

Autoliv, Inc.(ALV)

\$72.62 (As of 08/13/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/21/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

Summary

After posting a string of earnings since several quarters, Autoliv slumped to Q2 loss as coronavirus-induced lockdown slammed production of vehicles and consumer demand. The firm expects year over year decline in adjusted operating margin in the second half of 2020. Global vehicle production and sales are expected to be weak across major key markets, especially in Europe, which does not bode well for automotive suppliers like Autoliv. Supply disruptions in Mexico and currency volatility are other headwinds. The company's gross margin is under strain primarily due to high raw material and the trend is expected to continue. Product introductions are also expected to keep costs at high levels, going forward. Elevated leverage of the firm is also a concern. As such, Autoliv is viewed as a risky bet at the moment.

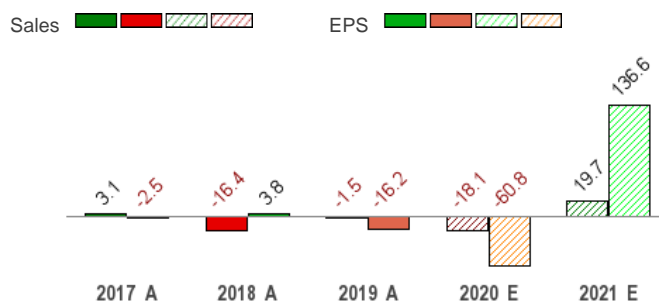
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.01 - \$38.16
20 Day Average Volume (sh)	455,192
Market Cap	\$6.3 B
YTD Price Change	-14.0%
Beta	1.79
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Top 39% (98 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.7%
Last Sales Surprise	4.9%
EPS F1 Est- 4 week change	-11.7%
Expected Report Date	10/23/2020
Earnings ESP	0.0%
P/E TTM	27.7
P/E F1	32.4
PEG F1	4.2
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,378 E
2020	1,846 A	1,048 A	1,896 E	2,178 E	6,998 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					\$5.30 E
2020	\$0.88 A	-\$1.40 A	\$1.01 E	\$1.78 E	\$2.24 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 08/13/2020. The reports text is as of 08/14/2020.

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.

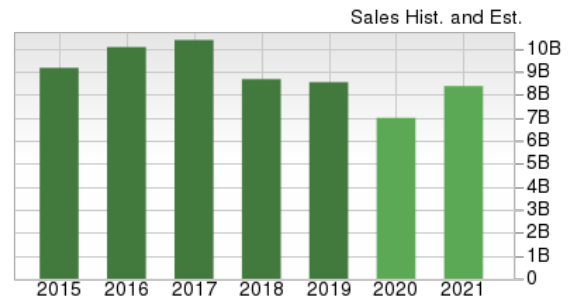
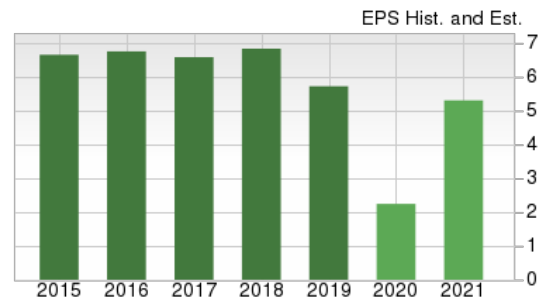
The company develops, manufactures and markets a wide range of automotive safety systems, which majorly includes passive safety systems. Systems offered by Autoliv include modules and components for frontal-impact airbag protection systems, side-impact airbag protection systems, seatbelts, steering wheels,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



Reasons To Sell:

- ▼ After posting a string of earnings since several quarters, Autoliv slumped to Q2 loss as coronavirus-induced lockdown slammed production of vehicles and consumer demand. The firm expects year over year decline in adjusted operating margin in the second half of 2020. Hit by the pandemic, IHS anticipates light vehicle production (LVP) to decline 11% in the second-half 2020, with major contractions in Europe and Japan. IHS does not expect global LVP to return to pre-coronavirus levels until 2023. Amid the gloomy scenario, Autoliv's earnings and sales are likely to be impacted. Amid the uncertainty, the company also suspended dividend payouts.
- ▼ Rising debt level of the Autoliv also plays a spoilsport and restricts the financial flexibility of the firm. As of Jun 30, Autoliv's long-term debt was \$2,567 million, increasing from \$2,209 million as of Mar 31, 2020. Its total debt-to-capital ratio stands at 0.57, higher than its industry's 0.45. High leverage of the firm restricts its financial flexibility to tap onto growth opportunities.
- ▼ Softening consumer confidence, trade tariffs, COVID-19 impact and regulatory changes are likely to have a negative impact on Autoliv's earnings and revenues for the remainder of the year. Global vehicle production and sales are expected to be weak across major key markets, especially in Europe. Stringent carbon emissions and weak economic environment are impacting the vehicle production in the continent. While automotive operations have been resumed in Europe, rate of production has been slow and volatile, which does not bode well for automotive suppliers like Autoliv.
- ▼ Supply disruptions in Mexico, launch-related costs, currency volatility, lower capacity utilization of supply-chain production and logistic systems are other headwinds. The company's gross margin is under strain primarily due to high raw material and the trend is expected to continue. Also, the company expects a high number of launches in the second half of 2020. 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 year over year decline in adjusted operating margin in the second half of 2020 when compared to the corresponding period of 2019.

