

Adient plc(ADNT)

\$17.19 (As of 06/19/20)

Price Target (6-12 Months): **\$18.00**

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: B

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 of meaningful cost savings throughout the enterprise, including staffing adjustments and reducing production levels 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. 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. Moreover, Adient withdrew its 2020 guidance amid COVID-19. Its high leverage is also a cause of concern. Hence, investors are recommended to wait for a better entry point.

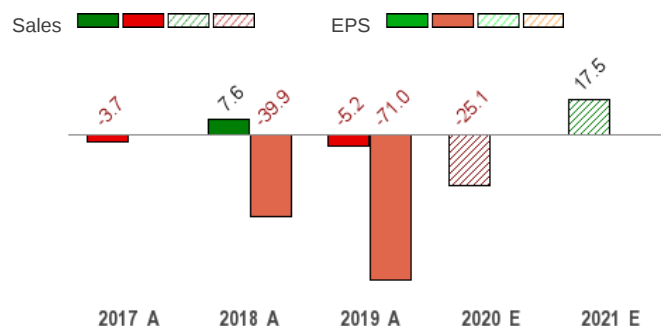
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$29.28 - \$5.90
20 Day Average Volume (sh)	1,263,811
Market Cap	\$1.6 B
YTD Price Change	-19.1%
Beta	3.58
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Top 33% (83 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	93.8%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	6.6
P/E F1	NA
PEG F1	NA
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,990 E	3,940 E	3,562 E	3,653 E	14,539 E
2020	3,936 A	3,511 A	1,878 E	3,296 E	12,373 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	\$0.89 E	\$0.92 E	\$0.20 E	\$0.47 E	\$1.83 E
2020	\$0.96 A	\$0.62 A	-\$2.02 E	\$0.02 E	-\$0.62 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 06/19/2020. The reports text is as of 06/22/2020.

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.

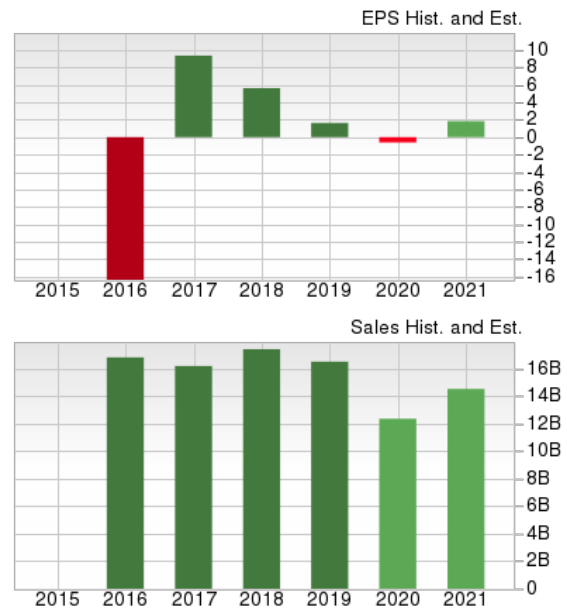
Adient's business includes Seating, SS&M and Interiors.

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.
- ▲ Adient postponed new investments to reduce capital spend, drove VAVE initiatives and optimized engineering resources in China during second-quarter 2020 which helped it to maintain 10% EBITDA margins despite a 18% drop in volumes. Notably, as of Mar 31, 2020, Adient's free cash flow improved by over \$200 million versus same time period a year ago, owing to improved earnings and lower CapEx during the quarter.
- ▲ 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. 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 shutdown of factories, less customer traffic at dealerships and supply-chain issues. Such unprecedented challenges have prompted the automotive supplier to withdraw its 2020 outlook. Sagging foreign sales and production will continue to adversely impact Adient's foreign revenue mix.
- ▼ 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.
- ▼ Soft sales in the company's Americas, Europe, Middle East, and Africa (EMEA) and Asia segments are hampering Adient's top line. Notably, revenues in the Americas, EMEA and Asia business segments 14.3%, 16.3% and 25.9% year over year to \$1,641 million, \$1,488 million and \$444 million, respectively in first-quarter, 2020.
- ▼ As of Dec 31, 2019, the company's long-term debt amounted to \$3,717 million, up from \$3,708 billion as of Sep 30, 2019. Its total debt-to-capital ratio stands at 0.66, 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. Moreover, the company's times interest earned ratio of 0.87 is unfavorable to the industry ratio of 6.28.

Coronavirus woes and high leverage are major headwinds for Adient.

Last Earnings Report

Adient's Q2 Earnings & Revenues Surpass Estimates

Adient reported adjusted earnings per share of 62 cents in second-quarter fiscal 2020, beating the Zacks Consensus Estimate of 32 cents. The figure was also higher than the year-ago quarter's 31 cents. The upside mainly resulted from better-than-expected performance in the company's EMEA and Asia segments.

During the reported quarter, Adient generated net sales of \$3,511 million, down from \$4,228 million in second-quarter fiscal 2020. However, the top line surpassed the Zacks Consensus Estimate of \$3,497 million.

During the fiscal second quarter, net sales in the Seat Structures & Mechanisms business totaled \$1,214 million, down from \$1,920 million reported in second-quarter fiscal 2019 mainly due to lower vehicle production in China.

CHART

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 \$1,641 million, down 14.3% year over year. The metric also missed the Zacks Consensus Estimate of \$1,779 million. Adient generated adjusted EBITDA of \$106 million in the fiscal second quarter, indicating a rise from \$34 million recorded in the prior-year period, primarily owing to lower launch costs combined with decreased SG&A costs and low commodity costs.

In EMEA, the company registered revenues of \$1,488 million, down 16.3% year over year. However, it beat the Zacks Consensus Estimate of \$1,385 million. Its quarterly adjusted EBITDA was \$62 million compared with the prior-year quarter's \$59 million. The upside resulted from lower launch costs along with decreased SG&A costs.

