

Autoliv, Inc.(ALV)

\$54.46 (As of 04/21/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/22/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: B

Summary

Autoliv expects light-vehicle markets to witness slump due to softening consumer confidence, trade tariffs and regulatory changes. The coronavirus pandemic has crippled the auto industry and will lead to decline in sales and production. Amid the uncertainty, the firm has suspended its dividend payouts as well as revoked the annual guidance. While, Autoliv has not predicted the overall operational and financial impact of the virus outbreak yet, but noted that it would likely lead to negative effects on operations. Its gross margin is under strain primarily due to high raw material and the trend is expected to continue. Though Autoliv occupies a leading position in the market, it faces stiff competition in passive safety products from TRW Automotive Holdings Corp. As such, the stock is viewed as a risky bet at the moment.

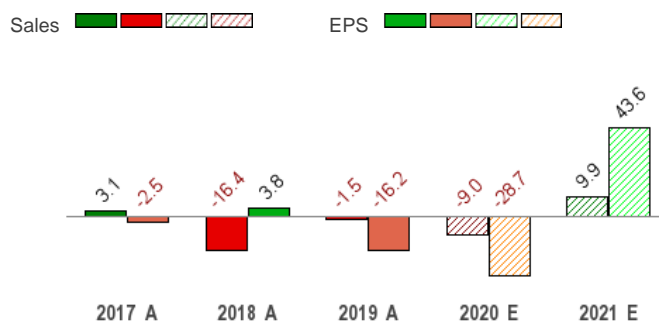
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.01 - \$38.16
20 Day Average Volume (sh)	834,535
Market Cap	\$4.8 B
YTD Price Change	-34.3%
Beta	1.71
Dividend / Div Yld	\$2.48 / 4.5%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 9% (231 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.4%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	-33.1%
Expected Report Date	04/24/2020
Earnings ESP	-30.7%
P/E TTM	9.7
P/E F1	13.4
PEG F1	1.7
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,263 E	2,309 E	2,236 E	2,461 E	8,544 E
2020	1,915 E	1,911 E	2,086 E	2,328 E	7,777 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	\$1.55 E	\$1.74 E	\$1.66 E	\$2.31 E	\$5.86 E
2020	\$1.03 E	\$1.01 E	\$1.45 E	\$2.01 E	\$4.08 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 04/21/2020. The reports text is as of 04/21/2020.

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.

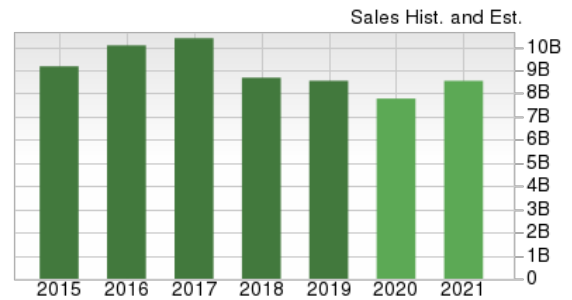
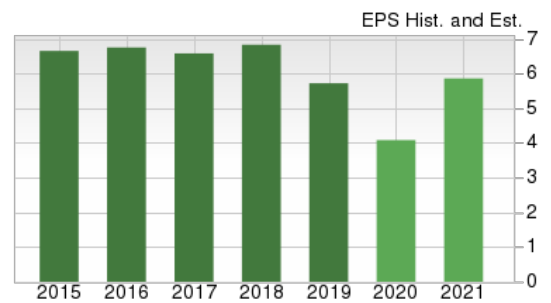
The company develops, manufactures and markets a wide range of automotive safety systems, which majorly includes passive safety systems. Systems offered by Autoliv include modules and components for frontal-impact airbag protection systems, side-impact airbag protection systems, seatbelts, steering wheels,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

- ▼ The coronavirus pandemic has crippled the auto industry and will lead to decline in sales and production, hurting the automotive supplier. The COVID-19 has impacted Autoliv's customers in the United State and Europe, leading to temporary plant closures, change in processes and cut in production levels, in line with the nation-wide campaign addressing the crisis. Amid the coronavirus-led uncertainty, Autoliv has scrapped its quarterly dividends and annual view.
- ▼ For 2020, Autoliv expects light-vehicle markets to witness slump due to softening consumer confidence, trade tariffs and regulatory changes. Global vehicle production and sales are expected to be weak across major key markets including The United States, Europe and China 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.
- ▼ 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. 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 Friedrichshafen. 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.

