AGCO Corporation (AGCO)

$51.67 (As of 04/28/20)

Price Target (6-12 Months): **$44.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/31/20) Prior Recommendation: Neutral		**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)		**5-Strong Sell**
	Zacks Style Scores:		VGM:A
	Value: B	Growth: B	Momentum: B

Summary

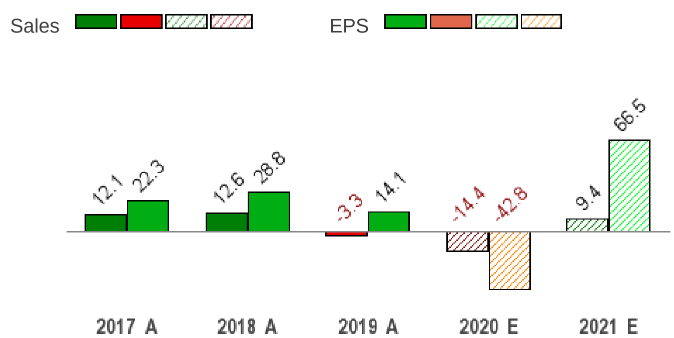
AGCO has withdrawn its financial guidance for the current year in the wake of coronavirus outbreak. Production has been halted in many of the company's European plants primarily due to shortage of material and supply chain constraints. Late harvest, trade dispute and lower crop production in North America have kept commodity prices under pressure. U.S farm sector in the current year will likely be impacted by low commodity prices, weak demand and concerns over coronavirus crisis. This will impact the company's revenues. 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. The company's earnings estimates for the current year have undergone downward revisions lately.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$81.39 - $35.33**
20 Day Average Volume (sh)	**589,100**
Market Cap	**$3.9 B**
YTD Price Change	**-33.1%**
Beta	**1.13**
Dividend / Div Yld	**$0.64 / 1.2%**
Industry	**Manufacturing - Farm Equipment**
Zacks Industry Rank	**Bottom 11% (225 out of 253)**
Last EPS Surprise	**-39.4%**
Last Sales Surprise	**-5.6%**
EPS F1 Est- 4 week change	**-26.1%**
Expected Report Date	**05/05/2020**
Earnings ESP	**-30.4%**
P/E TTM	**11.6**
P/E F1	**20.3**
PEG F1	**1.5**
P/S TTM	**0.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,855 E	1,961 E	1,999 E	2,650 E	8,466 E
2020	1,768 E	1,812 E	1,802 E	2,362 E	7,738 E
2019	1,996 A	2,423 A	2,109 A	2,514 A	9,041 A

EPS Estimates

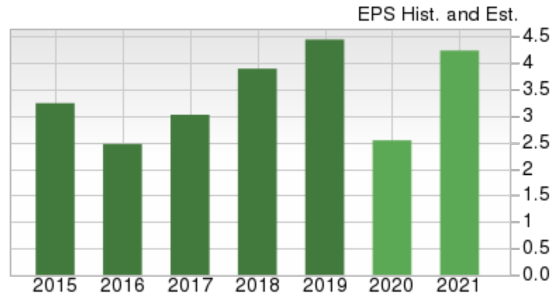
	Q1	Q2	Q3	Q4	Annual*
2021	$0.70 E	$1.34 E	$0.68 E	$1.42 E	$4.23 E
2020	$0.30 E	$0.44 E	$0.38 E	$0.90 E	$2.54 E
2019	$0.86 A	$1.82 A	$0.82 A	$0.94 A	$4.44 A

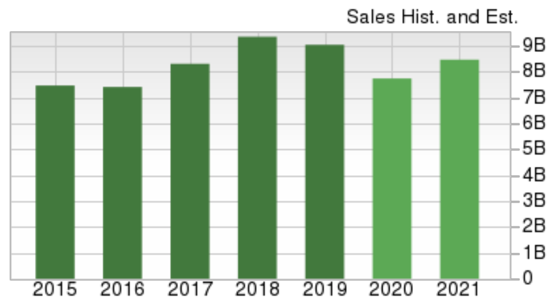
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/28/2020. The reports text is as of 04/29/2020.