Risks

- 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. As of Jun 30, Autoliv has \$1.7 billion in liquidity and unused credit facilities. Moreover, the company's times interest earned ratio of 9.94 compares favorably with the industry's 6.28.
 - The firm's Structural Efficiency Program offers respite amid the coronavirus-led low revenues and financial crisis. The program is expected to reach its full effect during the second half of this year and is expected to result in savings of \$50 million in 2020. On a positive note, the company is also launching a second step of Structural Efficiency Program, mainly targeting operational efficiency in America and Europe. The program will lead to \$10 million of savings in 2020 and will reach its full effect by the end of 2021 with annualized savings of around \$65 million. After the full implementation of both programs, the headcount is expected to reduce by at least 1,700.
 - Autoliv has seen significant recovery in demand and production in China since restarting its operations in the country. All of its plants in China are now operating at normal levels. While key mature markets— including American and European markets— are witnessing volatility in customer demand, sales in China recovered strongly and grew organically by more than 8% in the second-quarter of 2020. Ramp-up in the China market is expected to continue and may offset lost revenues from American and European markets.
 - Autoliv regularly launches innovative products to bolster sales. While the pandemic delayed the launch of products of late, the company is again ramping up its product launch targets, which is expected to boost its long term prospects. Autoliv expects to witness strong growth coming from front center airbags. 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. As it is, auto safety products are not a fad that would fade away when the next big thing hits the markets. Unlike cars, Autoliv's products cannot be deferred in purchase, and as witnessed in the previous economic crises, the sales related to aftermarket products recover rapidly to pre-crisis levels
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Last Earnings Report

Autoliv Posts Q2 Loss, Sales Top Estimates

Autoliv reported second-quarter 2020 adjusted loss of \$1.40 cents per share, a penny lower than the Zacks Consensus Estimate. Higher-than-anticipated revenues across both the segments led to narrower-than-expected loss.

However, the company reported earnings of \$1.38 per share in the year-ago quarter. Per IHS Markit, global light vehicle production declined around 45% year over year during second-quarter 2020, in turn denting the firm's earnings and sales.

The company reported net sales of \$1,047.6 million in the quarter, down from the prior-year figure of \$2,154.7 million. However, the figure beat the Zacks Consensus Estimate of \$999 million.

Autoliv reported adjusted operating loss of \$171.4 million against adjusted operating income of \$183.2 million in the corresponding quarter of 2019. Adjusted operating margin from continuing operations was negative 16.4% in the reported quarter.

Quarter Ending **06/2020**

Report Date	Jul 17, 2020
Sales Surprise	4.91%
EPS Surprise	0.71%
Quarterly EPS	-1.40
Annual EPS (TTM)	2.62

Segmental Performance

Sales in the Airbags and Associated Products segment totaled \$653.8 million, surpassing the Zacks Consensus Estimate of \$581 million. However, revenues from the segment were down around 54.5% year over year. Inflator revenues declined 75% year over year. Sales declined in all regions served by the company except China.

Sales in the Seatbelts and Associated Products segment totaled \$393.8 million, down 45.2% from the prior-year quarter. However, the figure topped the consensus mark of \$338 million. Weaker revenues from America, Europe, Japan and Rest of Asia negatively impacted its year over year performance. Nonetheless, seatbelts revenues increased 12% year over year in China during the reported quarter.

Financial Position

Autoliv had cash and cash equivalents of \$1,223.2 million as of Jun 30, 2020. Long-term debt was \$2,567 million, increasing from \$2,209 million as of Mar 31, 2020. Net capital expenditure decreased to \$64 million from the year-ago figure of \$128 million.

Road Ahead

Global light vehicle production for the year is anticipated to be below 2019 levels, with high volatility in customer call-offs. The company expects to face headwinds in second-half 2020 amid lower inflator sales, and high depreciation and amortization costs. Nonetheless, cost-containment efforts are likely to provide some respite.

Valuation

Autoliv's shares are down 14% and up 14.7% 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 up 0.1% and 26.3%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 16.6% and 52%, respectively.

The S&P 500 index is up 4.8% in the year-to-date period and 18.8% in the past year.

