

Autoliv, Inc.(ALV)

\$79.29 (As of 01/10/20)

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

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 09/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Autoliv's innovative product launches are likely to bolster the firm's sales. Autoliv's order intake is supporting its growth opportunities. Further, the firm is employing continuous improvement activities to recover productivity and reduce costs. In sync with this, it is working on redesigning of its production line. It envisions achieving its 2020 target of more than \$10 billion in sales and approximately 13% adjusted operating margin. However, Autoliv expects light-vehicle markets to witness slump due to softening consumer confidence, trade tariffs and regulatory changes. For 2019, Autoliv's organic sales growth is projected at around 1%, down from the prior estimate of 1-3%. Consolidated sales growth is expected to be around negative 2%. The elevated leverage is also a matter of concern.

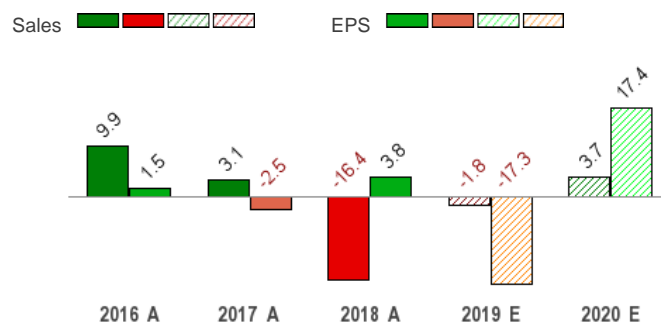
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.01 - \$61.07
20 Day Average Volume (sh)	268,139
Market Cap	\$6.9 B
YTD Price Change	-6.1%
Beta	1.50
Dividend / Div Yld	\$2.48 / 3.1%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 11% (225 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.8%
Last Sales Surprise	-3.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/28/2020
Earnings ESP	0.0%
P/E TTM	15.0
P/E F1	12.0
PEG F1	1.5
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,199 E	2,229 E	2,073 E	2,267 E	8,840 E
2019	2,174 A	2,155 A	2,028 A	2,163 E	8,523 E
2018	2,813 A	2,212 A	2,033 A	2,193 A	8,678 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.46 E	\$1.63 E	\$1.53 E	\$2.01 E	\$6.63 E
2019	\$1.20 A	\$1.38 A	\$1.30 A	\$1.79 E	\$5.65 E
2018	\$1.66 A	\$2.22 A	\$1.35 A	\$1.42 A	\$6.83 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 01/10/2020. The reports text is as of 01/13/2020.

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.

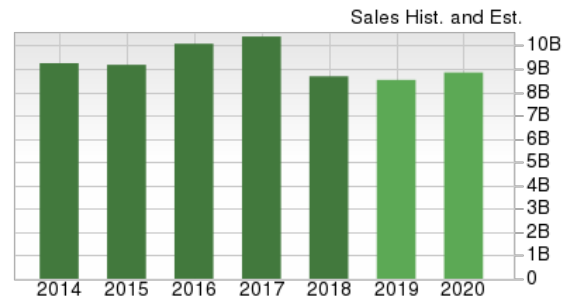
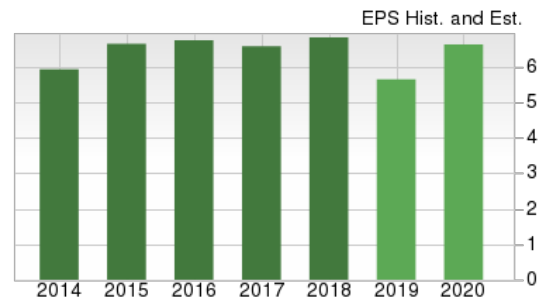
The company develops, manufactures and markets a wide range of automotive safety systems, which majorly includes passive safety systems. Systems offered by Autoliv include modules and components for frontal-impact airbag protection systems, side-impact airbag protection systems, seatbelts, steering wheels,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

In 2018, Autoliv's consolidated subsidiaries manufactured 151 million complete seatbelt systems, roughly 99 million side airbags, 56 million frontal airbags and 20 million steering wheels. Of the total annual sales of \$8.7 billion, roughly 66% consisted of airbag and steering wheel product sales, and the rest 34% are from seatbelt products. Last year, the company's sales increased 2.7% to \$8.1 billion and operating income was \$860 million.

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.



