

## Adient plc(ADNT)

**\$15.67** (As of 08/07/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 08/10/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

## Summary

A diverse customer base, new business wins and regional presence has helped Adient create a strong market position. In response to the uncertainty caused by coronavirus, Adient initiated a series cost savings, including staffing adjustments to help mitigate the business disruptions. However, weak vehicle demand and low consumer sentiment is likely to weigh on Adient's near term earnings and sales. Adient expects revenue of \$3.3-\$3.5 billion in fourth-quarter 2020, suggesting a decline of 10%-15% year-over-year. Sagging foreign sales and production are expected to adversely impact its foreign revenue mix. Passenger car sales in Europe and China are weak amid economic weakness and so is the demand for its products. Its high leverage is also a cause of concern. Hence, investors are recommended to wait for a better entry point at the moment.

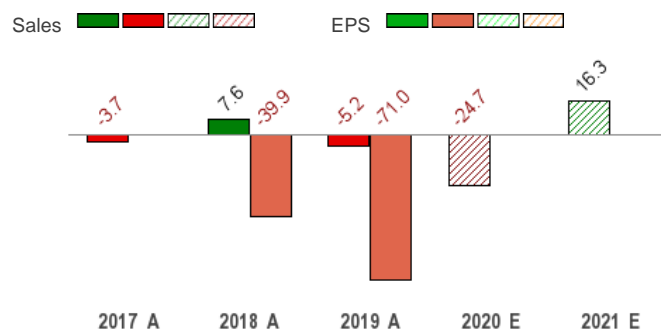
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$29.28 - \$5.90
20 Day Average Volume (sh)	907,035
Market Cap	\$1.4 B
YTD Price Change	-28.0%
Beta	3.50
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Automotive - Original Equipment</a>
Zacks Industry Rank	Top 45% (113 out of 252)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-31.8%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	-43.1%
Expected Report Date	NA
Earnings ESP	300.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.1

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					14,480 E
2020	3,936 A	3,511 A	1,626 A	3,530 E	12,446 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	\$0.80 E	\$0.90 E	-\$0.01 E	\$0.54 E	\$1.83 E
2020	\$0.96 A	\$0.62 A	-\$2.78 A	\$0.05 E	-\$0.58 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 08/07/2020. The reports text is as of 08/10/2020.

## 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.

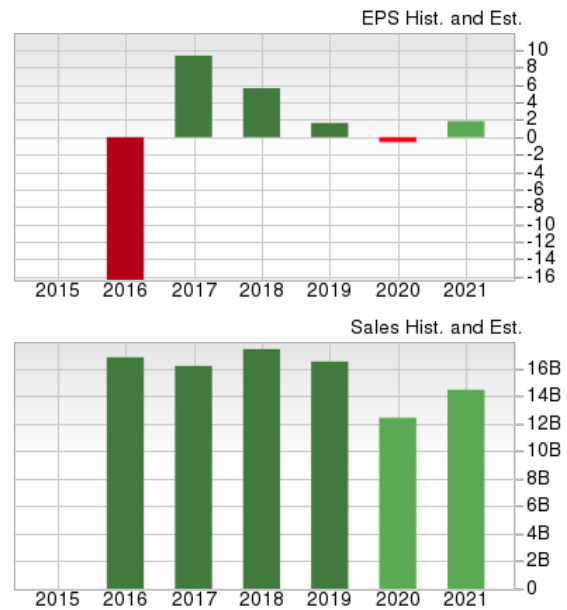
Adient's business includes Seating, SS&M and Interiors.

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.
- ▲ 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. For fourth- quarter 2020, Adient expects free cash flow in the range of \$300-\$400 million, showing a rise from a negative free cash flow of \$116 million in fourth-quarter 2019.
- ▲ In response to the uncertainty caused by coronavirus pandemic, Adient initiated a series of meaningful cost savings throughout the enterprise, including substantial staffing adjustments and reducing production levels to help mitigate the business disruptions. Adient postponed new investments to reduce capital spend and optimized engineering resources during third-quarter 2020. Notably, as of Jun 30, 2020, Adient's capital expenditure declined to \$73 million from the \$98 million recorded in the prior-year quarter. The focus on cost discipline is likely to offer some respite to the firm amid coronavirus-induced financial crisis.