Risks

- 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. In second-quarter 2019, the company's orders continued to be at a decent level. Last year, 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.
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Last Earnings Report

Autoliv Q4 Earnings Beat Estimates, Up Y/Y

Autoliv reported adjusted earnings of \$1.84 per share in fourth-quarter 2019, beating the Zacks Consensus Estimate of \$1.78. Higher-than-expected revenues across both its segments led to this outperformance. The bottom-line figure also increased from the prior-year quarter tally of \$1.42.

The company reported net sales of \$2,191million in the quarter, down from the prior-year quarter figure of 2,193 million. However, the figure beat the Zacks Consensus Estimate of \$2.14 billion.

Adjusted operating income inched up 1% year over year to \$242 million. Adjusted operating margin from continuing operations was 11.1% in the reported quarter, higher than the prior-year quarter's 10.9%.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	2.33%
EPS Surprise	3.37%
Quarterly EPS	1.84
Annual EPS (TTM)	5.72

Segmental Performance

Sales in the Airbags and Associated Products segment totaled \$1,444 million, topping the Zacks Consensus Estimate of \$1,428 million. However, revenues from the segment edged down around 1.37%, year over year. The company faced headwinds from lower inflator sales as well as bleak sales of inflatable curtains and side airbags, resulting in this decline. Nonetheless, solid performance of driver and knee airbags, steering wheels, and passenger airbags mainly stoked the segment's growth in the fourth quarter.

Sales in the Seatbelts and Associated Products segment totaled \$747.6 million, up 2.5% from the prior-year quarter and surpassed the consensus mark of \$721 million. Stellar performance in China and Americas, partly offset by declines in Japan and South Korea, aided this outperformance.

Financial Position

Autoliv had cash and cash equivalents of \$444.7 million as of Dec 31, 2019, lower than \$615.8 million reported as of Dec 31, 2018. Long-term debt was \$1.73 billion as of Dec 31, 2019, witnessing an increase from \$1.61 billion as of Dec 31, 2018. The long-term debt-to-capital ratio stands at 44.85%.

Net capital expenditure decreased to \$118 million from the year-ago figure of \$133.4 million during the reported quarter.

Guidance

For 2020, Autoliv's organic sales growth as well as net sales growth is expected to be 3-4%. Further, adjusted operating margin is projected at 9.5%.

Recent News

Autoliv Taps Brakes on Dividend Payout, Withdraws '20 View

On **Apr 2**, Autoliv announced its decision to scrap its quarterly dividend scheduled for Jun 4 and suspend future dividends until further notice. It also withdrew the 2020 guidance to preserve cash as vehicle sales drop on the coronavirus outbreak. The company drew the remaining \$600 million from its revolving credit facility of \$1 billion. Notably, it had already drawn down \$500 million on Mar 19. Further, Autoliv's executive officers and non-employee board members have agreed to minimize their pay 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.

Valuation

Autoliv's shares are down 34.3% and 35% 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 26% and 13.3%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 26.7% and 8.6%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period and down 1.7% in the past year.

The stock is currently trading at 8.47X forward 12-month earnings, which compares to 15.56X for the Zacks sub-industry, 13.07X for the Zacks sector and 19.52X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.15X and as low as 6.47X, with a 5-year median of 15.37X.

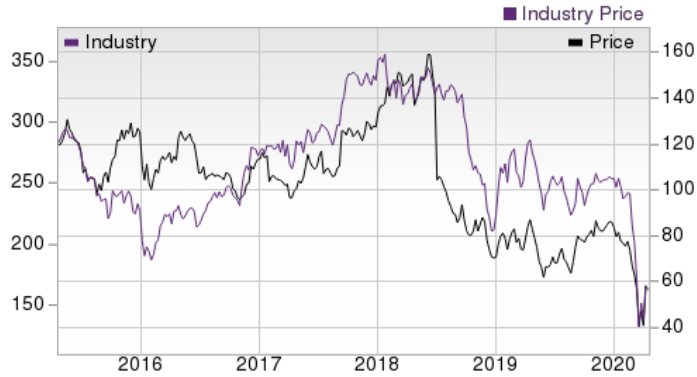
Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$47 price target reflects 7.18X F12M earnings per share.

