

## Autoliv, Inc.(ALV)

**\$70.79** (As of 06/08/20)

Price Target (6-12 Months): **\$74.00**

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:A

Value: A

Growth: A

Momentum: D

## Summary

Autoliv's regular launch of innovative products is likely to boost its long term prospects. However, the firm expects Q2 results to be hit by weak global light vehicle production and factory closures by automakers. Nonetheless, Autoliv's aftermarket products are less cyclical and are expected to recover faster to the pre-crisis level. Moreover, the firm has undertaken several measures to conserve cash to sail through coronavirus-induced crisis. Tightening of capex and suspension of other discretionary spending has been enforced in a bid to preserve financial flexibility. However, launch-related costs, currency volatility, RD&E expenses and rising debt levels are causes of concern. The above factors account for the cautious stance on the stock.

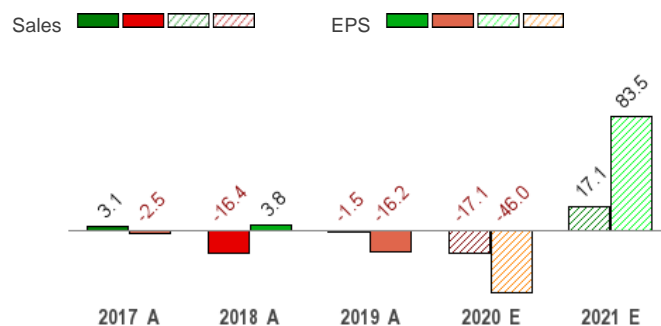
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$87.01 - \$38.16
20 Day Average Volume (sh)	479,203
Market Cap	\$6.2 B
YTD Price Change	-16.1%
Beta	1.82
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Automotive - Original Equipment</a>
Zacks Industry Rank	Bottom 39% (153 out of 252)

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



Last EPS Surprise	51.7%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	-2.6%
Expected Report Date	07/17/2020
Earnings ESP	0.0%
P/E TTM	13.1
P/E F1	22.9
PEG F1	2.9
P/S TTM	0.8

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,068 E	2,098 E	2,075 E	2,271 E	8,292 E
2020	1,846 A	1,165 E	1,860 E	2,231 E	7,083 E
2019	2,174 A	2,155 A	2,028 A	2,192 A	8,548 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.31 E	\$1.49 E	\$1.26 E	\$1.84 E	\$5.67 E
2020	\$0.88 A	\$0.28 E	\$0.99 E	\$1.83 E	\$3.09 E
2019	\$1.20 A	\$1.38 A	\$1.30 A	\$1.84 A	\$5.72 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 06/08/2020. The reports text is as of 06/09/2020.

## Overview

Autoliv Inc., based in Stockholm, Sweden, is a holding company that operates through two principal subsidiaries — Autoliv AB and Autoliv ASP. In 1997, it was formed from the merger of Autoliv AB and the automotive safety products business of Morton International, Inc.

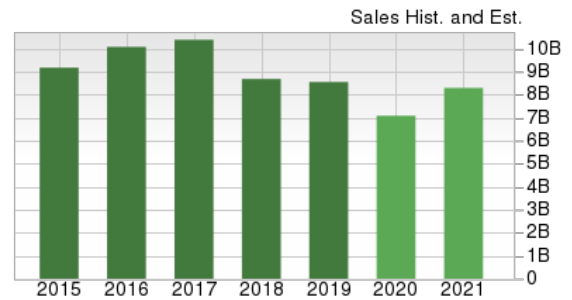
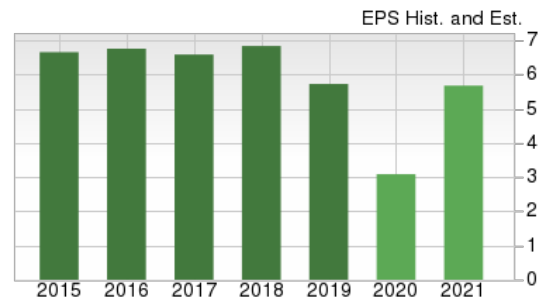
The company develops, manufactures and markets a wide range of automotive safety systems, which majorly includes passive safety systems. Systems offered by Autoliv include modules and components for frontal-impact airbag protection systems, side-impact airbag protection systems, seatbelts, steering wheels, inflator technologies, battery cable cutters, pedestrian protection systems and child seats.

