

## AGCO Corporation (AGCO)

**\$73.09** (As of 08/17/20)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 07/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**1-Strong Buy**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: D

### Summary

AGCO's second-quarter 2020 earnings and revenues beat the Zacks Consensus Estimates but declined year on year. The company expects adjusted earnings per share (EPS) for the current year between \$3.50 and \$3.75. Improved farm income, stabilization of U.S farm sector and increasing replacement demand will drive AGCO's near-term results. Global crop production remains healthy and is set for another record crop year with farm operations working at normal levels. The company is likely to witness stellar growth from its grain and protein business, driven by protein production and increased protein consumption in the days ahead. AGCO's investments in technology, products, smart farming solutions and cost-control initiatives to drive margins will stoke growth. Moreover, AGCO's effort to reduce debt levels also bode well.

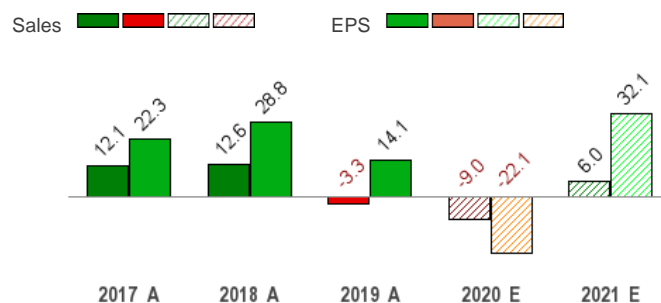
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$81.39 - \$35.33
20 Day Average Volume (sh)	497,739
Market Cap	\$5.5 B
YTD Price Change	-5.4%
Beta	1.20
Dividend / Div Yld	\$0.64 / 0.9%
Industry	<a href="#">Manufacturing - Farm Equipment</a>
Zacks Industry Rank	Top 10% (24 out of 252)

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



Last EPS Surprise	1,485.7%
Last Sales Surprise	15.1%
EPS F1 Est- 4 week change	42.6%
Expected Report Date	11/03/2020
Earnings ESP	11.1%
P/E TTM	19.6
P/E F1	21.1
PEG F1	1.6
P/S TTM	0.6

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,980 E	2,248 E	2,227 E	2,460 E	8,716 E
2020	1,928 A	2,007 A	2,081 E	2,248 E	8,225 E
2019	1,996 A	2,423 A	2,109 A	2,514 A	9,041 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.02 E	\$1.55 E	\$1.25 E	\$1.38 E	\$4.57 E
2020	\$0.86 A	\$1.11 A	\$0.94 E	\$0.88 E	\$3.46 E
2019	\$0.86 A	\$1.82 A	\$0.82 A	\$0.94 A	\$4.44 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 08/17/2020. The reports text is as of 08/18/2020.

## 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 2019 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.

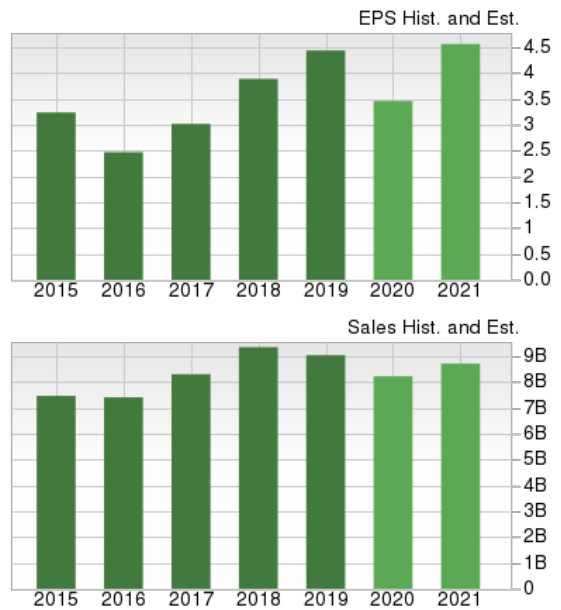
AGCO manufactures and sells combines with a variety of threshing technologies and complemented by a variety of crop-harvesting heads; which are utilized in harvesting grain crops such as corn, wheat, soybeans and rice.

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.