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 Sell:

- AGCO has withdrawn its financial guidance in the wake of coronavirus outbreak. Production has been halted in many of the company's European plants owing to shortage of material and supply chain constraints.

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.

- 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. The U.S farm sector in the current year will remain challenged owing to weak demand and lower commodity prices due to the cronavirus pandemic. 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.

Risks

- 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. 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.

- The company is focused on reducing its debt levels and strengthen balance sheet. The company's total debt was around $1.3 billion in the fourth-quarter 2019. This has been lowered from $1.4 billion in the third quarter and $1.5 billion in the second quarter. Its debt-to-capital stands at 33.9%, lower than its industry's 78.9%. This favorable reading indicates that AGCO is not a very leveraged company. The company's times interest earned ratio was 14.1 in the fourth-quarter 2019, better than the industry's 3.8. This, along with the company's strong cash position further underscores AGCO's ability to meet debt obligations. 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.

Last Earnings Report

AGCO's Earnings & Revenues Trail Estimates in Q4

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

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.

Recent News

AGCO Withdraws Financial Guidance Amid Coronavirus - Mar 23, 2020

AGCO has withdrawn its financial guidance for the current year. Production has been suspended in many of the company's European facilities, primarily due to supply-chain constrains and material shortage. Additional production disruptions in other regions are expected as well.

Valuation

AGCO's shares are down 27% over the trailing 12-month period. Stocks in the Zacks Manufacturing - Farm Equipment industry and in the Zacks Industrial Products sector are down 17.5% and 20.1% over the past year, respectively.

The S&P 500 index is down 2.8% in the past year.

The stock is currently trading at 16.72X forward 12-month earnings, which compares to 18.33X for the Zacks sub-industry, 17.77X for the Zacks sector and 20.20X 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 17.30X.

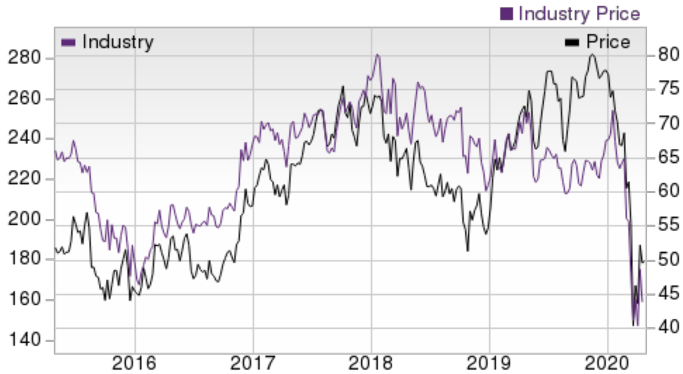
Our Underperform recommendation indicates that the stock will perform worse than the market. Our $44 price target reflects 14.24X Forward 12-month earnings per share.

Valuation Multiples -AGCO

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.72	18.33	17.77	20.2
	5-Year High	25.93	23.16	19.93	20.2
	5-Year Low	7.09	11.88	12.55	15.19
	5-Year Median	17.3	17.44	16.65	17.45
P/S F12M	Current	0.49	1.05	2.21	3.2
	5-Year High	0.72	1.24	2.72	3.44
	5-Year Low	0.3	0.76	1.52	2.54
	5-Year Median	0.58	1	1.99	3.01
EV/EBITDA TTM	Current	4.67	9.62	13.79	10.52
	5-Year High	11.45	13.39	17.37	12.87
	5-Year Low	3.64	8.66	10.71	8.27
	5-Year Median	7.95	10.69	14.68	10.78