Beside joint venture operations, the company has 58,000 employees at 64 production hubs in 25 countries. The facilities consist of component hubs and assembly factories. Autoliv's business is conducted in five geographical regions, which includes Europe, the Americas, China, Japan and the Rest of Asia (ROA). Its customers include Mitsubishi Motors Corporation, Nissan Motor Company, Renault S.A., Ford Motor Company, Volkswagen A.G., Hyundai, Daimler AG, General Motors Company and Fiat Chrysler Automobiles N.V., among others.

Of the total annual sales of \$8.5 billion in 2019, roughly 66% consisted of airbag and steering wheel product sales, and the rest 34% are from seatbelt products.

On Jun 29, 2018, Autoliv completed the spin-off of its Electronics business to Veoneer, Inc. Following the completion of the spin-off, the company is focused on occupant safety products. The total cost of separation in 2017 and 2018, including tax effects, amounted roughly \$105 million.

Autoliv also engages in joint ventures to expand geographical expansion, develop technology and gain support to market its full product line to vehicle manufacturers.



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## Reasons To Buy:

- ▲ Autoliv has undertaken several measures to conserve cash to sail through coronavirus-induced uncertainty and financial crisis. The company's executive officers and non-employee board members have agreed to take pay cuts to combat the crisis. Capex reduction and suspension of other discretionary spending have been enforced in a bid to preserve financial flexibility. The firm has already withdrawn \$1.1 billion of cash from the revolving credit facility. These measures to preserve cash are likely to provide some respite.
- ▲ Autoliv regularly launches innovative products to bolster sales. The company has also received many awards for the same. Additionally, in order to increase organic growth, the company is ramping up its product launch targets, which boosts its long term prospects. The company expects to witness strong growth coming from front center airbags.
- ▲ Autoliv has seen significant recovery in demand and production in China since restarting in mid-February. All of its plants in China are now operating at normal levels. Per, China Passenger Car Association, retail sales in the country have started to witness growth since April. Ramp-up in the China market may offset lost revenues from American and European markets.
- ▲ While company's near-term results will be affected by the pandemic, Autoliv's aftermarket sales exposure is likely to recover faster. Most of its revenues primarily come from products like airbags and seatbelts, which need to be replaced every time a vehicle gets into a car crash. Unlike cars, Autoliv's products cannot be deferred in purchase, and as witnessed in the previous economic crises, the sales related to aftermarket products recovered rapidly to pre-crisis levels.

Autoliv is likely to benefit from cost reduction initiatives and product launches.

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## Reasons To Sell:

- ▼ The coronavirus pandemic has crippled the auto industry and will lead to decline in sales of the automotive supplier, going forward. The COVID-19 pandemic has impacted Autoliv's customers in the United States, China and Europe, leading to temporary plant closures and cut in production levels, in line with the nation-wide campaign addressing the crisis. Per IHS Markit, global light vehicle production declined around 24% year over year during first-quarter 2020, in turn denting the firm's earnings and sales. Amid the coronavirus-led uncertainty, Autoliv has suspended its quarterly dividends and annual view.
- ▼ The firm expects to take a bigger hit in the second quarter on the back of factory closures by automakers. IHS Markit expects second-quarter light vehicle production to decline 45% in second-quarter 2020. Amid the gloomy scenario, Autoliv anticipates a sharp decline in earnings and sales, in the upcoming quarter.
- ▼ For 2020, Autoliv expects light-vehicle markets to witness slump due to softening consumer confidence, trade tariffs, COVID-19 impact and regulatory changes. Global vehicle production and sales are expected to be weak across major key markets including The United States and Europe in 2020, which does not bode well for automotive suppliers like Autoliv. The global light vehicle production is expected to decline going forward due to the impact from the strict CO2 emissions limits in Europe.
- ▼ Rising debt level of the Autoliv also plays a spoilsport and restricts the financial flexibility of the firm. As of Mar 31, 2020, its long-term debt increased to \$2,209 million from \$1,726 million recorded in the prior quarter. Further, the company's gross margin is under strain primarily due to high raw material and the trend is expected to continue. Launch-related costs, currency volatility, RD&E expenses, lower capacity utilization of supply-chain production and logistic systems are other headwinds. Product introductions are expected to keep costs at high levels, going forward. Also, as the market for active safety products is fragmented, competition is rife.

