

AGCO Corporation (AGCO)

\$66.37 (As of 02/19/20)

Price Target (6-12 Months): **\$70.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/16/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

AGCO's fourth-quarter 2019 earnings and revenues missed the Zacks Consensus Estimate. Both top and bottom lines declined year over year. Its 2020 net sales are projected at \$9.2 billion, up from the prior year's \$9 billion, reflecting improved sales volumes and positive pricing. The company anticipates margin improvement on positive impact of pricing and cost-reduction initiatives. AGCO expects adjusted earnings per share of \$5.00-\$5.20 for 2020, up from the prior year's \$4.44. However, U.S farm income in the current year will be soft due to low commodity prices and uncertainty with Market Facilitation Program payments. AGCO expects the North American industry retail tractor sales to be modestly down this year. Demand will remain soft across European markets. Currency fluctuation and engineering expenses will also impact results.

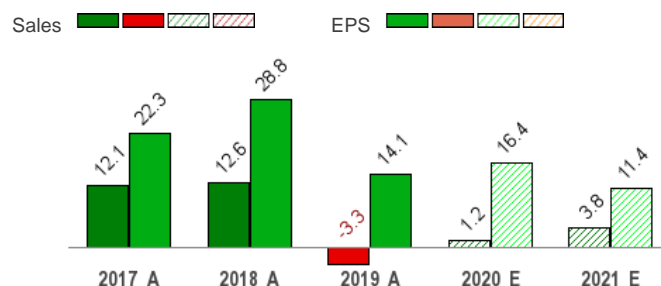
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$81.39 - \$63.73 |
| 20 Day Average Volume (sh) | 509,856 |
| Market Cap | \$5.0 B |
| YTD Price Change | -14.1% |
| Beta | 1.00 |
| Dividend / Div Yld | \$0.64 / 1.0% |
| Industry | Manufacturing - Farm Equipment |
| Zacks Industry Rank | Bottom 23% (197 out of 255) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | -39.4% |
| Last Sales Surprise | -5.6% |
| EPS F1 Est- 4 week change | -3.1% |
| Expected Report Date | 05/07/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 15.0 |
| P/E F1 | 12.8 |
| PEG F1 | 1.0 |
| P/S TTM | 0.6 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 2,012 E | 2,527 E | 2,270 E | 2,718 E | 9,499 E |
| 2020 | 1,961 E | 2,441 E | 2,151 E | 2,589 E | 9,147 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 | \$0.88 E | \$2.02 E | \$1.27 E | \$1.82 E | \$5.76 E |
| 2020 | \$0.57 E | \$1.87 E | \$1.03 E | \$1.63 E | \$5.17 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 02/19/2020. The reports text is as of 02/20/2020.

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.

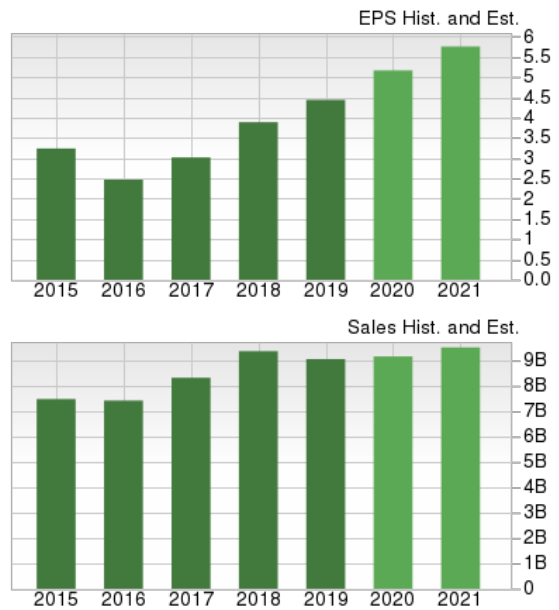
AGCO manufactures and sells combines with a variety of threshing technologies and complemented by a variety of crop-harvesting heads; which are utilized in harvesting grain crops such as corn, wheat, soybeans and rice.

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.