Revenues in the Asia segment were \$444 million in the reported quarter compared with the year-earlier quarter's \$599 million. The metric, however, beat the Zacks Consensus Estimate of \$413 million. The company's adjusted EBITDA was \$63 million compared with \$123 million reported in second-quarter fiscal 2020 due to a significant reduction in China production volume amid the coronavirus crisis.

Financials

Adient had cash and cash equivalents of \$1,640 million as of Mar 31, 2020, compared with \$924 million as of Sep 30, 2019. As of the same date, long-term debt amounted to \$3,717 million, up from \$3,708 billion as of Sep 30, 2019. Long-term debt-to-capital ratio stands at 70.7%. Capital expenditure declined to \$94 million in the fiscal second quarter from \$108 million recorded in the prior-year quarter.

Outlook

Adient scrapped the 2020 guidance as it expects the coronavirus pandemic's impacts to strain its operations in the days to come.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	0.41%
EPS Surprise	93.75%
Quarterly EPS	0.62
Annual EPS (TTM)	2.59

Valuation

Adient' shares are down 19.1% in the year-to-date period and down 21.9% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are down 13.4% and up 2.5%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 10.4% and up 14%, respectively.

The S&P 500 index is down 3.8% in the year-to-date period and up 5.2% in the past year.

The stock is currently trading at 14.8X forward 12-month earnings, which compares to 24.7X for the Zacks sub-industry, 24.7X for the Zacks sector and 22.24X 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 7.03X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 15.52X 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	14.8	24.7	24.7	22.24
	5-Year High	64.51	25.8	24.7	22.24
	5-Year Low	3	8.36	8.2	15.23
	5-Year Median	7.03	11.41	9.9	17.49
EV/EBITDA TTM	Current	2.82	5.4	10.71	11.47
	5-Year High	10.75	8.44	11.31	12.85
	5-Year Low	1.53	3.94	6.94	8.25
	5-Year Median	4.26	6.32	9.24	10.82
P/S F12M	Current	0.12	0.66	0.76	3.47
	5-Year High	0.5	0.78	0.76	3.47
	5-Year Low	0.04	0.44	0.49	2.53
	5-Year Median	0.23	0.61	0.61	3.02

As of 06/19/2020

Industry Analysis Zacks Industry Rank: Top 33% (83 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Autoliv, Inc. (ALV)	Neutral	3
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
Unique Fabricating, Inc. (UFAB)	Neutral	2

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	ADNT	X Industry	S&P 500	AXL	LEA	UFAB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	2
VGM Score	A	-	-	B	B	A
Market Cap	1.61 B	625.85 M	21.51 B	834.57 M	6.66 B	30.90 M
# of Analysts	6	3	14	4	7	1
Dividend Yield	0.00%	0.00%	1.92%	0.00%	2.77%	0.00%
Value Score	B	-	-	F	B	A
Cash/Price	0.96	0.22	0.06	0.78	0.37	0.02
EV/EBITDA	7.35	5.18	12.62	16.56	4.15	8.27
PEG Ratio	NA	2.07	2.90	NA	6.22	NA
Price/Book (P/B)	0.86	1.25	2.99	2.13	1.58	0.78
Price/Cash Flow (P/CF)	3.42	4.20	11.39	1.15	4.83	2.52
P/E (F1)	NA	23.76	21.20	NA	42.76	6.45
Price/Sales (P/S)	0.10	0.36	2.29	0.14	0.35	0.20
Earnings Yield	-3.61%	2.22%	4.42%	-22.49%	2.34%	15.51%
Debt/Equity	1.97	0.34	0.77	8.95	0.55	1.13
Cash Flow (\$/share)	5.03	3.19	7.01	6.39	23.00	1.25
Growth Score	A	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	-45.42%	9.09%	10.87%	-9.73%	9.09%	-25.78%
Proj. EPS Growth (F1/F0)	-137.73%	-59.72%	-10.65%	-202.16%	-81.43%	152.69%
Curr. Cash Flow Growth	-51.64%	-4.87%	5.46%	-19.99%	-17.99%	1.21%
Hist. Cash Flow Growth (3-5 yrs)	-10.30%	4.57%	8.55%	13.70%	7.32%	6.79%
Current Ratio	1.01	1.58	1.29	1.68	1.29	2.77
Debt/Capital	66.58%	40.91%	45.14%	89.95%	36.65%	53.08%
Net Margin	-3.28%	1.92%	10.53%	-16.69%	3.15%	-5.95%
Return on Equity	11.52%	12.25%	16.06%	15.33%	16.90%	1.71%
Sales/Assets	1.49	1.26	0.55	0.89	1.49	1.38
Proj. Sales Growth (F1/F0)	-25.13%	-15.44%	-2.61%	-32.65%	-20.33%	0.00%
Momentum Score	B	-	-	B	A	C
Daily Price Chg	2.08%	0.00%	-1.02%	5.28%	3.16%	-6.23%
1 Week Price Chg	-15.15%	-6.05%	-7.25%	-11.09%	-10.89%	-6.07%
4 Week Price Chg	2.26%	8.11%	5.73%	9.17%	5.22%	7.85%
12 Week Price Chg	47.94%	29.51%	15.89%	66.22%	15.93%	42.99%
52 Week Price Chg	-22.46%	-13.95%	-6.79%	-38.19%	-19.25%	8.59%
20 Day Average Volume	1,263,811	198,261	2,574,456	2,222,872	591,460	15,210
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-154.08%	-60.17%	-14.21%	-279.11%	-79.33%	0.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	B
Growth Score	A
Momentum Score	B
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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