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## Reasons To Buy:

- ▲ The U.S. farm sector seems to be showing early signs of stabilization following the passage of The United States Mexico Canada Agreement (USMCA) and the phase 1 trade agreement with China. The agricultural sector had, so far, been grappling with low commodity prices, sluggish farm incomes and the impact of the trade war. Per the U.S. Department of Agriculture's (USDA) latest available projections, net farm income is anticipated to improve 3.3% year over year to \$96.7 billion in 2020. This will make farmers resume spending on agricultural equipment, which will drive the company's performance. Further, replacement demand for aged fleet will drive farm equipment demand. Further, \$16-billion COVID-19 Aid Package announced by the USDA for U.S. farmers and livestock producers is likely to offset the negative impact of lower commodity prices to some extent.
- ▲ AGCO delivered profitable second-quarter results on strong execution of margin improvement in North American, South American and Asia/Pacific/Africa regions despite COVID-19 related production disruptions in Europe and South America. The company's factories are operational and it is poised to benefit from strong order in the third quarter and remaining period of the current year. Global crop production remains healthy and is set for another record crop year with farm operations working at normal levels. Stronger grain export demand and supportive wheat prices project to favorable farm economics for Western European farmers. The European dairy and livestock markets have stabilized after weakening earlier this year. Benefit of a robust first crop in Brazil and Argentina as well as favorable-exchange rates are supporting relatively positive economics in South America. Hence, industry sales in Brazil and Argentina are expected to stabilize following two years of supportive farm income and lower levels of industry demand. Moreover, AGCO is likely to witness stellar growth from its grain and protein business, driven by protein production and increased protein consumption in the days ahead.
- ▲ AGCO continues to invest in products, premium technology and smart farming solutions to improve distribution and enhance digital capabilities in order to drive margins and strengthen product offerings. The company also continues to make investments to upgrade system capabilities, expand product lines and improve factory productivity. AGCO completed two acquisitions in the past few years. It acquired Precision Planting which is a leading manufacturer of high-tech planting equipment. The acquisition helped expand the company's precision farming technology offerings on a global basis. AGCO purchased the forage division of the Lely Group, which significantly enhanced its hay and forage product line in Europe and will drive additional growth in this market. The company expects capital expenditures to be approximately \$225 million and free cash flow in between \$200 million and \$250 million for the current year.
- ▲ The company is focused on reducing its debt levels and strengthen balance sheet. During the second quarter, AGCO completed a new term loan facility that provided additional liquidity of approximately \$530 million. As of Jun 30, 2020, AGCO's total liquidity stands at \$1.3 billion, consisting cash of \$400 million and available borrowing capacity of about \$870 million. The company's net debt was around \$125 million below June 2019 levels. Its total debt to total capital stands at 41.1%, lower than its industry's 80.1%. The company's times interest earned ratio was 9.6 in second-quarter 2020, better than the industry's 3.4. This, along with the company's strong cash position underscores AGCO's ability to meet debt obligations. The company is implementing cost-cutting actions and has suspended further share repurchases in order to preserve liquidity in the current turbulent situation. However, AGCO expects to maintain the payment of its quarterly dividend.

AGCO's margins will benefit from pricing and cost reduction, acquisitions, capital-allocation plan and focus on strategic investments.

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## Risks

- The company expects net sales for the current year to be between \$8.3 billion and \$8.4 billion, reflecting bleak end-market demand and the unfavorable impact of currency translation. The company expected net sales of \$9.4 billion in the year-ago quarter. Adjusted operating margins are expected to be below the 2019 levels due to the impact of lower production and sales volumes. Based on these, AGCO expects adjusted EPS for the current year between \$3.50 and \$3.75. At current exchange rates, AGCO expects currency translation to negatively impact sales by about 3.5%.
  - Consumption of grain for food, fuel and livestock feed is being negatively impacted by the economic constraints caused by the pandemic. As a result, grain inventories are expected to remain at high levels in the current year. Global industry demand for farm equipment is expected to be weaker in the remaining period of this year due to the challenging farm economics and uncertainty caused by the pandemic. Dry weather across most of Western Europe is negatively impacting the development of the wheat production. Hence, industry demand in Western Europe is expected to be lower year over year in 2020. In South America, farmers are exhibiting a cautious approach to equipment purchases due to the current economic and political environment and concerns over the pandemic. Therefore, industry demand in South America is expected to decline modestly in the current year from 2019 levels.
  - AGCO expects year-over-year lower retail industry demand across all three regions in the current year. The company expects North American industry tractor sales to be down approximately 10% in 2020 compared with 2019. The EU farm income is expected to soften in the ongoing year primarily due to lower milk prices and continued dry weather conditions. Farmers and grain elevators in North America have been slowing investments, given a weak profitability outlook stemming from low crop prices and a significant decline in ethanol demand. Further, the pandemic has marred agricultural exports to China. Hence, it remains to be seen whether China will be able to honor its terms of the Phase 1 trade agreement. This will remain an overhang on the company.
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## Last Earnings Report

### AGCO Corp Beats on Q2 Earnings & Sales, Initiates View

AGCO delivered second-quarter 2020 adjusted earnings per share of \$1.11, down 39% year over year. The figure, however, handily beat the Zacks Consensus Estimate of 7 cents.

