

AGCO Corporation (AGCO)

\$74.51 (As of 01/13/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: C

Momentum: A

Summary

AGCO's net sales for 2019 projected at \$9.3 billion, down from \$9.35 billion in the prior-year quarter, reflecting the negative foreign currency-translation impact and relatively flat sales volume. Late harvest and early winter weather are keeping corn and soybean harvests in North America under pressure, straining North American industry retail tractor sales volume. Furthermore, the U.S Agriculture industry has been grappling with low commodity prices and sluggish farm incomes. This, along with late planting and slow crop development, have made farmers more cautious about spending on farm equipment. Industry retail sales in South America might be hurt by a bleak macro-economic scenario in Brazil and weak demand in Argentina. Moreover, higher engineering expenses and foreign currency fluctuation will impact the company's results.

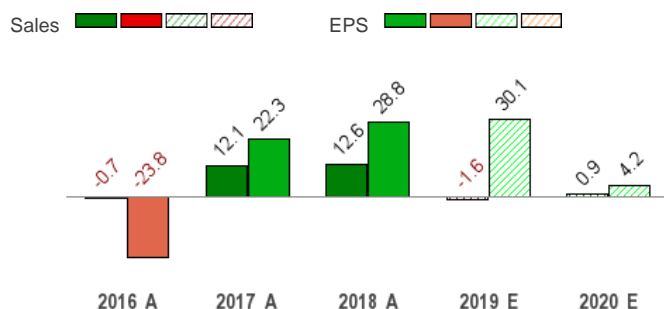
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.39 - \$60.26
20 Day Average Volume (sh)	324,346
Market Cap	\$5.6 B
YTD Price Change	-3.6%
Beta	0.99
Dividend / Div Yld	\$0.64 / 0.9%
Industry	Manufacturing - Farm Equipment
Zacks Industry Rank	Bottom 29% (180 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.1%
Last Sales Surprise	-4.5%
EPS F1 Est- 4 week change	-3.9%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	15.5
P/E F1	14.1
PEG F1	1.1
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,018 E	2,447 E	2,138 E	2,710 E	9,285 E
2019	1,996 A	2,423 A	2,109 A	2,682 E	9,201 E
2018	2,008 A	2,538 A	2,215 A	2,592 A	9,352 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.84 E	\$1.79 E	\$1.00 E	\$1.76 E	\$5.27 E
2019	\$0.86 A	\$1.82 A	\$0.82 A	\$1.56 E	\$5.06 E
2018	\$0.35 A	\$1.32 A	\$0.91 A	\$1.31 A	\$3.89 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/13/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/14/2020.

Overview

Established in 1990, headquartered in Duluth, GA, AGCO Corporation is a leading manufacturer and distributor of agricultural equipment and related replacement parts. The company offers a full product line of farm equipment through a wide network of dealers and distributors across 140 countries. Its full range of agricultural equipment, include tractors (generated 57% of 2018 sales), combines (3%), application equipment including self-propelled sprayers (3%), hay tools and forage equipment, implements and other equipment (12%), and grain storage and protein production systems (10%). Sales of replacement parts generated around 14% of the company's sales in 2018.

The tractor business sells compact tractors (below 40 horsepower) typically used on small farms and specialty agricultural industries such as dairies, landscaping, and residential areas. In addition, the company provides utility tractors (40-100 horsepower) and high horsepower tractors (100-650 horsepower) used on large acreage farms.

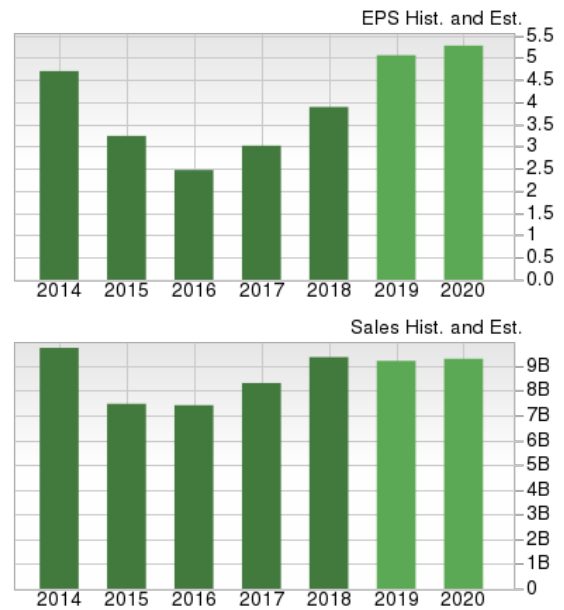
AGCO manufactures and sells combines with a variety of threshing technologies and complemented by a variety of crop-harvesting heads; which are utilized in harvesting grain crops such as corn, wheat, soybeans and rice.

