

AGCO Corporation (AGCO)

\$57.71 (As of 05/28/20)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: D

Summary

AGCO's first-quarter 2020 earnings and revenues beat the respective Zacks Consensus Estimates. While sales declined, earnings remained flat year over year. The company has withdrawn the current-year financial guidance in the wake of the coronavirus outbreak. Factory shutdowns across the company's facilities due to shortage of material and supply-chain constraints are likely to impact AGCO's performance in the second quarter. Further, low commodity prices, weak demand and concerns over the coronavirus crisis might hurt AGCO's top line results in the quarter. However, improved farm income, stabilization of U.S farm sector and increasing replacement demand for parts and services will drive AGCO's near-term results. The company's investments in technology, products and cost-control initiatives will also stoke growth.

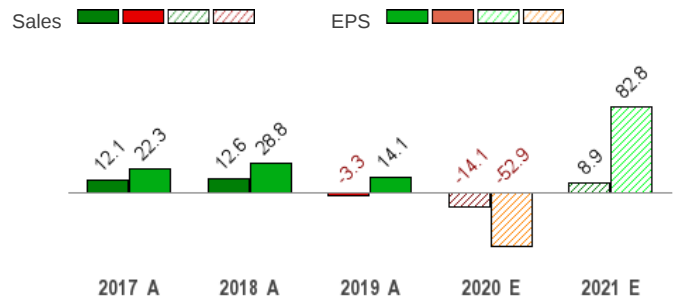
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.39 - \$35.33
20 Day Average Volume (sh)	542,302
Market Cap	\$4.3 B
YTD Price Change	-25.3%
Beta	1.10
Dividend / Div Yld	\$0.64 / 1.1%
Industry	Manufacturing - Farm Equipment
Zacks Industry Rank	Top 35% (88 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	186.7%
Last Sales Surprise	9.1%
EPS F1 Est- 4 week change	-17.5%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	13.0
P/E F1	27.6
PEG F1	2.1
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,080 E	2,010 E	2,143 E	2,608 E	8,461 E
2020	1,928 A	1,685 E	1,802 E	2,352 E	7,768 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	\$1.19 E	\$0.90 E	\$1.04 E	\$1.39 E	\$3.82 E
2020	\$0.86 A	\$0.03 E	\$0.46 E	\$0.89 E	\$2.09 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 05/28/2020. The reports text is as of 05/29/2020.

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.

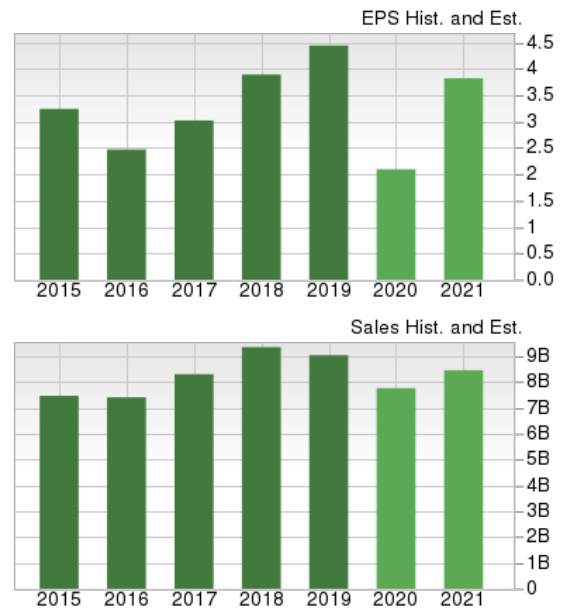
AGCO manufactures and sells combines with a variety of threshing technologies and complemented by a variety of crop-harvesting heads; which are utilized in harvesting grain crops such as corn, wheat, soybeans and rice.