Reasons To Buy:

- ▲ 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.
- ▲ Autoliv's order intake grew continuously, supporting its growth opportunities. It booked around 50% of the available order value in 2018, which marked the fourth consecutive year of booking around or more than 50% of available order value. Further, Autoliv is employing continuous improvement activities to recover productivity and reduce costs. In sync with this, it is working on redesigning of its production line. It envisions achieving its 2020 target of more than \$10 billion in sales and approximately 13% adjusted operating margin.
- ▲ Autoliv actively pursues capital deployment strategies to boost shareholder value, thus, maintaining an efficient capital structure. In May 2018, Autoliv hiked quarterly dividend payout from 60 cents to 62 cents per share. Further, it announced the same dividend payout to shareholders in the subsequent quarters. For third-quarter 2019, it announced a dividend of 62 cents to be paid as of Sep 5, 2019, to shareholders of record as of Aug 21, 2019.

Autoliv is likely to benefit from high order intake, cost reduction initiatives and product launches.

Reasons To Sell:

- ▼ Over the past year, shares of Autoliv have underperformed the industry it belongs to. For 2019, Autoliv expects light-vehicle markets to witness slump due to softening consumer confidence, trade tariffs and regulatory changes. Per IHS, the U.S. market will be down while Europe and China are expected to gain traction in the second half of 2019.
- ▼ The company's gross margin is under strain primarily due to raw material and launch-related costs along with currency volatility. Further, RD&E expenses, and lower capacity utilization of supply-chain production and logistic systems are other headwinds. In the coming quarters, product introductions are expected to keep costs at high levels.
- ▼ Though Autoliv occupies a leading position in the market, it faces stiff competition in passive safety products from TRW Automotive Holdings Corp., which was acquired by the German group, ZF Friedrichafen. The combined company is the third-largest automotive supplier, globally. Moreover, the market for active safety products is fragmented, resulting in many competitors.

Softening of light-vehicle production and trade tariffs are concerns for Autoliv. Also, rise in raw material and product launch-related costs hurts its margin.

Last Earnings Report

Autoliv Puts a Dismal Show in Q3

Autoliv reported adjusted earnings of \$1.30 per share in third-quarter 2019, missing the Zacks Consensus Estimate of \$1.38. The bottom line also declined from the prior-year quarter figure of \$1.35. High raw-material expenses and severe decline in global light vehicle production (LVP) dampened the company's profitability during the reported quarter.

The company reported net sales of \$2.03 billion in the quarter, reflecting a 0.25% year-over-year decline. The figure also missed the Zacks Consensus Estimate of \$2.1 billion.

Operating income declined 5.7% year over year to \$183 million. Adjusted operating margin from continuing operations was 9% in the quarter under review, lower than the prior-year quarter's 9.5%.

Segmental Performance

Sales in the Airbags and Associated Products segment edged down around 0.59% year over year to \$1.35 billion. The company faced headwinds from most types of airbags in Europe, and inflators in North America and Japan, resulting in this decline. Nonetheless, solid performance of driver and knee airbags in North America, steering wheels in the Americas, and passenger airbags in China mainly stoked the segment's growth in the third quarter.

Sales in the Seatbelts and Associated Products segment totaled \$678 million, up 0.3% from the prior-year quarter aided by the company's stellar performance in China and Americas, partly offset by declines in Europe and India.

Financial Position

Autoliv had cash and cash equivalents of \$334.4 million as of Sep 30, 2019, lower than \$533.7 million reported as of Sep 30, 2018. Long-term debt was \$1.82 billion as of Sep 30, 2019, witnessing a decrease from \$1.85 billion as of Jun 30, 2019. The debt-to-capital ratio stands at 59.36%.

Net capital expenditure increased to \$122.3 million from the year-ago figure of \$117.4 million, due to continued investments in support of the high level of product launches.

Guidance

For 2019, Autoliv's organic sales growth is projected at around 1%, down from the prior estimate of 1-3%. Consolidated sales growth is expected to be around negative 2%. Further, adjusted operating margin is projected at 9%, down from the 9-9.5% estimated earlier.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	-3.36%
EPS Surprise	-5.80%
Quarterly EPS	1.30
Annual EPS (TTM)	5.30

Valuation

Autoliv's shares are up 7.2% over the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are up 12.4% and 10.8%, respectively, over the past year.

The S&P 500 index is up 28.3% in the past year.