Under the application equipment/sprayers group, AGCO provides self-propelled three-and-four-wheeled vehicles and related equipment for use in the application of liquid and dry fertilizers, and crop-protection chemicals.

Under hay tools and forage equipment, implements and other equipment, the company sells round and rectangular balers and other equipment utilized for the harvesting and packaging of vegetative feeds used in the cattle, dairy, horse and renewable fuel industries. It also includes planting equipment as well as loaders for lifting and transporting hay crops.

Grain Storage and Protein Production Systems include grain storage bins and related drying and handling equipment systems; seed-processing systems; swine and poultry feed storage and delivery, ventilation and watering systems; and egg production systems and broiler production equipment.

The replacement parts business supplies replacement parts for all the products AGCO sells.



Reasons To Sell:

- ▼ The company expects the North American industry retail tractor sales to be relatively flat in 2019 compared to last year. Late harvest and early winter weather are keeping corn and soybean harvests in North America under pressure. The U.S Agriculture industry has been grappling with low commodity prices and sluggish farm incomes. Tariffs imposed by China on U.S. agricultural exports last year dealt a severe blow given that China is the largest export market for U.S. agriculture producers. This along with late planting and slow crop development have made farmers more cautious about spending on farm equipment. China hiked some tariffs again in September. This will impact AGCO's revenues.
- ▼ AGCO now anticipates its net sales for 2019 at \$9.3 billion, down from \$9.35 billion in the prior-year quarter, reflecting the negative foreign currency-translation impact and relatively flat sales volume. AGCO is targeting a decrease in production levels of 1% in 2019. Industry demand in South America is expected to decline in the current year compared to the prior year. Furthermore, the South American industry retail sales are anticipated to be down around 10% in 2019 compared with the 2018 levels. Industry demand in Western Europe is likely to have dented in the fourth quarter and flat year over year for 2019.
- ▼ AGCO's margins will be affected by rising steel prices resulting from the tariff imposed by the U.S. government. The company also expects currency translation to negatively impact sales by 4% in 2019. Moreover, engineering expense is expected to be up \$10 million compared with 2018. These factors will impact AGCO's results for the current year.

AGCO's margins will be affected by a reduced market outlook for the North and South America segment, and higher engineering expenses. Currency fluctuation will also impact results.

Risks

- AGCO anticipates gross and operating margins improvement in 2019 from the year-ago levels, driven by positive impact of pricing and benefits from cost-reduction initiatives. Considering these, the company reaffirmed adjusted earnings per share of \$5.10 for 2019, up from the previous expectation of \$4.90. Moreover, AGCO is likely to witness profitable growth from its grain and protein business, driven by population growth and increased protein consumption in the days ahead.
 - AGCO continues to invest in products and technology to improve distribution and enhance digital capabilities in order to drive margins, strengthen product offerings and receive returns on invested capital. The company also continues to make investments to upgrade system capabilities, expand product lines and improve factory productivity. The company intends to increase the level of investments in 2019 to execute its product development plans and meet new emission requirements in Brazil and Europe. Consequently, AGCO expects capital expenditures in 2019 around \$228 million, up from \$203 million in 2018. Its spending plan in 2019 will support long-term business growth and new product initiatives.
 - AGCO is focused on long-term capital allocation plan by returning cash to shareholders. Over the past six years, the company executed share repurchases of \$1.3 billion, which reduced share count by more than 25%. In the first nine months of 2019, the company repurchased shares worth \$100 million. The company expects to generate strong free cash flow within \$275 million to \$300 million for 2019. AGCO increased its quarterly dividend by 7% to 16 cents per share.
 - AGCO completed two acquisitions in the past two years. In September 2017, it acquired Precision Planting — a leader in innovative planting technology. In October 2017, AGCO purchased the forage division of the Lely Group, which will significantly enhance hay and forage product line in Europe and will drive additional growth in this market.
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Last Earnings Report

AGCO Earnings Trump, Sales Trail Estimates in Q3

AGCO reported third-quarter adjusted earnings per share of 82 cents, down 9.9% year over year. The reported figure, however, surpassed the Zacks Consensus Estimate of 78 cents, delivering a positive earnings surprise of 5.1%.