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 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, the recently-announced \$16-billion COVID-19 Aid Package by the USDA for U.S. farmers and livestock producers is likely to offset some of the impact of lower commodity prices.
- ▲ Farmers are continuing to run their operations and intensive utilization of their equipment is bolstering the replacement demand for parts and equipment. In North America, replacement demand for aged fleet is influencing farm-equipment demand. Currently, equipment demand remains solid in key markets such as France and Germany. Stronger grain export demand and supportive wheat prices project to favorable farm economics for Western European farmers. Benefit of a robust first crop in Brazil and Argentina as well as favorable-exchange rates are supporting relatively positive economics in South America. 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.
- ▲ All of the company's major facilities in Asia and Europe are now operational, with the exception of the Valtra plant in Suolahti, Finland, which was damaged in a fire mid-April. AGCO expects the plant to reopen in June. The North American facilities were open throughout the crisis. The South America plants have also reopened after being interrupted by component-supply issues. In order to minimize the adverse impact of the pandemic-related crisis, the company is running its factories with component availability, while remaining focused on continuing its supply chain, manufacturing and parts-distribution operations. In fact, the company is supporting retail activity across global markets. Moreover, AGCO Agriculture Foundation is allocating its 2020 budget to support local and global efforts to help lower the impact of the coronavirus on vulnerable communities. AGCO is committed to serving after-market demand and providing proactive support for customers and dealers.
- ▲ AGCO continues to invest in products and technology 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 is focused on reducing its debt levels and strengthen balance sheet. On Apr 9, AGCO completed a new term loan facility that provided additional liquidity of approximately \$520 million. As of Mar 31, 2020, AGCO's total liquidity stands at \$1.2 billion, consisting cash of \$387 million and available borrowing capacity of about \$820 million. Its total debt to total capital stands at 42.4%, lower than its industry's 78.2%. The company's times interest earned ratio was 14.7 in first-quarter 2020, better than the industry's 3.7. 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.

Reasons To Sell:

- ▼ AGCO has withdrawn its financial guidance for the current year given the uncertainties related to the industry demand and production constraints on account of the coronavirus outbreak. Production has been significantly reduced or suspended in most of the company's Asian, European and South America facilities, primarily due to material shortages in the supply chain. Though the company's affected plants have resumed production in late April, the ability to maintain full-time production remains uncertain for the foreseeable future due to supply-chain constraints, workforce limitations, safety-equipment availability and government restrictions. The factory shutdown is likely to significantly affect second-quarter sales and earnings performance, while adverse impact of the COVID-19 pandemic will suppress demand in the current year.
- ▼ The coronavirus pandemic is expected to have minimal impact on global crop production. The 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 increase in the current year, which will lower commodity prices. Dry weather across most of Western Europe is thwarting the development of the winter wheat crop, limiting production estimates. Further, European dairy is witnessing lower milk prices as demand is being hurt by the pandemic, while strong pork exports are supporting pork prices. In South America, farmers are exhibiting a cautious approach to equipment purchases due to the current economic and political environment.
- ▼ In North America, farmers have been slowing investments given a weak profitability outlook stemming from low crop prices and a significant decline in ethanol demand. The protein production segment is expected to be adversely impacted by the pandemic, particularly in North America, with nearly half of pork-processing capacity in the United States currently on suspension. 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 coronavirus pandemic. This is likely to impact AGCO's revenues. Further, the coronavirus outbreak 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.

AGCO's performance will be affected by factory shutdowns and weak demand due to the coronavirus outbreak. Reduced market outlook for the North and South America segment will also impact results.

Last Earnings Report

AGCO Corp's Earnings & Revenues Trump Estimates in Q1

AGCO reported first-quarter 2020 adjusted earnings per share of 86 cents, flat year over year. The figure, however, beat the Zacks Consensus Estimate of 30 cents, reflecting a positive earnings surprise of 186.6%.

Including one-time items, the company reported net income of 85 cents per share in the first quarter compared with the 84 cents recorded in the prior-year quarter.

Revenues declined 3.4% year over year to \$1,928 million due to production disruptions caused by the coronavirus outbreak. However, the figure beat the Zacks Consensus Estimate of \$1,768 million. Excluding unfavorable currency-translation impact of 3.6%, net sales inched up 0.2% year over year.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	9.09%
EPS Surprise	186.67%
Quarterly EPS	0.86
Annual EPS (TTM)	4.44

Operational Update

Cost of sales dropped 4% to \$1,478 million in the first quarter from the year-earlier period. Gross profit edged down 1.3% to \$451 million in the March-end quarter from the \$457 million recorded in the year-ago period. Gross margin came in at 23.3% for the January-March quarter compared with the prior-year quarter's 22.8%.

