

Autoliv, Inc.(ALV)

\$40.41 (As of 03/23/20)

Price Target (6-12 Months): **\$34.00**

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: D

Summary

Autoliv expects light-vehicle markets to witness slump due to softening consumer confidence, trade tariffs and regulatory changes. The global light vehicle production is expected to showcase a contraction of 2% to 3% in 2020. The coronavirus pandemic has crippled the auto industry and will lead to decline in sales and production. 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.

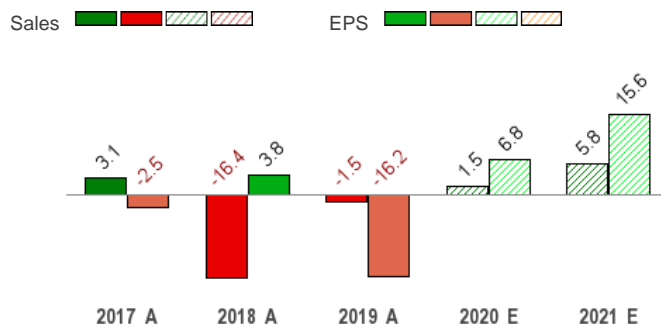
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.01 - \$38.16
20 Day Average Volume (sh)	975,198
Market Cap	\$3.5 B
YTD Price Change	-52.1%
Beta	1.54
Dividend / Div Yld	\$2.48 / 6.1%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 14% (218 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.4%
Last Sales Surprise	2.3%
EPS F1 Est- 4 week change	-4.2%
Expected Report Date	04/24/2020
Earnings ESP	-21.8%

P/E TTM	7.1
P/E F1	6.6
PEG F1	0.9
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,263 E	2,309 E	2,236 E	2,461 E	9,187 E
2020	2,009 E	2,066 E	2,128 E	2,355 E	8,680 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	\$7.06 E
2020	\$1.10 E	\$1.27 E	\$1.49 E	\$2.06 E	\$6.11 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 03/23/2020. The reports text is as of 03/24/2020.

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.

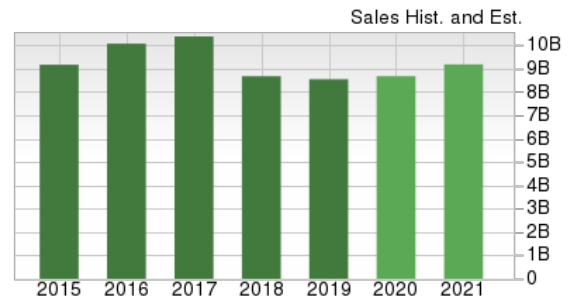
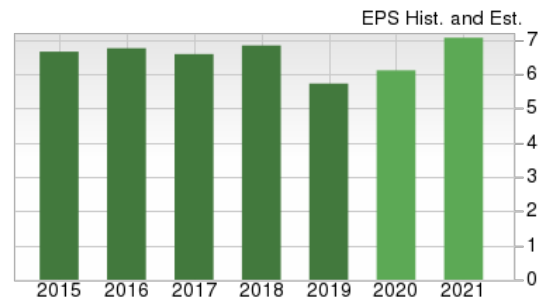
The company develops, manufactures and markets a wide range of automotive safety systems, which majorly includes passive safety systems. Systems offered by Autoliv include modules and components for frontal-impact airbag protection systems, side-impact airbag protection systems, seatbelts, steering wheels, 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. 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.
- ▼ 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. Reflecting the increasing uncertainty in the market, the global light vehicle production is expected to showcase a contraction of 2% to 3% in 2020, which will adversely impact the prospects of Autoliv.
- ▼ 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.
-

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%.

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%.

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

Recent News

Autoliv Draws \$500M From Credit on Coronavirus Scare

On **Mar 19**, Autoliv announced that the coronavirus outbreak will likely lead to a negative effect on the company's operations. The COVID-19 has impacted Autoliv's customers in the United States and Europe, leading to temporary plant closures, change in manufacturing processes and cut in production levels, in line with the nation-wide campaign addressing the crisis. 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.

Further, Autoliv has tapped \$500 million from its revolving credit facility to pay down existing short-term debt and for general corporate purposes. It is continuously monitoring the evolving COVID-19 pandemic and proactively taking measures to minimize any consequences for customers and mitigate the impact on the company.

Valuation

Autoliv's shares are down 52.1% and 45.5% 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 40.8% and 33.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 33.9% and 25.4%, respectively.

The S&P 500 index is down 30.2% in the year-to-date period and down 20.5% in the past year.

The stock is currently trading at 6.39X forward 12-month earnings, which compares to 8.87X for the Zacks sub-industry, 7.93X for the Zacks sector and 13.41X 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 15.43X.