As of 04/28/2020

Industry Analysis **Zacks Industry Rank:** Bottom 11% (225 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Briggs & Stratton Corporation **(BGG)**	Neutral	3
Deere & Company **(DE)**	Neutral	4
Eaton Corporation, PLC **(ETN)**	Neutral	4
Ingersoll Rand Inc. **(IR)**	Neutral	3
Lindsay Corporation **(LNN)**	Neutral	3
Parker-Hannifin Corporation **(PH)**	Neutral	4
Titan International, Inc. **(TWI)**	Neutral	4
Terex Corporation **(TEX)**	Underperform	3

Industry Comparison Industry: Manufacturing - Farm Equipment

	AGCO	X Industry	S&P 500	BGG	CAT	DE
				Industry Peers		
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	5	-	-	3	5	4
VGM Score	A	-	-	F	C	F
Market Cap	3.88 B	555.71 M	20.14 B	81.13 M	63.51 B	44.40 B
# of Analysts	7	3	14	2	10	8
Dividend Yield	1.24%	1.24%	2.13%	10.47%	3.57%	2.15%
Value Score	B	-	-	D	C	F
Cash/Price	0.12	0.12	0.06	0.56	0.13	0.10
EV/EBITDA	6.56	9.33	12.15	22.10	7.05	9.33
PEG Ratio	1.58	3.33	2.43	NA	1.92	4.33
Price/Book (P/B)	1.34	1.05	2.68	0.20	4.34	3.72
Price/Cash Flow (P/CF)	4.94	8.54	10.78	1.56	7.17	8.57
P/E (F1)	21.13	20.35	19.06	NA	18.57	21.63
Price/Sales (P/S)	0.43	0.46	2.12	0.04	1.25	1.14
Earnings Yield	4.92%	4.62%	5.11%	-6.81%	5.39%	4.62%
Debt/Equity	0.46	0.51	0.72	1.30	1.80	2.55
Cash Flow ($/share)	10.47	1.22	7.01	1.22	16.10	16.53
Growth Score	B	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	8.15%	8.15%	10.88%	-10.11%	27.28%	16.20%
Proj. EPS Growth (F1/F0)	-42.82%	-33.63%	-6.33%	60.94%	-43.77%	-34.17%
Curr. Cash Flow Growth	31.75%	-16.08%	5.92%	-54.98%	-6.65%	4.09%
Hist. Cash Flow Growth (3-5 yrs)	1.73%	-12.10%	8.55%	-12.10%	4.31%	3.09%
Current Ratio	1.29	1.77	1.23	1.63	1.47	2.12
Debt/Capital	31.56%	38.27%	43.90%	56.61%	64.24%	71.88%
Net Margin	1.38%	-0.96%	11.13%	-3.30%	10.41%	8.41%
Return on Equity	11.31%	0.52%	16.47%	-8.19%	36.78%	26.92%
Sales/Assets	1.11	1.09	0.55	1.07	0.65	0.53
Proj. Sales Growth (F1/F0)	-14.41%	-0.91%	-1.35%	-1.82%	-21.79%	-19.69%
Momentum Score	B	-	-	B	C	B
Daily Price Chg	1.83%	0.09%	1.10%	-3.54%	0.23%	1.33%
1 Week Price Chg	0.53%	0.12%	-1.74%	-7.77%	-1.94%	0.12%
4 Week Price Chg	9.35%	2.46%	11.80%	5.52%	-0.50%	2.46%
12 Week Price Chg	-28.90%	-28.90%	-17.28%	-45.58%	-13.52%	-13.91%
52 Week Price Chg	-27.00%	-27.00%	-10.69%	-84.34%	-17.19%	-14.53%
20 Day Average Volume	589,100	589,100	2,660,864	1,094,692	5,413,283	1,923,300
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-4.16%	0.00%
(F1) EPS Est 4 week change	-26.05%	0.00%	-6.46%	0.00%	-18.31%	-14.97%
(F1) EPS Est 12 week change	-51.85%	-30.05%	-12.81%	-161.48%	-41.09%	-30.05%
(Q1) EPS Est Mthly Chg	-52.09%	0.00%	-10.84%	0.00%	-39.60%	-10.72%

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	B
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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