Revenues declined 4.8% year over year to \$2,109.4 million. The revenue figure also missed the Zacks Consensus Estimate of \$2,175 million. Excluding unfavorable currency-translation impact of 3.1%, net sales edged down 1.7% year over year.

Farming conditions continue to be challenging in many key markets due to uncertainty regarding trade negotiations and lower yields. Nevertheless, price-realization initiatives and improved productivity helped offset lower sales and production volumes during the September-end quarter. The company's focus on margin expansion also aided its quarterly results.

Operational Update

Cost of sales went down 4.7% to \$1,659.2 million from the year-earlier quarter. Gross profit decreased 4.9% to \$450.2 million in the quarter from the \$473.3 million recorded in the year-ago quarter. Gross margin came in at 21.3% during the third quarter compared with the prior-year quarter's 21.4%.

Selling, general and administrative expenses slipped 6% year over year to \$245 million. Adjusted income from operations declined 4.9% year over year to \$107.2 million. Consequently, operating margin came in at 5.1%, flat compared with the year-earlier quarter.

Segment Performance

Sales in the North America segment dropped around 1.7% year over year to \$536.2 million during the July-September quarter. The segment reported operating income of \$32.5 million, flat year on year. Late harvest and early winter weather have been putting pressure on corn and soybean harvests in North America.

Sales in the South America segment dipped around 14.8% year over year to \$239.4 million. The segment reported an operating loss of \$5.6 million, as against the prior year's operating profit of \$12.6 million.

The EME (Europe / Middle East) segment's sales came in at \$1,145.7 million, down 1.6% from the year-ago quarter's reported tally. EME's operating income climbed 12.3% year over year to \$122 million.

Sales in the Asia/Pacific segment were down 15.8% year over year to \$188.1 million. The segment reported income of \$11.5 million, down from the prior year's \$17.6 million.

Financial Update

AGCO reported cash and cash equivalents of \$282 million at the end of the third quarter, down from the \$292.7 million registered at the prior-year quarter end. The company used \$80.2 million of cash in operating activities during the nine-month period ended Sep 30, 2019, compared with cash usage of \$4 million reported in the comparable period last year.

Guidance

AGCO now projects its net sales for 2019 at \$9.3 billion, down from \$9.35 billion in the prior-year, reflecting the negative foreign currency-translation impact and relatively flat sale volumes, offset by positive pricing. Based on these assumptions, the company anticipates gross and operating margin improvement from the previous year. The company has maintained its adjusted EPS guidance of \$5.10.

AGCO projects year-over-year flat North American industry retail tractor sales for the current year. For 2019, while industry demand in Western Europe is expected to be flat, year on year, industry demand in South America is expected to decline.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-4.53%
EPS Surprise	5.13%
Quarterly EPS	0.82
Annual EPS (TTM)	4.81

Valuation

AGCO's shares are up 20.5% over the trailing 12-month period. Stocks in the Zacks Manufacturing - Farm Equipment industry and in the Zacks Industrial Products sector are up 10.5% and 17.4% over the past year, respectively.

The S&P 500 index is up 24.2% in the past year.

The stock is currently trading at 14.06X forward 12-month earnings, which compares to 17.42X for the Zacks sub-industry, 18.21X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.93X and as low as 10.99X, with a 5-year median of 17.31X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$63 price target reflects 11.88X Forward 12-month earnings per share.