The stock is currently trading at 17.56X forward 12-month earnings, which compares to 22.97X for the Zacks sub-industry, 24.96X for the Zacks sector and 22.91X 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 15.18X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$62 price target reflects 15.01X 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	17.56	22.97	24.96	22.91
	5-Year High	21.15	25.97	25.42	22.91
	5-Year Low	6.37	8.37	8.2	15.25
	5-Year Median	15.18	11.43	9.9	17.58
EV/EBITDA TTM	Current	11.57	7.67	16.36	12.75
	5-Year High	11.57	8.37	16.36	12.84
	5-Year Low	4.77	3.92	6.82	8.24
	5-Year Median	7.83	6.3	9.33	10.9
P/S F12M	Current	0.81	0.7	0.91	3.7
	5-Year High	1.18	0.78	0.91	3.7
	5-Year Low	0.4	0.43	0.49	2.53
	5-Year Median	0.87	0.61	0.61	3.05

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Top 39% (98 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Adient PLC (ADNT)	Neutral	4
Allison Transmission Holdings, Inc. (ALSN)	Neutral	3
Continental AG (CTTAY)	Neutral	3
Dana Incorporated (DAN)	Neutral	3
Delphi Technologies PLC (DLPH)	Neutral	3
Meritor, Inc. (MTOR)	Neutral	3
Tenneco Inc. (TEN)	Neutral	3
Toyota Motor Corporation (TM)	Underperform	4

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	ALV	X Industry	S&P 500	AXL	CTTAY	DLPH
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	C	-	-	D	C	B
Market Cap	6.34 B	1.06 B	23.58 B	899.39 M	21.74 B	1.51 B
# of Analysts	5	2	14	4	3	4
Dividend Yield	0.00%	0.00%	1.68%	0.00%	2.19%	0.00%
Value Score	B	-	-	B	B	A
Cash/Price	0.21	0.18	0.07	1.10	0.16	0.38
EV/EBITDA	7.30	5.97	13.34	16.13	3.98	7.87
PEG Ratio	4.14	2.40	2.99	NA	NA	NA
Price/Book (P/B)	3.24	1.65	3.20	4.52	1.27	5.72
Price/Cash Flow (P/CF)	7.45	5.11	12.83	1.24	4.83	3.56
P/E (F1)	32.32	28.71	21.99	NA	407.63	1,399.20
Price/Sales (P/S)	0.89	0.49	2.53	0.18	0.51	0.41
Earnings Yield	3.08%	1.53%	4.35%	-18.51%	0.28%	0.06%
Debt/Equity	1.37	0.53	0.77	17.91	0.21	7.25
Cash Flow (\$/share)	9.74	2.94	6.94	6.39	2.25	4.91
Growth Score	D	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	-8.58%	4.10%	10.41%	-11.75%	NA	NA
Proj. EPS Growth (F1/F0)	-60.80%	-60.25%	-6.32%	-190.90%	103.86%	-99.49%
Curr. Cash Flow Growth	-14.39%	-4.87%	5.20%	-19.99%	-25.32%	-28.18%
Hist. Cash Flow Growth (3-5 yrs)	-0.08%	6.79%	8.55%	13.70%	-2.16%	NA
Current Ratio	1.57	1.69	1.33	1.56	1.08	1.71
Debt/Capital	57.83%	40.41%	44.59%	94.71%	17.25%	87.88%
Net Margin	1.98%	-0.81%	10.13%	-26.04%	-7.08%	-5.16%
Return on Equity	11.26%	2.42%	14.51%	-13.47%	-17.32%	18.01%
Sales/Assets	1.03	1.10	0.51	0.76	0.92	0.96
Proj. Sales Growth (F1/F0)	-18.14%	-15.83%	-1.43%	-30.20%	-13.48%	-20.17%
Momentum Score	B	-	-	F	B	D
Daily Price Chg	0.35%	-0.35%	-0.44%	-2.22%	0.56%	-1.35%
1 Week Price Chg	3.68%	5.21%	2.30%	1.27%	-1.30%	10.74%
4 Week Price Chg	6.68%	8.45%	4.38%	6.43%	11.49%	13.20%
12 Week Price Chg	13.65%	30.61%	13.59%	17.46%	23.24%	46.97%
52 Week Price Chg	14.72%	10.51%	5.75%	13.10%	-5.97%	26.56%
20 Day Average Volume	455,192	210,436	1,984,154	1,860,928	122,306	2,459,085
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-11.11%	0.00%
(F1) EPS Est 4 week change	-11.66%	1.06%	2.08%	1.01%	-11.11%	133.33%
(F1) EPS Est 12 week change	-26.68%	3.33%	2.66%	7.24%	180.00%	204.17%
(Q1) EPS Est Mthly Chg	-18.29%	0.00%	0.94%	-43.00%	NA	-64.71%

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	D
Momentum Score	B
VGM Score	C

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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