

Adient plc(ADNT)

\$27.13 (As of 02/04/20)

Price Target (6-12 Months): **\$29.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: F

Summary

Shares of Adient have outperformed the industry it belongs to in the past year. A diverse customer base, new business wins and regional presence has helped the company create a strong market position. It also continues to evaluate options to refinance the existing credit facilities for longer-term financial flexibility. The company is also making efforts to stabilize its business which is likely to improve performance. However, the firm's heavy foreign sales mix exposes it to global economic slowdown. Sagging foreign sales and production are expected to adversely impact Adient's foreign revenue mix. Passenger car sales in Europe and China are weak amid economic weakness and so is the demand for Adient's products. Its high leverage is also a cause of concern. Hence, investors are recommended to wait for a better entry point.

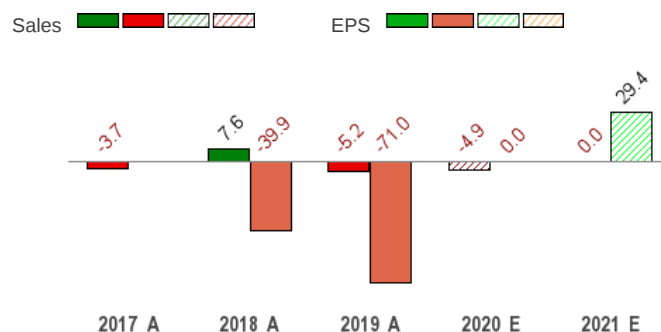
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$27.81 - \$12.15
20 Day Average Volume (sh)	1,781,404
Market Cap	\$2.5 B
YTD Price Change	27.7%
Beta	3.09
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 36% (162 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	209.7%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	3.0%
Expected Report Date	05/05/2020
Earnings ESP	8.9%
P/E TTM	11.9
P/E F1	16.6
PEG F1	0.5
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,000 E	4,209 E	4,039 E	3,785 E	15,720 E
2020	3,936 A	4,140 E	3,941 E	3,739 E	15,719 E
2019	4,158 A	4,228 A	4,219 A	3,921 A	16,526 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.44 E	\$0.62 E	\$0.52 E	\$0.55 E	\$2.11 E
2020	\$0.96 A	\$0.40 E	\$0.35 E	\$0.32 E	\$1.63 E
2019	\$0.31 A	\$0.31 A	\$0.38 A	\$0.63 A	\$1.63 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/04/2020. The reports text is as of 02/05/2020.

Overview

Dublin, Ireland-based Adient PLC is one of the world's largest automotive seating supplier. Created after the separation of the automotive seating and interiors business of Johnson Controls International PLC, Adient now maintains relationships with the largest global auto manufacturers. The company's technologies extend to virtually every area of automotive seating solutions.

It designs, manufactures and markets seating systems and components for passenger cars, commercial vehicles and light trucks — including vans, pick-up trucks and sport/crossover utility vehicles. Adient is also engaged in supplying high-performance seating systems to the international motorsports industry.

With 85,000 employees, the company produces and delivers automotive seating for all vehicle classes and major original equipment manufacturers (OEMs). It operates around 238 wholly and majority-owned manufacturing or assembly facilities, with operations in 34 countries. Additionally, Adient has partially-owned affiliates in China, Asia, Europe and North America. Through its global footprint, vertical integration and partnerships in China, the company leverages its capabilities to drive growth.

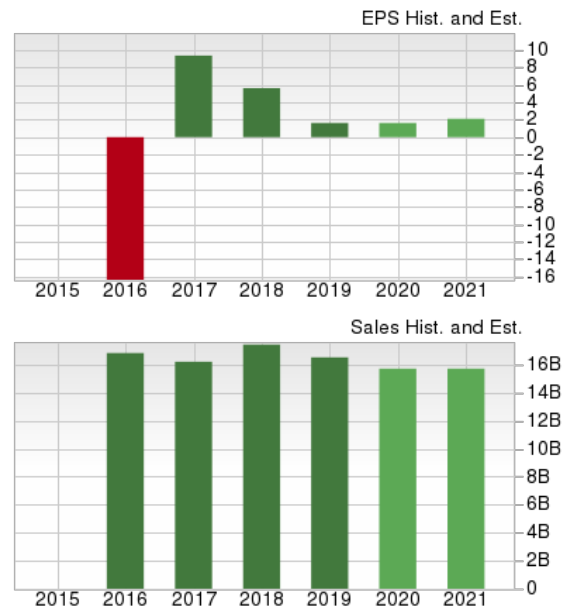
Adient's business includes Seating, SS&M and Interiors.

