\$ 29.03	\$ 20.46
Bear	\$ 74.62	\$ 46.12	\$ 209.64	\$ 138.05	\$ 190.11	\$ 131.71
Weights	20.00%	20.00%	20.00%	20.00%	20.00%	100%

Appendix:



WACC	
Beta	1.17
Rm	7.20%
Rf	1.60%
Tax Rate	13.97%
CoE	5.60%
CoD	3.57%
E Amt	12,453.4
D Amt	1,430.0
%E	89.70%
%D	10.30%
Equity	5.02%
Debt	0.32%
WACC =	5.34%