The firm expects to take a bigger hit in the second quarter on the back of factory closures by automakers amid coronavirus.

## Last Earnings Report

### Autoliv Q1 Earnings & Sales Decline Y/Y

Autoliv reported adjusted earnings of 88 cents per share in first-quarter 2020, beating the Zacks Consensus Estimate of 58 cents. However, the bottom line decreased from the prior-year figure of \$1.20 per share. Per IHS Markit, global light vehicle production declined around 24% year over year during first-quarter 2020, in turn denting the firm's earnings and sales.

The company reported net sales of \$1,846 million in the quarter, down from the prior-year figure of \$2,174 million. However, the figure beat the Zacks Consensus Estimate of \$1,795 million.

Adjusted operating income fell 18% year over year to \$136 million. Adjusted operating margin from continuing operations was 7.4% in the reported quarter, lower than the prior-year quarter's 8%.

### Segmental Performance

Sales in the Airbags and Associated Products segment totaled \$1,202.2 million, lagging the Zacks Consensus Estimate of \$1,448 million. Moreover, revenues from the segment were down around 17% year over year. Revenues were impacted by headwinds in the form of lower inflator revenues and bleak sales of inflatable curtains, steering wheels, driver airbags, and side airbags.

Sales in the Seatbelts and Associated Products segment totaled \$643.6 million, down 11.4% from the prior-year quarter. The figure also missed the consensus mark of \$726 million. Weaker revenues from China, Europe and India negatively impacted its performance.

### Financial Position

Autoliv had cash and cash equivalents of \$907.2 million as of Mar 31, 2020. Long-term debt was \$2.2 billion, increasing from \$1.7 billion as of Dec 31, 2019. Long-term debt-to-capital ratio stands at 52%. Net capital expenditure increased to \$118 million from the year-ago figure of \$108 million.

### Cost-Cut Measures Amid COVID-19

The company has undertaken several measures to conserve cash to sail through coronavirus-induced uncertainty and financial crisis. It has canceled its quarterly dividend scheduled for Jun 4 and suspended future dividends until further notice. Capex reduction and suspension of other discretionary spending have been enforced in a bid to preserve financial flexibility. As we know, the firm has already withdrawn \$1.1 billion of cash from the revolving credit facility.

The company's executive officers and non-employee board members have agreed to take pay cuts to combat the crisis. While the executive officers have reduced their base salaries by 20% for second-quarter 2020, the non-employee board members have decreased their annual base retainer by 20% for the same period.

### Annual View Revoked, Q2 to be Tougher

Autoliv has withdrawn its 2020 guidance amid uncertainty surrounding the market. Further, the firm expects to take a bigger hit in the second quarter on the back of factory closures by automakers. IHS Markit expects second-quarter light vehicle production to decline 45% in second-quarter 2020. Amid the gloomy scenario, Autoliv anticipates a sharp decline in earnings and sales, going forward.

Quarter Ending **03/2020**

Report Date	<b>Apr 24, 2020</b>
Sales Surprise	<b>2.85%</b>
EPS Surprise	<b>51.72%</b>
Quarterly EPS	<b>0.88</b>
Annual EPS (TTM)	<b>5.40</b>

## Valuation

Autoliv's shares are down 16.1% and up 2.9% in the year-to-date period and over the trailing 12 months, respectively. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are down 6.3% and up 7.1%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 0.4% and up 21.5%, respectively.

The S&P 500 index is up 0.2% in the year-to-date period and 11.8% in the past year.

The stock is currently trading at 16.78X forward 12-month earnings, which compares to 27.76X for the Zacks sub-industry, 25.83X for the Zacks sector and 23.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.15X and as low as 6.37X, with a 5-year median of 15.25X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$74 price target reflects 17.5X F12M earnings per share.