Selling, general and administrative expenses slid to \$248 million from the prior-year quarter's \$262 million. Adjusted income from operations increased 7.4% year over year to \$101 million. Consequently, operating margin came in at 5.2% compared with the year-earlier quarter's 4.7%.

Segment Performance

Sales in the North America segment climbed 11.2% year over year to \$552 million during the January-March period. The segment reported operating income of \$61 million compared with the prior-year quarter's \$31 million.

Sales in the South America segment were down 1.4% year over year to \$154 million. The segment reported an operating loss of \$8.8 million compared with the prior-year quarter's \$8.5 million.

The EME (Europe/Middle East) segment's sales came in at \$1,113 million compared with the \$1,211 million recorded in the year-ago period. The EME's operating income slipped 20.3% year over year to \$102 million.

Sales in the Asia/Pacific segment were down 17.8% year over year to \$109 million. The segment reported operating loss of \$1.3 million, as against the year-ago quarter's operating profit of \$3.4 million.

Financial Update

AGCO reported cash and cash equivalents of \$387 million as of Mar 31, 2020, down from the \$433 million recorded as of Dec 31, 2019. The company utilized \$435.3 million of cash in operating activities during the three-month period ended Mar 31, 2020, compared with the \$329.9 million reported in the prior-year period.

On Apr 9, AGCO completed a new term loan facility that provided additional liquidity of approximately \$520 million.

Guidance

Given the uncertainty related to the industry demand and production constraints on account of the coronavirus outbreak, AGCO has withdrawn its financial guidance for the current year. However, the company continues to support retail sales activity in its global markets.

Replacement demand for aged fleet, lower commodity prices and a cautious farmer sentiment are influencing farm-equipment demand. Recently, the USDA announced a \$16-billion COVID-19 Aid Package for U.S. farmers and livestock, which is likely to offset the negative impact of lower commodity prices to some extent.

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 constraints and material shortage. Additional production disruptions in other regions are expected as well.

Valuation

AGCO's shares are down 25.9% in the year-to-date period and down 15.9% over the trailing 12-month period. Stocks in the Zacks Manufacturing - Farm Equipment industry and Zacks Industrial Products sector are down 13.4% and 14.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 4.6% and down 4.2%, respectively.

The S&P 500 index is down 5.9% in the year-to-date while up 8.4% in the past year.

The stock is currently trading at 20.62X forward 12-month earnings, which compares to 22.09X for the Zacks sub-industry, 20.98X for the Zacks sector and 22.02X for the S&P 500 index.

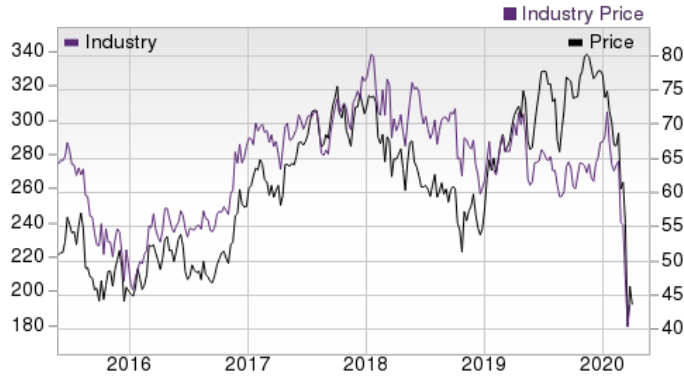
Over the past five years, the stock has traded as high as 25.93X and as low as 7.09X, with a 5-year median of 17.27X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$61 price target reflects 21.79X Forward 12-month earnings per share.