The table below shows summary valuation data for ALV:

Valuation Multiples - ALV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.47	15.56	13.07	19.52
	5-Year High	21.15	15.56	13.07	19.52
	5-Year Low	6.47	8.52	8.23	15.19
	5-Year Median	15.37	11.59	9.93	17.45
EV/EBITDA TTM	Current	5.97	4.99	9.25	10.51
	5-Year High	10.89	8.66	11.34	12.87
	5-Year Low	4.77	4.21	6.97	8.28
	5-Year Median	7.9	6.55	9.27	10.78
P/S F12M	Current	0.54	0.54	0.61	3.2
	5-Year High	1.24	0.81	0.76	3.44
	5-Year Low	0.41	0.47	0.5	2.54
	5-Year Median	0.89	0.64	0.61	3.01

As of 04/20/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (231 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Adient PLC (ADNT)	Neutral	3
Allison Transmission Holdings, Inc. (ALSN)	Neutral	4
Continental AG (CTTAY)	Neutral	3
Toyota Motor Corporation (TM)	Neutral	3
Cooper-Standard Holdings Inc. (CPS)	Underperform	NA
Dana Incorporated (DAN)	Underperform	5
Delphi Technologies PLC (DLPH)	Underperform	5
Tenneco Inc. (TEN)	Underperform	5

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	ALV	X Industry	S&P 500	CPS	CTTAY	DLPH
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-		3	5
VGM Score	B	-	-	-	B	B
Market Cap	4.84 B	519.48 M	19.37 B	171.55 M	15.34 B	661.03 M
# of Analysts	6	2.5	14	0	3	6
Dividend Yield	4.47%	0.00%	2.23%	0.00%	4.84%	0.00%
Value Score	B	-	-	-	A	A
Cash/Price	0.09	0.20	0.05	1.91	0.15	0.26
EV/EBITDA	5.84	4.26	11.66	2.10	2.18	5.27
PEG Ratio	1.71	1.43	2.20	NA	9.82	0.84
Price/Book (P/B)	2.28	0.90	2.61	0.20	0.87	1.45
Price/Cash Flow (P/CF)	5.69	3.07	10.30	1.15	2.54	1.56
P/E (F1)	13.35	11.90	17.85	NA	21.71	8.39
Price/Sales (P/S)	0.57	0.27	2.04	0.06	0.30	0.15
Earnings Yield	7.36%	6.54%	5.48%	NA%	4.56%	11.98%
Debt/Equity	0.87	0.53	0.71	0.92	0.19	3.20
Cash Flow (\$/share)	9.74	3.46	7.01	8.83	3.01	4.91
Growth Score	B	-	-	NA	B	C
Hist. EPS Growth (3-5 yrs)	-1.99%	8.45%	10.92%	-8.50%	NA	NA
Proj. EPS Growth (F1/F0)	-28.64%	-28.24%	-3.67%	NA	2,550.04%	-62.35%
Curr. Cash Flow Growth	-14.39%	-3.34%	5.93%	-51.63%	4.55%	-28.18%
Hist. Cash Flow Growth (3-5 yrs)	-0.08%	5.32%	8.55%	-5.55%	3.42%	NA
Current Ratio	1.25	1.58	1.24	1.67	1.05	1.35
Debt/Capital	46.51%	39.44%	42.83%	47.93%	16.21%	76.18%
Net Margin	5.40%	2.62%	11.64%	1.95%	-0.38%	0.39%
Return on Equity	24.56%	14.52%	16.74%	-1.13%	-0.81%	43.64%
Sales/Assets	1.27	1.30	0.54	1.15	1.04	1.14
Proj. Sales Growth (F1/F0)	-9.03%	-7.39%	-0.39%	0.00%	-5.42%	-14.40%
Momentum Score	B	-	-	-	D	B
Daily Price Chg	-1.48%	-1.76%	-2.18%	-8.96%	-4.60%	-11.11%
1 Week Price Chg	-2.45%	-0.60%	0.42%	-14.68%	-0.62%	4.22%
4 Week Price Chg	37.14%	21.24%	26.24%	0.59%	24.72%	-5.07%
12 Week Price Chg	-25.38%	-30.02%	-20.02%	-63.36%	-30.27%	-21.63%
52 Week Price Chg	-35.08%	-36.27%	-12.49%	-81.67%	-56.68%	-69.95%
20 Day Average Volume	834,535	166,691	3,036,163	322,541	368,769	2,961,676
(F1) EPS Est 1 week change	-0.04%	0.00%	-0.14%	NA	0.00%	0.00%
(F1) EPS Est 4 week change	-33.14%	-14.19%	-6.66%	NA	-63.32%	-54.02%
(F1) EPS Est 12 week change	-38.21%	-39.41%	-10.02%	NA	-69.45%	-56.16%
(Q1) EPS Est Mthly Chg	-20.16%	-22.08%	-9.67%	NA	NA	-49.75%

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	B

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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