Seating business produces complete seat systems for automotive and other mobility applications as well as certain components of complete seat systems, such as foam, trim and fabric.

Seat Structures & Mechanisms (SS&M) business produces seat structures and mechanisms for inclusion in complete seat systems produced by Adient or others.

Interiors business is derived from Adient's global automotive interior joint ventures, produces instrument panels, floor consoles, door panels, overhead consoles, cockpit systems, decorative trim and other products.

Adient currently operates through three reportable segments — Americas, which includes North America and South America; Europe, Middle East, and Africa ("EMEA"); and Asia Pacific/China ("Asia"). Segmental sales accounted for 47%, 40.4% and 14.14% of the total sales in the Americas, EMEA and Asia segments, respectively in full-year 2019.



Reasons To Buy:

- ▲ Adient has been gaining customers with its broad range of products in the seating business. A diverse customer base and regional presence helped the company to create strong market position. Recent awarded programs include a great mix of truck, SUV and luxury platforms. Given the customer mix, geographic mix, platform mix of these and other recent business awards we expect the company's leading market positions to strengthen in the coming years.
- ▲ Measures to improve Adient's operating and financial performance are paying off, with its total costs declining. Additionally, the company is evaluating options to refinance the existing credit facilities that will provide support and longer-term financial flexibility to manage through the turnaround.
- ▲ Adient is continuing with its efforts to stabilize the business and is anticipating considerable improvement through the rest of the year. The company is executing to stabilize and improve their launch performance, such as ensuring adequate on-time staffing, increase focus on change management, enhance readiness and program reviews and early escalation of potential issues.
- ▲ The company expects the adjusted EBITDA to increase to between \$870 million and \$910 million in fiscal 2020 amid lower launch costs & ops waste, SG&A savings and commercial discipline.

A diverse customer base, new business wins, restructuring initiatives and turnaround actions are likely to aid the company.

Reasons To Sell:

- ▼ Auto sales across the globe are declining, which is likely to put pressure on Adient's sales as the company is heavily dependent on cyclical end-market demand. Evidently, fiscal 2019 sales of the company totaled \$16.5 billion, down 5.2% year over year. The company expects sales for fiscal 2020 between \$15.6 billion and \$15.8 billion, indicating a decline of roughly 5% year over year from the midpoint of the guided range. Sagging foreign sales and production will continue to adversely impact Adient's foreign revenue mix
 - ▼ Consumer spending in China is weak at the moment, amid economic slowdown concerns and trade tensions. Moreover, passenger vehicle sales are weak in China and so is the demand for Adient's products. Economic headwinds and industry-specific factors including GV6 emission standards are resulting in a decline in passenger vehicle sales of the country. Lower income from Adient's joint ventures with Chinese suppliers is also a worry. Resultantly, the company is expected to witness a decline in deliveries in the markets served in China.
 - ▼ Europe is also expected to see lower volume of launches and complexity for both complete seats and the SS&M business. Further, economic slowdown amid Brexit uncertainty and unfavorable foreign currency translations are likely to clip its margins, going forward. This is likely to hurt the performance of Adient.
 - ▼ Adient's high leverage is also a cause of concern. The company's long-term debt increased to \$3,740 million in first-quarter fiscal 2020. Debt-to-capital ratio stands at 68.21%, which restricts the firm's financial flexibility.
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Softening market conditions in China and weaker foreign currencies compared with the U.S. dollar are headwinds for Adient.