Reasons To Buy:

- ▲ AGCO now projects its 2020 net sales at \$9.2 billion, up from the prior year's \$9 billion, reflecting improved sales volumes and positive pricing. AGCO anticipates gross and operating margins improvement in the current year from the year-ago levels, driven by positive impact of pricing, productivity improvement and benefits from cost-reduction initiatives. Considering these, the company expects adjusted earnings per share in the band of \$5.00 to \$5.20 for 2020, up from the prior year's \$4.44. 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. Consequently, AGCO expects capital expenditures to be approximately flat in 2020 compared with the 2019 level of \$228 million. Its spending plan in the current year 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 seven years, the company executed share repurchases of \$1.3 billion, which reduced share count by more than 26%. In 2019, the company repurchased shares worth \$130 million. The company expects to generate strong free cash flow within \$325 million and \$350 million for 2020.
- ▲ 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.

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

Reasons To Sell:

- ▼ The company expects the North American industry retail tractor sales to be modestly down in 2020 compared to last year. In 2019, late harvest, trade dispute with China and lower crop production in North America have kept commodity prices under pressure. Thus, per the USDA's projection, the U.S farm income in the current year will remain challenging due to low commodity prices and uncertainty with Market Facilitation Program payments. This will impact AGCO's revenues.
- ▼ AGCO is targeting a decrease in production levels of around 1-2% in 2020. For the current year, EU farm income is expected to be down modestly driven primarily by lower milk prices, partially offset by more normal crop production. Considering these, the company expects industry demand to remain soft across the European markets. Moreover, industry sales in Australia and New Zealand are likely to drop in the ongoing year due to drought conditions. Uncertainty regarding export demand in Brazil and potential changes to the subsidized-financing program will likely temper farmer sentiment, offsetting improved industry demand and grain production in Brazil.
- ▼ AGCO's margins will be affected by rising steel prices resulting from the tariff imposed by the U.S. government. Currency translation is expected to be relatively neutral, while engineering expense will likely be flat compared with the 2019 level of \$10 million. 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.

Last Earnings Report

AGCO's Earnings & Revenues Trail Estimates in Q4

AGCO reported fourth-quarter 2019 adjusted earnings per share of 94 cents, down 28.2% year over year. The figure also missed the Zacks Consensus Estimate of \$1.55, reflecting a negative earnings surprise of 39.3%.

Including one-time items, the company reported net loss of \$1.17 per share in the fourth quarter as against the net income of \$1.26 per share recorded in the prior-year quarter.

Revenues declined 3% year over year to \$2,513.6 million. In addition, the figure missed the Zacks Consensus Estimate of \$2,662.2 million. Excluding unfavorable currency-translation impact of 2.4%, net sales edged down 0.6% year over year.

The quarterly results reflect the impact of challenging farming conditions, primarily in Europe and South America. The results were also adversely impacted by higher-than-expected new product-warranty costs, and charges related with brand and product rationalizations within the grain and protein business.

Operational Update

Cost of sales dropped 2.6% to \$2,000.1 million in the fourth quarter from the year-earlier period. Gross profit decreased 4.6% to \$513.5 million in the December-end quarter from the \$538.7 million recorded in the year-ago period. Gross margin came in at 20.4% for the fourth quarter compared with the prior-year quarter's 20.7%.

Selling, general and administrative expenses edged down to \$272.4 million from the prior-year quarter's \$272.5 million. Adjusted income from operations declined 17.5% year over year to \$132.8 million. Consequently, operating margin came in at 5.2% compared with the year-earlier quarter's 6.2%.

Segment Performance

Sales in the North America segment inched up 1.8% year over year to \$540.5 million during the October-December period. The segment reported operating income of \$7.1 million compared with the prior-year quarter's \$6.2 million.

Sales in the South America segment dipped 20% year over year to \$220.9 million. The segment reported an operating loss of \$18.2 million, as against the prior year's operating profit of \$10.6 million.

The EME (Europe / Middle East) segment's sales came in at \$1,515.3 million compared with the \$1,511.7 million recorded in the year-ago period. The EME's operating income slipped 2.8% year over year to \$179.7 million.

