

Adient plc(ADNT)

\$20.93 (As of 01/08/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: A

Summary

Shares of Adient have underperformed 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.

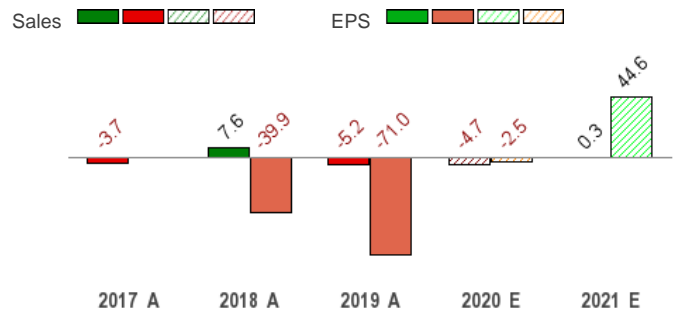
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.40 - \$12.15
20 Day Average Volume (sh)	913,556
Market Cap	\$2.0 B
YTD Price Change	-1.5%
Beta	3.16
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 10% (229 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	152.0%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	2.6%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	12.8
P/E F1	13.2
PEG F1	NA
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,992 E	4,109 E	4,061 E	3,823 E	15,796 E
2020	3,854 E	4,070 E	4,006 E	3,812 E	15,742 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	\$0.41 E	\$0.64 E	\$0.49 E	\$0.51 E	\$2.30 E
2020	\$0.27 E	\$0.42 E	\$0.40 E	\$0.39 E	\$1.59 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 01/08/2020. The reports text is as of 01/09/2020.

Overview

Per IHS Automotive, Dublin, Ireland-based Adient PLC is 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.

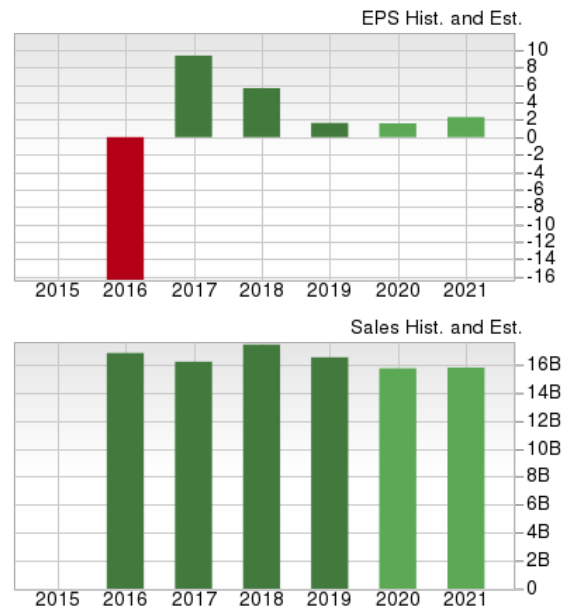
Adient's business includes Seating, SS&M and Interiors.

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").



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 \$820 million and \$860 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 8.8% year over year to \$3.7 billion in fiscal 2019. Debt-to-capital ratio stands at 66.7%, which restricts the firm's financial flexibility.

Softening market conditions in China and weaker foreign currencies compared with the U.S. dollar are headwinds for Adient.

Last Earnings Report

Adient's Q4 Earnings Top, Sales Miss Estimates

Adient reported adjusted earnings per share of 63 cents in fourth-quarter fiscal 2019, beating the Zacks Consensus Estimate of 25 cents. Adjusted earnings per share in the year-ago quarter were \$1.30.

During the quarter under review, the company generated net sales of \$3,921 million, down from \$4,145 million in fourth-quarter fiscal 2018. The top line also missed the Zacks Consensus Estimate of \$3,962 million.

During the reported quarter, net sales in the Seat Structures & Mechanisms business totaled \$1.92 billion, down from \$2.22 billion in fourth-quarter fiscal 2018 due to reduction in auto production in China. The Interior business generated net sales of \$1.89 billion, down from \$1.99 billion 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 \$1,925 million, down 3.3% year over year. It generated adjusted EBITDA of \$64 million in fourth-quarter fiscal 2019 compared with \$70 million recorded in the prior-year period. The plunge was attributed to negative business performance, lower volume and mix.

In EMEA, Adient's quarterly adjusted EBITDA was \$47 million compared with \$55 million in the prior-year quarter. The downside was due to lower volume and product launch inefficiencies.

In Asia, the company's adjusted EBITDA was \$126 million compared with \$146 million in fourth-quarter fiscal 2018. The decline was caused by lower volume and equity income.

Financials

Adient had cash and cash equivalents of \$924 million as of Sep 30, 2019 compared with \$687 million in the corresponding period of 2018. As of the same date, net debt amounted to \$3.7 billion, up from \$3.4 billion as of Sep 30, 2018. Debt-to-capital ratio stands at 66.7%. Capital expenditure declined to \$118 million from \$132 million recorded in the prior-year quarter.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	-1.03%
EPS Surprise	152.00%
Quarterly EPS	0.63
Annual EPS (TTM)	1.63

Valuation

Adient' shares are up 9.9% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are up 14.1% and 13.5%, respectively, over the past year.