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. Coronavirus has rattled the auto industry, with less customer traffic at dealerships and supply-chain issues. Sagging foreign sales and production will continue to adversely impact Adient's foreign revenue mix. Notably, Adient expects revenue of \$3.3-\$3.5 billion in fourth-quarter 2020, suggesting a decline of 10%-15% year-over-year. Adjusted EBITDA is anticipated to decrease 7%-16% year-over-year to \$180-\$200 million approximately.
- ▼ Economic headwinds and industry-specific factors including GV6 emission standards are resulting in a decline in passenger vehicle sales of China. 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, unfavorable foreign currency translations are likely to clip its margins, going forward. This is likely to hurt the performance of Adient.
- ▼ As of Jun 30, 2019, the company's long-term debt amounted to \$4,147 million, up from \$3,708 billion as of Sep 30, 2019. Its total debt-to-capital ratio stands at 0.73, higher than its industry's 0.45. A high total debt-to-capital ratio often indicates that a firm may not be able to generate enough cash to satisfy its debt obligations.

Coronavirus woes and high leverage are major headwinds for Adient.

## Last Earnings Report

### Adient's Q3 Loss Wider Than Expected

Adient reported adjusted loss per share of \$2.78 in third-quarter fiscal 2020, wider than the Zacks Consensus Estimate of \$2.11. The company had reported earnings of 38 cents in the year-ago quarter. This dismal performance mainly resulted from lower year-over-year revenues across all of the company's segments.

During the reported quarter, Adient generated net sales of \$1,626 million, down from the \$4,219 million recorded in third-quarter fiscal 2019, mainly hurt by disappointing volume and mix due to production suspensions amid the coronavirus crisis. The top-line figure also missed the Zacks Consensus Estimate of \$1,635 million.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	-0.57%
EPS Surprise	-31.75%
Quarterly EPS	-2.78
Annual EPS (TTM)	-0.57

### 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 \$593 million, which slumped 70.5% year over year. The reported figure, however, beat the Zacks Consensus Estimate of \$561 million. Adient reported adjusted negative EBITDA of \$83 million in the fiscal third quarter, as against the profit of \$69 million recorded in the prior-year period, primarily due to soft industry volumes, partially offset by decreased SG&A costs.

In EMEA, the company registered revenues of \$698 million, significantly down 60.2% year over year. However, the revenue figure surpassed the Zacks Consensus Estimate of \$542 million. Its quarterly negative EBITDA came in at \$94 million, as against the prior-year quarter's profit of \$53 million. This downside resulted from bleak industry volumes, partially negated by lower SG&A costs.

Revenues in the Asia segment came in at \$346 million in the reported quarter compared with the year-earlier quarter's \$530 million. The figure, however, beat the Zacks Consensus Estimate of \$274 million. The company's adjusted EBITDA was \$71 million compared with the \$110 million reported in third-quarter fiscal 2019 on lackluster industry volumes, slightly muted by an increase in seating equity income.

### Financials

Adient had cash and cash equivalents of \$1,032 million as of Jun 30, 2020, compared with \$924 million as of Sep 30, 2019. As of the same date, long-term debt amounted to \$4,147 million, up from \$3,708 billion as of Sep 30, 2019. Capital expenditure declined to \$73 million in the fiscal third quarter from the \$98 million recorded in the prior-year quarter.

### Outlook

For fourth-quarter fiscal 2020, Adient expects revenue of \$3.3-\$3.5 billion. Adjusted EBITDA is anticipated in the band of \$180-\$200 million. Moreover, it expects free cash flow in the range of \$300-\$400 million in the quarter.

## Valuation

Adient' shares are down 28% in the year-to-date period and down 35.4% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are down 4.9% and up 19.3%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 6.3% and 39.3%, respectively.

The S&P 500 index is up 3.8% in the year-to-date period and up 16.4% in the past year.

The stock is currently trading at 10.22X forward 12-month earnings, which compares to 22.83X for the Zacks sub-industry, 23.9X for the Zacks sector and 22.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 64.51X and as low as 3X, with a 2-year median of 7.14X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$16 price target reflects 10.67X 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	10.22	22.83	23.9	22.77
	5-Year High	64.51	25.97	25.42	22.77
	5-Year Low	3	8.37	8.2	15.25
	5-Year Median	7.14	11.43	9.9	17.58
EV/EBITDA TTM	Current	6.35	7.36	15.8	12.62
	5-Year High	10.75	8.37	15.99	12.84
	5-Year Low	1.53	3.92	6.82	8.24
	5-Year Median	4.33	6.29	9.33	10.9
P/S F12M	Current	0.1	0.68	0.87	3.66
	5-Year High	0.5	0.78	0.87	3.66
	5-Year Low	0.04	0.44	0.49	2.53
	5-Year Median	0.22	0.61	0.61	3.05