Sales in the Asia/Pacific segment were down 13.3% year over year to \$236.9 million. The segment reported income of \$21.5 million, down from the previous year's \$22.7 million.

Financial Update

AGCO reported cash and cash equivalents of \$432.8 million at the end of the reported quarter, up from the \$326.1 million witnessed at the end of 2018. The company recorded \$695.9 million of cash in operating activities during the 12-month period ended Dec 31, 2019, compared with \$595.9 million reported in the prior-year period.

2019 Results

AGCO reported adjusted earnings per share of \$4.44 in 2019, up 14% from the prior year's \$3.89. Sales were down 3.3% year over year to \$9 billion from the \$9.3 billion reported in 2018.

Guidance

AGCO now projects current-year net sales at around \$9.2 billion, reflecting improved sales volumes and positive pricing. The company anticipates year-over-year gross and operating margin improvement, aided by positive impact of pricing and cost-reduction actions. Considering these, the company now estimates EPS in the band of \$5.00 to \$5.20.

Per the USDA's projection, the U.S farm income in 2020 will remain challenging due to low commodity prices and uncertainty with Market Facilitation Program payments.

The company projects North American industry tractor sales to be modestly down in the current year from the prior-year level. For the ongoing year, European farm income is expected to be softer due to lower milk prices, partly offset by more normalized crop production.

Consequently, AGCO expects sluggish industry demand across the European markets. However, industry demand in Brazil is anticipated to improve, while uncertainty regarding export demand and potential changes to the subsidized financing program might dampen farmer sentiment.

Quarter Ending **12/2019**

| Report Date | Feb 06, 2020 |
|------------------|--------------|
| Sales Surprise | -5.58% |
| EPS Surprise | -39.35% |
| Quarterly EPS | 0.94 |
| Annual EPS (TTM) | 4.44 |

Valuation

AGCO's shares are up 0.1% over the trailing 12-month period. Stocks in the Zacks Manufacturing - Farm Equipment industry and in the Zacks Industrial Products sector are up 1.6% and 6.7% over the past year, respectively.

The S&P 500 index is up 20.7% in the past year.

The stock is currently trading at 12.64X forward 12-month earnings, which compares to 16.51X for the Zacks sub-industry, 18.26X for the Zacks sector and 19.30X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$70 price target reflects 13.33X Forward 12-month earnings per share.

| Valuation Multiples - AGCO | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 12.64 | 16.51 | 18.26 | 19.3 |
| | 5-Year High | 25.93 | 23.16 | 19.89 | 19.34 |
| | 5-Year Low | 10.99 | 11.88 | 12.6 | 15.18 |
| | 5-Year Median | 17.31 | 17.29 | 16.62 | 17.47 |
| P/S F12M | Current | 0.55 | 1.12 | 2.78 | 3.57 |
| | 5-Year High | 0.72 | 1.24 | 2.78 | 3.57 |
| | 5-Year Low | 0.41 | 0.76 | 1.51 | 2.54 |
| | 5-Year Median | 0.58 | 0.99 | 1.98 | 3 |
| EV/EBITDA TTM | Current | 6.92 | 11.1 | 17.09 | 12.31 |
| | 5-Year High | 11.45 | 13.39 | 17.42 | 12.85 |
| | 5-Year Low | 4.93 | 8.31 | 10.91 | 8.47 |
| | 5-Year Median | 8.03 | 10.71 | 14.72 | 10.7 |

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Bottom 23% (197 out of 255)



Top Peers

| | |
|-------------------------------------|--------------|
| Briggs & Stratton Corporation (BGG) | 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 |
| Deere & Company (DE) | Underperform |