Valuation Multiples - AGCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.06	17.42	18.21	19
	5-Year High	25.93	23.16	19.9	19.34
	5-Year Low	10.99	11.88	12.59	15.17
	5-Year Median	17.31	17.42	16.54	17.44
P/S F12M	Current	0.61	1.17	2.76	3.52
	5-Year High	0.72	1.24	2.76	3.52
	5-Year Low	0.41	0.76	1.51	2.54
	5-Year Median	0.58	0.98	1.96	3
EV/EBITDA TTM	Current	7.71	10.76	16.94	12.12
	5-Year High	11.45	13.39	17.43	12.86
	5-Year Low	4.62	8.23	10.89	8.48
	5-Year Median	7.97	10.69	14.71	10.67

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 254)



Top Peers

Briggs & Stratton Corporation (BGG)	Neutral
Deere & Company (DE)	Neutral
Eaton Corporation, PLC (ETN)	Neutral
Ingersoll-Rand PLC (Ireland) (IR)	Neutral
Lindsay Corporation (LNN)	Neutral
Parker-Hannifin Corporation (PH)	Neutral
Terex Corporation (TEX)	Neutral
Titan International, Inc. (TWI)	Neutral

Industry Comparison Industry: Manufacturing - Farm Equipment				Industry Peers		
	AGCO Underperform	X Industry	S&P 500	BGG Neutral	CAT Neutral	DE Neutral
VGM Score	B	-	-	F	C	C
Market Cap	5.63 B	697.98 M	24.31 B	217.52 M	81.14 B	55.01 B
# of Analysts	8	3	13	3	9	10
Dividend Yield	0.86%	0.58%	1.76%	3.91%	2.81%	1.74%
Value Score	C	-	-	D	B	D
Cash/Price	0.05	0.09	0.04	0.22	0.10	0.08
EV/EBITDA	9.62	9.62	14.12	32.12	8.44	10.67
PEG Ratio	1.05	2.92	2.05	NA	1.57	4.13
Price/Book (P/B)	1.87	1.35	3.34	0.53	5.41	4.82
Price/Cash Flow (P/CF)	9.72	10.15	13.66	4.19	8.91	10.57
P/E (F1)	14.14	16.98	18.82	25.18	13.70	18.49
Price/Sales (P/S)	0.62	0.71	2.64	0.12	1.48	1.40
Earnings Yield	7.07%	5.41%	5.29%	3.91%	7.29%	5.41%
Debt/Equity	0.47	0.47	0.72	1.58	1.71	2.65
Cash Flow (\$/share)	7.66	1.23	6.94	1.22	16.49	16.53
Growth Score	C	-	-	F	D	B
Hist. EPS Growth (3-5 yrs)	4.22%	4.22%	10.56%	-8.46%	23.01%	12.82%
Proj. EPS Growth (F1/F0)	4.28%	7.87%	7.49%	163.54%	-1.26%	-4.90%
Curr. Cash Flow Growth	14.99%	14.99%	14.83%	-54.98%	35.57%	4.09%
Hist. Cash Flow Growth (3-5 yrs)	-7.15%	-8.35%	9.00%	-12.10%	6.65%	3.09%
Current Ratio	1.31	2.00	1.23	2.28	1.44	2.04
Debt/Capital	31.91%	32.99%	42.99%	61.27%	63.05%	72.60%
Net Margin	3.42%	-0.20%	11.08%	-2.50%	10.99%	8.29%
Return on Equity	12.26%	1.58%	17.16%	-4.18%	42.51%	27.11%
Sales/Assets	1.13	1.02	0.55	1.13	0.70	0.54
Proj. Sales Growth (F1/F0)	0.91%	1.51%	4.23%	3.37%	-4.58%	-7.50%
Momentum Score	A	-	-	B	C	B
Daily Price Chg	0.98%	0.76%	0.73%	-0.78%	0.47%	0.76%
1 Week Price Chg	-4.34%	-0.27%	0.39%	-17.44%	-1.56%	-1.21%
4 Week Price Chg	-3.67%	1.09%	1.84%	-10.96%	1.00%	1.09%
12 Week Price Chg	-0.98%	-0.98%	6.48%	-19.24%	11.03%	0.41%
52 Week Price Chg	20.55%	5.05%	23.15%	-63.64%	11.40%	11.01%
20 Day Average Volume	324,346	320,774	1,578,594	1,071,906	2,401,807	1,191,971
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.92%	0.00%	0.00%	0.00%	-0.77%	-0.33%
(F1) EPS Est 12 week change	-6.00%	-1.33%	-0.48%	0.00%	-9.43%	-15.39%
(Q1) EPS Est Mthly Chg	-3.66%	0.00%	0.00%	0.00%	-1.01%	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	C
Growth Score	C
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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