Last Earnings Report

Adient's Q1 Earnings & Revenues Surpass Estimates

Adient reported adjusted earnings per share of 96 cents in first-quarter fiscal 2020, beating the Zacks Consensus Estimate of 31 cents. This upside was mainly due to better-than-expected performance in the company's Americas segment. Adjusted earnings per share in the year-ago quarter were 31 cents.

During the quarter under review, the company generated net sales of \$3,936 million, down from \$4,158 million in first-quarter fiscal 2019. However, the top line surpassed the Zacks Consensus Estimate of \$3,840 million.

During the reported quarter, net sales in the Seat Structures & Mechanisms business totaled \$2,265million, up from \$2,201million in first-quarter of fiscal 2019. The Interior business generated net sales of \$1,978 million, down from \$2067 million in the prior-year quarter.

Segment Results

Adient currently operates through three reportable segments — Americas, which includes North America and South America; Europe, Middle East, and Africa ("EMEA"); and Asia Pacific/China ("Asia").

In the Americas, the company recorded revenues of \$1,859 million, down 3.93% year over year. However, it surpassed the Zacks Consensus Estimate of \$1,803 million. Adient generated adjusted EBITDA of \$94 million in first-quarter fiscal 2020, indicating a rise from \$43 million recorded in the prior-year period, primarily due to lower launch costs combined with decreased SG&A costs and lower commodity costs.

In EMEA, Adient registered revenues of \$1,564 million, down 4.63% year over year. However, it beat the Zacks Consensus Estimate of \$1,562 million. Its quarterly adjusted EBITDA was \$49 million compared with \$2 million in the prior-year quarter. The upside was due to lower launch costs along with decreased SG&A costs and lower commodity costs.

Revenues in the Asia segment were \$572 million in first-quarter fiscal 2020 compared to \$650 million in the same period in 2019. It also missed the Zacks Consensus Estimate of \$573 million. The company's adjusted EBITDA was \$177 million compared with \$154 million in first-quarter fiscal 2019, mainly aided by an increase in equity income.

Financials

Adient had cash and cash equivalents of \$965 million as of Dec 31, 2019 compared with \$924 million as of Sep 30, 2019. As of the same date, long-term debt amounted to \$3,740 million, up from \$3,708 billion as of Sep 30, 2019. Debt-to-capital ratio stands at 68.21%. Capital expenditure declined to \$91 million in first-quarter fiscal 2020 from \$144 million recorded in the prior-year quarter.

Outlook

For 2020, the company reaffirmed its guidance for consolidated sales at \$15.6-\$15.8 billion.

It expects adjusted EBITDA in the range of \$870-\$910 million, up from the prior guidance of \$820-\$860 million. Capital expenditures are anticipated between \$440-\$460 million, showing a rise from the prior range of \$465-\$485 million. Free cash flow is now expected to be positive versus the prior breakeven forecast.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	2.51%
EPS Surprise	209.68%
Quarterly EPS	0.96
Annual EPS (TTM)	2.28

Valuation

Adient' shares are up 27.7% in the year-to-date period and up 27.2% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are down 3.2% and up 4.8%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 3.2% and 15.2%, respectively.

The S&P 500 index is up 1.1% in the year-to-date period and 20.7% in the past year.

The stock is currently trading at 15.1X forward 12-month earnings, which compares to 12.86X for the Zacks sub-industry, 11.25X for the Zacks sector and 18.61X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.19X and as low as 3.18X, with a 2-year median of 6.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$29 price target reflects 16.2X forward 12-month earnings per share.

The table below shows summary valuation data for ADNT:

Valuation Multiples - ADNT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.1	12.86	11.25	18.61
	5-Year High	17.19	13.46	11.75	19.34
	5-Year Low	3.18	8.52	8.23	15.18
	5-Year Median	6.94	11.6	9.91	17.46
EV/EBITDA TTM	Current	5.28	6.05	8.7	11.95
	5-Year High	10.88	8.66	11.34	12.85
	5-Year Low	1.42	4.63	7.05	8.49
	5-Year Median	4.76	6.62	9.27	10.66
P/S F12M	Current	0.16	0.63	0.69	3.45
	5-Year High	0.5	0.81	0.76	3.45
	5-Year Low	0.07	0.49	0.5	2.54
	5-Year Median	0.26	0.65	0.62	3