Including one-time items, the company reported net income of 93 cents per share in the second quarter compared with the \$1.82 per share recorded in the prior-year quarter.

Revenues declined 17.2% year over year to \$2,007 million in the June-end quarter. However, the revenue figure beat the Zacks Consensus Estimate of \$1,743 million. Excluding unfavorable currency-translation impact of 3.9%, net sales decreased 13.2% year over year.

Quarter Ending **06/2020**

Report Date	<b>Jul 30, 2020</b>
Sales Surprise	<b>15.13%</b>
EPS Surprise	<b>1,485.71%</b>
Quarterly EPS	<b>1.11</b>
Annual EPS (TTM)	<b>3.73</b>

### Operational Update

Cost of sales dropped 15.3% to \$1,574 million in the second quarter from the year-earlier period. Gross profit declined 23.2% year over year to \$433 million during the April-June quarter. Gross margin came in at 21.6% compared with the prior-year period's 23.3%.

Selling, general and administrative expenses slid to \$219.5 million from the year-ago quarter's \$260.7 million. Adjusted income from operations plunged 39.3% year over year to \$121.2 million. Consequently, operating margin came in at 6% compared with the year-earlier quarter's 8%.

### Segment Performance

Sales in the North America segment slipped 10.2% year over year to \$556 million during the April-June period. The segment reported operating income of \$65 million compared with the prior-year quarter's \$51 million.

Sales in the South America segment were down 3.9% year over year to \$179 million. The segment reported an operating profit of \$5.5 million, as against the prior-year quarter's operating loss of \$7.1 million.

The EME (Europe/Middle East) segment's sales came in at \$1,125 million compared with the \$1,457 million recorded in the year-ago period. The EME's operating income plummeted 56.5% year over year to \$91 million.

Sales in the Asia/Pacific segment were down 8% year over year to \$148 million. The segment reported operating profit of \$14 million compared with the year-ago quarter's \$7 million.

### Financial Update

AGCO reported cash and cash equivalents of \$404 million as of Jun 30, 2020, down from the \$433 million recorded as of Dec 31, 2019. The company utilized \$221.6 million of cash in operating activities during the first half of the current year compared with the \$212.9 million in the first half of 2019.

### Guidance

The company expects net sales for the current year to be between \$8.3 billion and \$8.4 billion, reflecting bleak end-market demand and the unfavorable impact of currency translation. Adjusted operating margins are expected to be below 2019 levels due to the impact of lower production and sales volumes, partly offset by the benefits from cost reductions. Based on these, AGCO expects adjusted earnings per share (EPS) for the current year between \$3.50 and \$3.75.

Global crop production remains strong and is set for another record crop year with farm operations working at normal levels. Nevertheless, consumption of grain for food, fuel and livestock feed is being negatively impacted by the economic constraints caused by the pandemic. Consequently, global industry demand for farm equipment is expected to be weaker in the remaining period of this year due to the challenging farm economics and uncertainty caused by the pandemic.

Meanwhile, replacement demand for aged fleet in the large farm, lower commodity prices and a cautious farmer sentiment are influencing farm-equipment demand. The USDA's \$16-billion COVID-19 Aid Package for U.S. farmers and livestock is also likely to offset the negative impact of lower commodity prices to some extent. Moreover, AGCO remains focused on investing in premium technology, smart farming solutions and enhanced digital capabilities for customers.

## Valuation

AGCO's shares are down 5.3% in the year-to-date period and up 5.8% over the trailing 12-month period. Stocks in the Zacks Manufacturing - Farm Equipment industry and Zacks Industrial Products sector are up 9% and down 1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 23.5% and 13.3%, respectively.

The S&P 500 index is up 4.9% in the year-to-date and 15.7% in the past year.

The stock is currently trading at 17.59X forward 12-month earnings, which compares to 23.09X for the Zacks sub-industry, 22.35X for the Zacks sector and 22.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.93X and as low as 7.09X, with a 5-year median of 17.15X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$84 price target reflects 20.21X Forward 12-month earnings per share.