As of 08/07/2020

## Industry Analysis Zacks Industry Rank: Top 45% (113 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
BRP Inc. (DOOO)	Outperform	2
American AxleManufacturing Holdings, Inc. (AXL)	Neutral	3
Commercial Vehicle Group, Inc. (CVGI)	Neutral	3
Gentex Corporation (GNTX)	Neutral	3
Lear Corporation (LEA)	Neutral	3
Meritor, Inc. (MTOR)	Neutral	3
Oshkosh Corporation (OSK)	Neutral	3
Autoliv, Inc. (ALV)	Underperform	5

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	ADNT	X Industry	S&P 500	AXL	DOOO	LEA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	4	-	-	3	2	3
VGM Score	D	-	-	C	A	B
Market Cap	1.44 B	955.67 M	23.30 B	809.90 M	3.90 B	6.74 B
# of Analysts	5	2	14	4	5	6
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.51%	2.02%
Value Score	D	-	-	B	B	A
Cash/Price	1.05	0.19	0.07	1.12	0.15	0.37
EV/EBITDA	7.86	5.62	13.32	15.72	7.52	4.20
PEG Ratio	NA	2.23	2.94	NA	NA	5.93
Price/Book (P/B)	0.91	1.52	3.19	4.07	NA	1.69
Price/Cash Flow (P/CF)	3.04	4.89	12.51	1.12	8.81	4.89
P/E (F1)	NA	27.82	22.02	NA	34.33	40.77
Price/Sales (P/S)	0.11	0.46	2.53	0.16	0.87	0.41
Earnings Yield	-3.79%	1.73%	4.37%	-20.56%	2.91%	2.45%
Debt/Equity	2.64	0.56	0.77	17.91	-2.45	0.58
Cash Flow (\$/share)	5.03	2.94	6.94	6.39	5.07	23.00
Growth Score	F	-	-	D	A	F
Hist. EPS Growth (3-5 yrs)	-45.42%	8.02%	10.46%	-11.75%	15.50%	9.09%
Proj. EPS Growth (F1/F0)	-135.71%	-54.67%	-6.80%	47.41%	-54.86%	208.59%
Curr. Cash Flow Growth	-51.64%	-4.87%	5.39%	-19.99%	19.75%	-17.99%
Hist. Cash Flow Growth (3-5 yrs)	-10.30%	6.79%	8.55%	13.70%	NA	7.32%
Current Ratio	1.12	1.69	1.33	1.56	0.92	1.26
Debt/Capital	72.71%	40.41%	44.50%	94.71%	NA	37.76%
Net Margin	-3.96%	-0.15%	10.13%	-26.04%	2.09%	0.75%
Return on Equity	-2.80%	4.37%	14.39%	-13.47%	-51.98%	5.95%
Sales/Assets	1.27	1.10	0.51	0.76	1.57	1.30
Proj. Sales Growth (F1/F0)	-24.69%	-17.59%	-1.51%	-30.20%	-20.10%	-18.73%
Momentum Score	A	-	-	D	D	B
Daily Price Chg	-2.36%	0.21%	0.90%	3.47%	-0.89%	-0.68%
1 Week Price Chg	-6.99%	-0.55%	0.14%	-5.74%	6.11%	-5.33%
4 Week Price Chg	-4.43%	8.64%	8.95%	10.51%	8.64%	9.93%
12 Week Price Chg	-1.48%	33.51%	18.90%	33.40%	71.13%	18.43%
52 Week Price Chg	-37.40%	-1.80%	1.18%	-10.40%	37.45%	-4.03%
20 Day Average Volume	907,035	204,170	2,057,775	1,726,045	91,907	508,132
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	10.69%
(F1) EPS Est 4 week change	-43.12%	0.00%	1.36%	1.01%	0.00%	13.08%
(F1) EPS Est 12 week change	8.11%	-4.48%	1.57%	9.88%	17.91%	-23.00%
(Q1) EPS Est Mthly Chg	26.53%	0.00%	0.54%	-43.00%	0.00%	7.36%

---

## 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	D
Growth Score	F
Momentum Score	A
VGM Score	D

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.

---

### Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.