As of 02/04/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (162 out of 255)



Top Peers

Autoliv, Inc. (ALV)	Neutral
American Axle & Manufacturing Holdings, Inc. (AXL)	Neutral
Cooper-Standard Holdings Inc. (CPS)	Neutral
Commercial Vehicle Group, Inc. (CVGI)	Neutral
Gentex Corporation (GNTX)	Neutral
Lear Corporation (LEA)	Neutral
Oshkosh Corporation (OSK)	Neutral
Meritor, Inc. (MTOR)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	ADNT Neutral	X Industry	S&P 500	AXL Neutral	CPS Neutral	LEA Neutral
VGM Score	A	-	-	A	B	C
Market Cap	2.54 B	779.02 M	24.31 B	1.10 B	441.68 M	7.53 B
# of Analysts	5	3	13	6	3	8
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	2.41%
Value Score	B	-	-	A	A	A
Cash/Price	0.40	0.12	0.04	0.36	0.72	0.20
EV/EBITDA	10.60	4.73	13.98	3.94	3.50	3.96
PEG Ratio	0.51	1.13	2.01	0.58	NA	3.47
Price/Book (P/B)	1.22	1.27	3.29	0.78	0.48	1.67
Price/Cash Flow (P/CF)	5.39	4.77	13.58	0.79	1.52	8.11
P/E (F1)	16.64	11.28	18.82	4.71	14.99	8.68
Price/Sales (P/S)	0.16	0.43	2.66	0.16	0.14	0.38
Earnings Yield	6.01%	8.25%	5.30%	21.22%	6.67%	11.52%
Debt/Equity	1.79	0.41	0.71	2.61	0.87	0.51
Cash Flow (\$/share)	5.03	3.65	6.92	12.39	17.29	15.36
Growth Score	A	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	-48.21%	8.47%	10.80%	-0.04%	-4.53%	13.63%
Proj. EPS Growth (F1/F0)	-0.12%	7.21%	7.40%	38.94%	2,988.22%	2.47%
Curr. Cash Flow Growth	-51.64%	5.67%	10.22%	68.32%	-11.17%	-45.04%
Hist. Cash Flow Growth (3-5 yrs)	-10.30%	9.98%	8.55%	34.69%	14.11%	-1.00%
Current Ratio	1.03	1.56	1.21	1.78	1.76	1.37
Debt/Capital	64.45%	35.95%	42.91%	72.27%	46.51%	34.89%
Net Margin	-3.93%	3.38%	11.79%	-5.77%	3.23%	3.80%
Return on Equity	9.32%	14.34%	17.24%	14.79%	4.41%	19.61%
Sales/Assets	1.56	1.30	0.55	0.91	1.20	1.56
Proj. Sales Growth (F1/F0)	-4.89%	0.00%	4.10%	-8.46%	-2.51%	0.47%
Momentum Score	F	-	-	F	C	F
Daily Price Chg	3.59%	1.27%	1.49%	3.70%	-1.13%	-0.51%
1 Week Price Chg	26.84%	-3.65%	-2.60%	-0.75%	-9.67%	-7.90%
4 Week Price Chg	28.03%	-4.08%	0.51%	-4.11%	-15.77%	-8.67%
12 Week Price Chg	23.32%	-3.36%	4.44%	-7.11%	-25.04%	-1.61%
52 Week Price Chg	33.45%	-4.11%	14.65%	-34.10%	-65.46%	-18.90%
20 Day Average Volume	1,781,404	149,099	1,935,862	1,312,215	190,861	576,924
(F1) EPS Est 1 week change	2.50%	0.00%	0.00%	0.00%	0.00%	-2.99%
(F1) EPS Est 4 week change	3.04%	-0.02%	0.00%	-2.50%	-3.45%	-5.36%
(F1) EPS Est 12 week change	-22.95%	-3.88%	-0.10%	-5.66%	-23.75%	-5.94%
(Q1) EPS Est Mthly Chg	-0.91%	-0.27%	0.00%	0.00%	-42.11%	-12.43%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	F
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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