Valuation Multiples - AGCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.59	23.09	22.35	22.87
	5-Year High	25.93	23.45	22.35	22.87
	5-Year Low	7.09	11.9	12.55	15.25
	5-Year Median	17.15	18.29	17.48	17.58
P/S F12M	Current	0.64	1.49	2.99	3.71
	5-Year High	0.72	1.49	2.99	3.71
	5-Year Low	0.3	0.8	1.52	2.53
	5-Year Median	0.58	1.08	2.04	3.05
EV/EBITDA TTM	Current	6.97	12.72	19.80	12.78
	5-Year High	11.45	13.76	19.95	12.85
	5-Year Low	3.64	8.84	10.76	8.25
	5-Year Median	7.95	11.11	14.95	10.91

As of 08/17/2020

## Industry Analysis Zacks Industry Rank: Top 10% (24 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
DeereCompany (DE)	Outperform	1
Alamo Group, Inc. (ALG)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Lindsay Corporation (LNN)	Neutral	3
ParkerHannifin Corporation (PH)	Neutral	3
Terex Corporation (TEX)	Neutral	3
Titan International, Inc. (TWI)	Neutral	3
Ingersoll Rand Inc. (IR)	Underperform	5

Industry Comparison Industry: Manufacturing - Farm Equipment				Industry Peers		
	AGCO	X Industry	S&P 500	ALG	CAT	DE
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	3	3	1
VGM Score	B	-	-	A	C	D
Market Cap	5.47 B	643.15 M	23.75 B	1.32 B	75.12 B	60.38 B
# of Analysts	7	2	14	1	9	9
Dividend Yield	0.88%	0.00%	1.62%	0.47%	2.97%	1.58%
Value Score	B	-	-	B	B	D
Cash/Price	0.07	0.11	0.07	0.06	0.12	0.16
EV/EBITDA	9.40	9.40	13.49	13.27	8.06	11.25
PEG Ratio	1.58	3.96	3.03	2.17	2.24	4.37
Price/Book (P/B)	2.01	1.45	3.18	2.29	5.45	5.09
Price/Cash Flow (P/CF)	6.98	11.68	12.85	13.16	8.62	11.68
P/E (F1)	21.12	21.67	22.17	21.67	26.83	30.58
Price/Sales (P/S)	0.64	0.64	2.49	1.14	1.61	1.64
Earnings Yield	4.73%	3.94%	4.32%	4.62%	3.73%	3.27%
Debt/Equity	0.66	0.41	0.77	0.73	1.95	2.89
Cash Flow (\$/share)	10.47	1.98	6.94	8.46	16.10	16.53
Growth Score	C	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	12.37%	7.65%	10.44%	11.94%	31.63%	17.88%
Proj. EPS Growth (F1/F0)	-22.07%	-31.52%	-5.97%	-13.18%	-53.25%	-36.51%
Curr. Cash Flow Growth	31.75%	-16.08%	5.22%	7.08%	-6.65%	4.09%
Hist. Cash Flow Growth (3-5 yrs)	1.73%	-5.19%	8.52%	11.93%	4.31%	3.09%
Current Ratio	1.48	1.98	1.33	4.28	1.50	2.20
Debt/Capital	39.72%	29.03%	44.59%	42.33%	66.14%	74.31%
Net Margin	0.63%	0.63%	10.13%	4.80%	8.90%	7.62%
Return on Equity	9.99%	8.52%	14.51%	10.90%	30.52%	23.01%
Sales/Assets	1.09	1.01	0.51	1.02	0.60	0.50
Proj. Sales Growth (F1/F0)	-9.03%	0.00%	-1.67%	0.00%	-23.33%	-17.98%
Momentum Score	D	-	-	B	D	F
Daily Price Chg	-0.64%	0.00%	-0.02%	0.54%	-0.89%	0.97%
1 Week Price Chg	7.06%	4.16%	1.09%	1.22%	3.74%	4.16%
4 Week Price Chg	19.16%	10.40%	4.83%	10.40%	3.04%	11.03%
12 Week Price Chg	40.99%	25.08%	13.09%	17.44%	23.34%	37.15%
52 Week Price Chg	5.80%	2.11%	2.77%	-4.77%	18.20%	26.64%
20 Day Average Volume	497,739	435,518	1,932,479	46,864	2,879,060	1,248,535
(F1) EPS Est 1 week change	-3.08%	0.00%	0.00%	0.00%	0.00%	1.50%
(F1) EPS Est 4 week change	42.55%	3.83%	1.80%	3.42%	-2.10%	1.50%
(F1) EPS Est 12 week change	65.21%	13.66%	2.88%	3.42%	3.61%	3.44%
(Q1) EPS Est Mthly Chg	93.81%	0.31%	0.80%	NA	-18.08%	0.31%

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## 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.

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### 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>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>D</b>
VGM Score	<b>B</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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