The S&P 500 index is up 26.9% in the past year.

The stock is currently trading at 12.03X forward 12-month earnings, which compares to 12.95X for the Zacks sub-industry, 10.65X for the Zacks sector and 18.74X 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 6.92X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$22 price target reflects 12.64X 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	12.03	12.95	10.65	18.74
	5-Year High	17.19	13.46	11.75	19.34
	5-Year Low	3.18	8.52	8.23	15.17
	5-Year Median	6.92	11.61	9.93	17.44
EV/EBITDA TTM	Current	4.69	6.24	8.67	11.99
	5-Year High	10.68	8.66	11.33	12.86
	5-Year Low	1.53	4.63	7.05	8.48
	5-Year Median	4.59	6.63	9.26	10.67
P/S F12M	Current	0.12	0.63	0.66	3.47
	5-Year High	0.5	0.81	0.76	3.47
	5-Year Low	0.07	0.49	0.5	2.54
	5-Year Median	0.27	0.65	0.62	3

As of 01/08/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 254)



Top Peers

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

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	ADNT Neutral	X Industry	S&P 500	AXL Neutral	CPS Underperform	LEA Neutral
VGM Score	B	-	-	A	C	B
Market Cap	1.96 B	828.27 M	23.84 B	1.08 B	528.06 M	8.32 B
# of Analysts	6	3	13	6	3	6
Dividend Yield	0.00%	0.00%	1.79%	0.00%	0.00%	2.18%
Value Score	A	-	-	A	A	A
Cash/Price	0.48	0.10	0.04	0.32	0.61	0.16
EV/EBITDA	9.45	5.23	13.88	3.92	3.83	4.42
PEG Ratio	NA	1.33	2.02	0.56	NA	3.71
Price/Book (P/B)	0.90	1.51	3.33	0.77	0.58	1.90
Price/Cash Flow (P/CF)	4.16	5.15	13.76	0.78	1.81	5.23
P/E (F1)	13.03	11.87	18.76	4.52	17.92	9.28
Price/Sales (P/S)	0.12	0.49	2.63	0.16	0.16	0.42
Earnings Yield	7.60%	8.22%	5.32%	22.10%	5.58%	10.78%
Debt/Equity	1.69	0.41	0.72	2.61	0.87	0.53
Cash Flow (\$/share)	5.03	3.65	6.94	12.39	17.29	26.33
Growth Score	D	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	-49.40%	9.38%	10.56%	-0.04%	-4.53%	17.37%
Proj. EPS Growth (F1/F0)	-2.66%	7.68%	7.46%	41.39%	2,988.22%	10.51%
Curr. Cash Flow Growth	-51.64%	6.02%	14.83%	68.32%	-11.17%	5.25%
Hist. Cash Flow Growth (3-5 yrs)	-10.30%	10.36%	9.00%	34.69%	14.11%	16.26%
Current Ratio	1.07	1.56	1.23	1.78	1.76	1.35
Debt/Capital	63.20%	35.95%	42.99%	72.27%	46.51%	35.84%
Net Margin	-2.97%	3.02%	11.08%	-5.77%	3.23%	4.21%
Return on Equity	6.23%	14.34%	17.16%	14.79%	4.41%	22.07%
Sales/Assets	1.58	1.30	0.55	0.91	1.20	1.61
Proj. Sales Growth (F1/F0)	-4.74%	2.01%	4.16%	-8.48%	-2.51%	2.44%
Momentum Score	A	-	-	A	F	F
Daily Price Chg	-1.23%	0.00%	0.39%	-5.68%	0.71%	0.98%
1 Week Price Chg	-2.68%	-0.43%	-0.30%	-3.10%	-2.41%	-1.18%
4 Week Price Chg	-11.69%	0.00%	2.38%	-8.45%	12.89%	8.82%
12 Week Price Chg	-15.30%	3.46%	6.40%	15.59%	-10.14%	13.96%
52 Week Price Chg	9.93%	7.09%	22.97%	-24.86%	-55.01%	-4.47%
20 Day Average Volume	913,556	141,045	1,610,101	1,238,812	242,070	1,107,422
(F1) EPS Est 1 week change	2.65%	0.00%	0.00%	0.00%	-3.45%	-2.06%
(F1) EPS Est 4 week change	2.65%	0.00%	0.00%	0.00%	-3.45%	-2.06%
(F1) EPS Est 12 week change	-30.80%	-5.26%	-0.50%	-0.70%	-59.77%	-6.11%
(Q1) EPS Est Mthly Chg	4.07%	0.00%	0.00%	0.00%	-42.11%	-3.93%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	A
Growth Score	D
Momentum Score	A
VGM Score	B

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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