

# Mossberg's Investor Digest

## Best Idea Profile

ABB, Ltd. (NYSE: ABB)

### DESCRIPTION:

Based in Switzerland, ABB provides green power and automation technology solutions for utility and industrial customers. The company has operations in 100 countries and a workforce of approximately 120,000 employees. The company has five divisions, 1) Power Products (31% of revenue) – manufactures components to transmit and distribute electricity...transformers, switchgear, circuit breakers, cables, etc. 2) Power Systems (18% of revenue) – offers turnkey systems and services for power transmission and distribution grids for power plants. 3) Automation Products (27% of revenue) - includes drives, motors and generators, low voltage products, instrumentation and analytical, and power electronics. 4) Process Automation (20% of revenue) – provides integrated solutions for control, plant optimization, and industry-specific application knowledge, and 5) Robotics (4% of revenue) – Provides industrial robots.

### KEY INVESTMENT CONSIDERATIONS:

**ABB is well position to be a major participant in deployment of the "Smart Grid".** According to the CEO of GE, the Smart Grid will be one of the biggest investments in the first half of the 21<sup>st</sup> century. Emerging economies have to build electric grids in order to establish and grow their economies. Developed countries have to re-develop their aging infrastructure that is using technology that hasn't changed much since the days of Edison. The Smart Grid will add intelligence to the simple network that currently operates with a few lines of power headed in one direction. According to the American Society of Civil Engineers, \$2 trillion will need to be investing in the U.S. infrastructure by 2030. In addition to increasing the reliability and efficiency of the grid, these investments will need to be made in order to integrate electricity generated from renewable energy sources, smart meters, and even charging electric vehicles.

**Significant investment in emerging markets lowers costs and creates partnership with emerging market governments** – Over the past two years, ABB has invested \$700 million in manufacturing capacity in emerging market countries (\$350 million in China and India). Combined with other cost savings initiatives, these investments in lower cost areas will allow the company to take out \$2 billion in annual costs.

**Leading supplier of renewable components (generators, inverters, etc.) for wind and solar** – ABB is the largest supplier in the world of components used in the wind power industry. China alone has plans to put in 120 GW of wind power by 2020.

**One of the strongest balance sheets among major players** – ABB has a strong balance sheet with \$7 billion in cash and only \$2 billion in long term debt. In contrast GE has \$46 billion in cash and a half trillion in long term debt....Siemens has \$10 billion in cash and \$20 billion in long term debt.

### VALUATION:

ABB's financial performance is likely to be affected in the near term by the downturn in the economic cycle. However, the valuation of 6.3x EV/EBITDA for a company that has delivered average returns in excess of 30% for the past 4 years appears very attractive. In addition, the secular trend of world wide investments in Smart Grids could provide growth opportunities for years to come. While shares may trade sideways until the economy recovers, the dividend offers an attractive yield of nearly 3% for patient long-term investors.

### (NYSE: ABB)

Investment Data (as of 7/17/09)

<b>Recent Price</b>	<b>\$16.30</b>
52-Week Range	9.11 - 28.74
Fiscal Year End	December
Dividend	\$0.46
Yield	2.8%
Shares Outstanding	2.3 B
Average Trading Volume (3 mos)	4.4 MM
Market Capitalization	37 B
Cash	7.1 B
Long Term Debt	2.3 B
Enterprise Value (EV)	33 B
LT Debt/ Equity	0.2
BV/ Share	4.97
TTM Revenue	34 B
P/ Revenue	1.1x
TTM EPS (non-GAAP)	1.21
P/ EPS	13.5x
TTM EBITDA	5.2 B
EV/ TTM EBITDA	6.3x

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