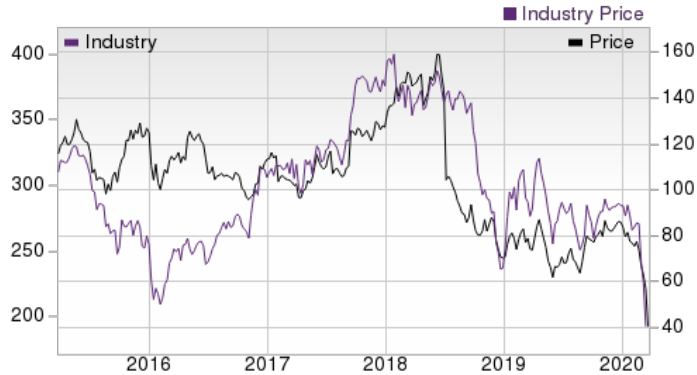
Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$34 price target reflects 5.38X F12M earnings per share.

The table below shows summary valuation data for ALV:

Valuation Multiples - ALV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.39	8.87	7.93	13.41
	5-Year High	21.15	13.46	11.75	19.34
	5-Year Low	6.37	8.52	7.93	13.41
	5-Year Median	15.4	11.59	9.88	17.42
EV/EBITDA TTM	Current	4.79	4.35	8.18	8.27
	5-Year High	10.89	8.62	11.34	12.88
	5-Year Low	4.77	4.35	6.97	8.27
	5-Year Median	7.94	6.57	9.31	10.78
P/S F12M	Current	0.4	0.39	0.45	2.43
	5-Year High	1.24	0.81	0.76	3.43
	5-Year Low	0.4	0.39	0.45	2.43
	5-Year Median	0.9	0.64	0.62	3

As of 03/23/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (218 out of 254)



Top Peers

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

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	ALV Underperform	X Industry	S&P 500	CPS Underperform	CTTAY Underperform	DLPH Neutral
VGM Score	B	-	-	C	A	A
Market Cap	3.53 B	428.10 M	15.21 B	170.11 M	12.30 B	696.32 M
# of Analysts	6	2	13	1	3	6
Dividend Yield	6.14%	0.00%	2.82%	0.00%	6.04%	0.00%
Value Score	B	-	-	A	A	A
Cash/Price	0.13	0.22	0.07	2.25	0.22	0.27
EV/EBITDA	4.61	3.62	9.67	2.10	1.77	5.37
PEG Ratio	0.85	0.76	1.37	NA	2.89	0.41
Price/Book (P/B)	1.66	0.72	1.99	0.19	0.70	1.53
Price/Cash Flow (P/CF)	4.15	2.75	8.15	1.14	2.04	1.65
P/E (F1)	6.61	6.68	11.83	NA	6.38	4.07
Price/Sales (P/S)	0.41	0.24	1.60	0.05	0.24	0.16
Earnings Yield	15.12%	13.19%	8.21%	-13.66%	15.61%	24.60%
Debt/Equity	0.87	0.51	0.70	0.92	0.19	3.20
Cash Flow (\$/share)	9.74	3.19	7.01	8.83	3.01	4.91
Growth Score	B	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	-1.99%	7.17%	10.85%	-8.50%	NA	NA
Proj. EPS Growth (F1/F0)	6.73%	-7.89%	4.20%	-626.32%	7,125.16%	-18.11%
Curr. Cash Flow Growth	-14.39%	-4.22%	5.93%	-51.63%	4.55%	-28.18%
Hist. Cash Flow Growth (3-5 yrs)	-0.08%	3.83%	8.55%	-5.55%	3.42%	NA
Current Ratio	1.25	1.60	1.23	1.67	1.05	1.35
Debt/Capital	46.51%	38.59%	42.57%	47.93%	16.21%	76.18%
Net Margin	5.40%	2.50%	11.57%	1.95%	-0.38%	0.39%
Return on Equity	24.56%	14.04%	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)	1.53%	-1.90%	2.76%	-5.10%	0.71%	-5.93%
Momentum Score	D	-	-	D	C	D
Daily Price Chg	0.57%	0.00%	-3.98%	6.54%	6.59%	-2.41%
1 Week Price Chg	-29.17%	-20.37%	-16.96%	-37.96%	-24.18%	-26.18%
4 Week Price Chg	-42.39%	-39.88%	-36.64%	-49.07%	-46.72%	-43.27%
12 Week Price Chg	-52.27%	-46.64%	-37.10%	-68.64%	-51.99%	-36.15%
52 Week Price Chg	-45.53%	-45.04%	-28.90%	-79.46%	-60.41%	-57.08%
20 Day Average Volume	975,198	236,665	4,200,337	422,536	428,755	3,002,715
(F1) EPS Est 1 week change	-2.92%	0.00%	-0.16%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.25%	-6.50%	-1.37%	-178.86%	-13.47%	-1.73%
(F1) EPS Est 12 week change	-7.94%	-10.38%	-2.41%	-176.14%	-22.52%	-11.95%
(Q1) EPS Est Mthly Chg	-14.51%	-7.96%	-1.16%	-495.45%	NA	-2.16%

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	D
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.