The table below shows summary valuation data for ALV:

Valuation Multiples - ALV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.78	27.76	25.83	23.35
	5-Year High	21.15	27.76	25.83	23.35
	5-Year Low	6.37	8.36	8.2	15.23
	5-Year Median	15.25	11.41	9.9	17.49
EV/EBITDA TTM	Current	7.35	5.76	11.1	11.97
	5-Year High	10.5	8.44	11.3	12.85
	5-Year Low	4.77	3.96	6.94	8.25
	5-Year Median	7.85	6.33	9.25	10.81
P/S F12M	Current	0.81	0.72	0.8	3.63
	5-Year High	1.18	0.78	0.8	3.63
	5-Year Low	0.4	0.44	0.49	2.53
	5-Year Median	0.88	0.61	0.61	3.02

As of 06/08/2020

## Industry Analysis Zacks Industry Rank: Bottom 39% (153 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
American AxleManufacturing Holdings, Inc. (AXL)	Neutral	3
Dana Incorporated (DAN)	Neutral	3
BRP Inc. (DOOO)	Neutral	2
Meritor, Inc. (MTOR)	Neutral	3
Navistar International Corporation (NAV)	Neutral	3
Oshkosh Corporation (OSK)	Neutral	3
Ferrari N.V. (RACE)	Neutral	4
BorgWarner Inc. (BWA)	Underperform	5

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	ALV	X Industry	S&P 500	AXL	CTTAY	DLPH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	C	D	D
Market Cap	6.18 B	812.07 M	23.56 B	1.04 B	22.25 B	1.32 B
# of Analysts	6	3	14	5	3	6
Dividend Yield	0.00%	0.00%	1.8%	0.00%	3.34%	0.00%
Value Score	A	-	-	F	B	B
Cash/Price	0.15	0.20	0.06	0.69	0.14	0.47
EV/EBITDA	7.11	5.69	13.19	17.50	4.07	7.25
PEG Ratio	2.87	3.78	3.18	NA	NA	NA
Price/Book (P/B)	3.02	1.37	3.19	2.66	1.30	3.60
Price/Cash Flow (P/CF)	7.26	4.94	12.52	1.44	4.94	3.12
P/E (F1)	22.39	27.42	23.31	NA	3,337.50	NA
Price/Sales (P/S)	0.75	0.43	2.51	0.17	0.46	0.32
Earnings Yield	4.37%	2.00%	4.15%	-19.74%	0.00%	-0.07%
Debt/Equity	1.14	0.42	0.76	8.95	0.21	5.29
Cash Flow (\$/share)	9.74	3.46	7.01	6.39	2.25	4.91
Growth Score	A	-	-	A	D	D
Hist. EPS Growth (3-5 yrs)	-3.48%	9.09%	10.87%	-9.73%	NA	NA
Proj. EPS Growth (F1/F0)	-46.07%	-57.75%	-10.76%	-212.59%	100.48%	-100.27%
Curr. Cash Flow Growth	-14.39%	-4.87%	5.48%	-19.99%	-25.32%	-28.18%
Hist. Cash Flow Growth (3-5 yrs)	-0.08%	4.57%	8.55%	13.70%	-2.16%	NA
Current Ratio	1.49	1.56	1.29	1.68	1.08	1.67
Debt/Capital	53.19%	41.77%	44.75%	89.95%	17.25%	84.09%
Net Margin	5.17%	1.92%	10.59%	-16.69%	-3.45%	-1.35%
Return on Equity	22.98%	12.25%	16.26%	15.33%	-9.13%	37.95%
Sales/Assets	1.21	1.26	0.55	0.89	1.02	1.07
Proj. Sales Growth (F1/F0)	-17.15%	-15.44%	-2.62%	-32.65%	-17.60%	-22.38%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	1.27%	1.02%	1.55%	5.37%	0.59%	0.72%
1 Week Price Chg	9.94%	11.73%	7.51%	23.07%	12.28%	18.09%
4 Week Price Chg	17.01%	23.73%	15.61%	64.06%	31.66%	29.72%
12 Week Price Chg	49.47%	47.34%	38.10%	114.42%	71.15%	60.76%
52 Week Price Chg	2.97%	-1.54%	3.66%	-19.83%	-21.38%	-16.88%
20 Day Average Volume	479,203	210,573	2,648,536	2,731,298	235,752	3,208,391
(F1) EPS Est 1 week change	-2.63%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.63%	-1.01%	0.00%	-1.29%	-94.12%	-107.84%
(F1) EPS Est 12 week change	-50.94%	-67.03%	-15.97%	-210.63%	-99.65%	-100.33%
(Q1) EPS Est Mthly Chg	0.00%	-7.69%	0.00%	-33.62%	NA	-24.74%

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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	A
Growth Score	A
Momentum Score	D
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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