Valuation Multiples - AGCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.62	22.09	20.98	22.02
	5-Year High	25.93	23.16	20.98	22.02
	5-Year Low	7.09	11.88	12.55	15.23
	5-Year Median	17.27	17.51	16.66	17.49
P/S F12M	Current	0.54	1.13	2.67	3.42
	5-Year High	0.72	1.24	2.73	3.44
	5-Year Low	0.3	0.76	1.52	2.53
	5-Year Median	0.58	1	2	3.01
EV/EBITDA TTM	Current	5.57	10.13	15.68	11.21
	5-Year High	11.45	13.39	17.42	12.86
	5-Year Low	3.64	8.66	10.72	8.26
	5-Year Median	7.95	10.69	14.79	10.8

As of 05/28/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
BriggsStratton Corporation (BGG)	Neutral	3
DeereCompany (DE)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Ingersoll Rand Inc. (IR)	Neutral	3
Lindsay Corporation (LNN)	Neutral	3
ParkerHannifin Corporation (PH)	Neutral	3
Terex Corporation (TEX)	Neutral	3
Titan International, Inc. (TWI)	Neutral	2

Industry Comparison Industry: Manufacturing - Farm Equipment				Industry Peers		
	AGCO	X Industry	S&P 500	BGG	CAT	DE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	D	-	-	C	B	B
Market Cap	4.32 B	553.31 M	21.49 B	75.14 M	65.35 B	48.03 B
# of Analysts	7	3	14	3	10	9
Dividend Yield	1.11%	0.50%	1.98%	0.00%	3.41%	1.98%
Value Score	D	-	-	C	B	B
Cash/Price	0.10	0.12	0.06	0.65	0.12	0.22
EV/EBITDA	7.87	7.87	12.50	4.77	7.14	9.62
PEG Ratio	1.93	3.19	2.87	NA	2.02	3.69
Price/Book (P/B)	1.61	1.17	2.95	0.31	4.59	4.05
Price/Cash Flow (P/CF)	5.51	9.13	11.81	1.45	7.50	9.27
P/E (F1)	25.89	25.80	21.33	NA	24.19	25.80
Price/Sales (P/S)	0.48	0.61	2.28	0.04	1.28	1.30
Earnings Yield	3.62%	3.62%	4.50%	-99.44%	4.13%	3.88%
Debt/Equity	0.67	0.51	0.76	0.38	1.71	2.89
Cash Flow (\$/share)	10.47	1.22	6.96	1.22	16.10	16.53
Growth Score	D	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	11.29%	11.29%	10.87%	-11.80%	30.62%	17.88%
Proj. EPS Growth (F1/F0)	-52.83%	-40.36%	-10.48%	-450.00%	-54.87%	-40.29%
Curr. Cash Flow Growth	31.75%	-16.08%	5.39%	-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	1.49	1.77	1.29	0.91	1.42	2.20
Debt/Capital	40.22%	37.02%	44.54%	27.34%	63.12%	74.31%
Net Margin	1.39%	-1.93%	10.59%	-12.50%	10.41%	7.62%
Return on Equity	11.59%	-0.68%	16.26%	-16.48%	37.15%	23.01%
Sales/Assets	1.12	1.07	0.55	1.01	0.65	0.50
Proj. Sales Growth (F1/F0)	-14.09%	-7.04%	-2.53%	-14.69%	-24.07%	-19.33%
Momentum Score	D	-	-	F	B	D
Daily Price Chg	-0.72%	-2.04%	-0.65%	-7.33%	-1.37%	-0.13%
1 Week Price Chg	13.36%	8.35%	4.99%	1.26%	4.22%	11.67%
4 Week Price Chg	9.22%	5.58%	4.28%	-22.03%	3.75%	5.58%
12 Week Price Chg	-5.35%	-4.48%	-3.05%	-40.60%	-1.01%	-3.72%
52 Week Price Chg	-14.45%	-13.80%	0.01%	-81.79%	-0.90%	8.10%
20 Day Average Volume	542,302	542,302	2,425,602	1,825,157	4,024,722	1,834,165
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-2.59%
(F1) EPS Est 4 week change	-17.50%	-10.14%	-1.70%	-1,308.00%	-10.89%	-10.14%
(F1) EPS Est 12 week change	-59.02%	-38.43%	-16.00%	-3,300.00%	-46.97%	-38.36%
(Q1) EPS Est Mthly Chg	-92.74%	-20.69%	-3.25%	-185.02%	-1.77%	0.90%

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	D
Growth Score	D
Momentum Score	D
VGM Score	D

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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