The stock is currently trading at 11.9X forward 12-month earnings, which compares to 12.87X for the Zacks sub-industry, 10.58X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.15X and as low as 8.64X, with a 5-year median of 15.69X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$84 price target reflects 12.61X 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	11.9	12.87	10.58	18.88
	5-Year High	21.15	13.46	11.75	19.34
	5-Year Low	8.64	8.52	8.23	15.17
	5-Year Median	15.69	11.61	9.93	17.44
EV/EBITDA TTM	Current	7.93	6.24	8.67	11.99
	5-Year High	10.86	8.66	11.33	12.86
	5-Year Low	5.12	4.63	7.05	8.48
	5-Year Median	8.04	6.63	9.27	10.67
P/S F12M	Current	0.78	0.63	0.66	3.5
	5-Year High	1.24	0.81	0.76	3.5
	5-Year Low	0.59	0.49	0.5	2.54
	5-Year Median	0.92	0.65	0.62	3

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (225 out of 254)



Top Peers

Adient PLC (ADNT)	Neutral
Allison Transmission Holdings, Inc. (ALSN)	Neutral
Continental AG (CTTAY)	Neutral
Dana Incorporated (DAN)	Neutral
Toyota Motor Corporation (TM)	Neutral
Cooper-Standard Holdings Inc. (CPS)	Underperform
Delphi Technologies PLC (DLPH)	Underperform
Tenneco Inc. (TEN)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	ALV Neutral	X Industry	S&P 500	CPS Underperform	CTTAY Neutral	DLPH Underperform
VGM Score	A	-	-	C	A	B
Market Cap	6.92 B	754.06 M	24.03 B	495.24 M	26.46 B	976.92 M
# of Analysts	6	3	13	3	3	7
Dividend Yield	3.13%	0.00%	1.78%	0.00%	2.81%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.05	0.10	0.04	0.61	0.10	0.10
EV/EBITDA	7.92	4.89	14.04	3.70	3.66	3.63
PEG Ratio	1.53	1.29	2.02	NA	4.99	0.60
Price/Book (P/B)	3.46	1.57	3.32	0.54	1.50	1.99
Price/Cash Flow (P/CF)	6.95	5.03	13.52	1.70	4.39	1.70
P/E (F1)	11.96	11.69	18.82	16.81	11.02	5.38
Price/Sales (P/S)	0.81	0.45	2.63	0.15	0.53	0.22
Earnings Yield	8.36%	8.39%	5.31%	5.95%	9.07%	18.59%
Debt/Equity	0.97	0.41	0.72	0.87	0.19	2.98
Cash Flow (\$/share)	11.40	3.65	6.94	17.29	3.01	6.67
Growth Score	B	-	-	D	A	D
Hist. EPS Growth (3-5 yrs)	-0.80%	9.38%	10.56%	-4.53%	NA	NA
Proj. EPS Growth (F1/F0)	17.41%	7.68%	7.49%	2,988.22%	554.56%	-8.44%
Curr. Cash Flow Growth	-19.12%	6.02%	14.83%	-11.17%	4.55%	-10.33%
Hist. Cash Flow Growth (3-5 yrs)	3.21%	10.36%	9.00%	14.11%	3.42%	NA
Current Ratio	1.26	1.56	1.23	1.76	1.05	1.35
Debt/Capital	49.15%	35.95%	42.99%	46.51%	16.21%	74.86%
Net Margin	2.51%	3.02%	11.08%	3.23%	-0.38%	4.29%
Return on Equity	23.42%	14.34%	17.16%	4.41%	-0.81%	52.54%
Sales/Assets	1.27	1.30	0.55	1.20	1.04	1.15
Proj. Sales Growth (F1/F0)	3.72%	1.72%	4.20%	-2.51%	2.12%	-4.81%
Momentum Score	B	-	-	F	D	D
Daily Price Chg	-2.07%	-0.67%	-0.33%	-2.36%	-1.56%	-4.22%
1 Week Price Chg	-2.78%	-0.43%	-0.30%	-2.41%	-0.97%	-2.10%
4 Week Price Chg	-7.57%	-3.02%	1.71%	-1.44%	-0.23%	-18.29%
12 Week Price Chg	-0.56%	1.49%	6.05%	-12.57%	1.46%	-20.91%
52 Week Price Chg	2.51%	3.96%	22.39%	-58.61%	-11.03%	-33.43%
20 Day Average Volume	268,139	133,781	1,580,816	243,616	175,851	797,628
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-3.45%	-3.49%	-6.70%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-3.45%	-3.49%	-2.55%
(F1) EPS Est 12 week change	-2.52%	-5.26%	-0.50%	-59.77%	-5.01%	-29.93%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-42.11%	NA	-4.09%

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	A
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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