| Industry Comparison Industry: Manufacturing - Farm Equipment | | | | Industry Peers | | |
|--|--------------|------------|-----------|----------------|-------------|-----------------|
| | AGCO Neutral | X Industry | S&P 500 | BGG Neutral | CAT Neutral | DE Underperform |
| VGM Score | A | - | - | F | B | B |
| Market Cap | 5.01 B | 651.35 M | 24.59 B | 132.11 M | 75.64 B | 51.92 B |
| # of Analysts | 7 | 3 | 13 | 2 | 11 | 10 |
| Dividend Yield | 0.96% | 0.88% | 1.78% | 6.43% | 3.01% | 1.84% |
| Value Score | A | - | - | D | B | C |
| Cash/Price | 0.09 | 0.10 | 0.04 | 0.30 | 0.11 | 0.08 |
| EV/EBITDA | 10.71 | 10.26 | 14.21 | 24.11 | 8.10 | 10.26 |
| PEG Ratio | 0.97 | 2.69 | 2.09 | NA | 1.50 | 3.90 |
| Price/Book (P/B) | 1.72 | 1.27 | 3.28 | 0.33 | 5.17 | 4.55 |
| Price/Cash Flow (P/CF) | 8.16 | 9.07 | 13.59 | 2.55 | 8.54 | 9.98 |
| P/E (F1) | 13.00 | 16.73 | 19.17 | 56.54 | 14.54 | 17.48 |
| Price/Sales (P/S) | 0.55 | 0.55 | 2.68 | 0.07 | 1.41 | 1.32 |
| Earnings Yield | 7.79% | 5.72% | 5.18% | 1.61% | 6.88% | 5.72% |
| Debt/Equity | 0.46 | 0.46 | 0.70 | 1.30 | 1.80 | 2.65 |
| Cash Flow (\$/share) | 8.13 | 1.23 | 6.93 | 1.22 | 16.03 | 16.53 |
| Growth Score | A | - | - | F | B | B |
| Hist. EPS Growth (3-5 yrs) | 8.15% | 8.15% | 10.84% | -10.11% | 27.28% | 12.82% |
| Proj. EPS Growth (F1/F0) | 16.41% | 7.87% | 7.00% | 117.19% | -14.89% | -5.08% |
| Curr. Cash Flow Growth | 2.32% | 2.32% | 7.81% | -54.98% | -6.65% | 4.09% |
| Hist. Cash Flow Growth (3-5 yrs) | -3.29% | -6.42% | 8.25% | -12.10% | 4.31% | 3.09% |
| Current Ratio | 1.29 | 2.00 | 1.24 | 1.63 | 1.47 | 2.04 |
| Debt/Capital | 31.56% | 32.82% | 42.37% | 56.61% | 64.24% | 72.60% |
| Net Margin | 1.38% | -0.58% | 11.69% | -3.30% | 11.32% | 8.29% |
| Return on Equity | 11.31% | -0.43% | 16.86% | -8.19% | 41.85% | 27.11% |
| Sales/Assets | 1.11 | 1.09 | 0.55 | 1.07 | 0.68 | 0.54 |
| Proj. Sales Growth (F1/F0) | 1.16% | 0.58% | 4.05% | -0.41% | -8.15% | -7.50% |
| Momentum Score | F | - | - | C | D | B |
| Daily Price Chg | -0.36% | -0.82% | 0.38% | -3.42% | 0.21% | -0.82% |
| 1 Week Price Chg | -0.13% | 0.37% | 1.65% | -2.37% | 3.46% | 0.37% |
| 4 Week Price Chg | -8.76% | -8.76% | 0.86% | -47.02% | -4.05% | -3.64% |
| 12 Week Price Chg | -15.97% | -7.90% | 4.56% | -44.96% | -6.06% | -2.44% |
| 52 Week Price Chg | 0.91% | 0.00% | 14.15% | -76.88% | -2.46% | 3.16% |
| 20 Day Average Volume | 509,856 | 259,672 | 1,989,235 | 1,894,318 | 3,158,067 | 1,379,623 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | -0.08% |
| (F1) EPS Est 4 week change | -3.08% | -1.58% | -0.03% | -72.95% | -12.00% | -0.08% |
| (F1) EPS Est 12 week change | -8.44% | -5.19% | -0.21% | -72.95% | -13.52% | -14.95% |
| (Q1) EPS Est Mthly Chg | -31.80% | -9.32% | -0.40% | -102.21% | -21.12% | 0.00% |

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 | A |
| Momentum Score | F |
| 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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