

Autoliv, Inc.(ALV)

\$62.27 (As of 04/27/20)

Price Target (6-12 Months): **\$53.00**

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:D

Value: C

Growth: C

Momentum: F

Summary

The coronavirus pandemic has crippled the auto industry and will lead to decline in sales of the automotive supplier, going forward. Amid the uncertainty, Autoliv has suspended its quarterly dividends and annual view. Autoliv expects light-vehicle markets to witness slump due to softening consumer confidence, trade tariffs, COVID-19 impact and regulatory changes. The firm expects to take a bigger hit in the second quarter owing to weak global light vehicle production and factory closures by automakers. Launch-related costs, currency volatility, RD&E expenses, lower capacity utilization of supply-chain production and logistic systems are other negatives. Rising debt levels and reducing gross margins are also causes of concern. Amid the headwinds surrounding the company, Autoliv is viewed as a risky bet.

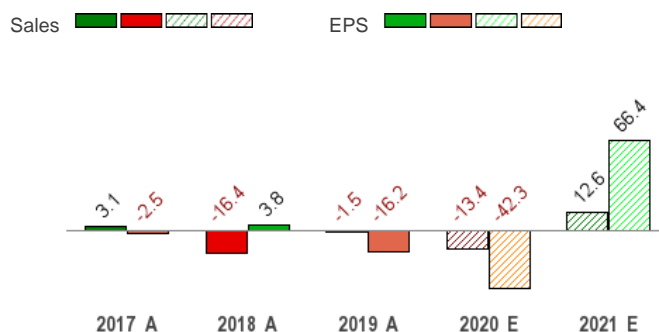
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.01 - \$38.16
20 Day Average Volume (sh)	828,723
Market Cap	\$5.4 B
YTD Price Change	-26.2%
Beta	1.71
Dividend / Div Yld	\$2.48 / 4.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 8% (232 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	51.7%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	-34.5%
Expected Report Date	07/17/2020
Earnings ESP	-186.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,068 E	2,098 E	2,075 E	2,271 E	8,338 E
2020	1,846 A	1,289 E	1,956 E	2,222 E	7,404 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	\$5.49 E
2020	\$0.88 A	\$0.31 E	\$1.23 E	\$1.87 E	\$3.30 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.

P/E TTM	11.5
P/E F1	18.9
PEG F1	2.4
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/27/2020. The reports text is as of 04/28/2020.

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.

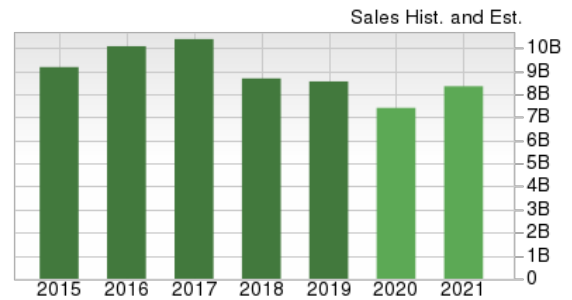
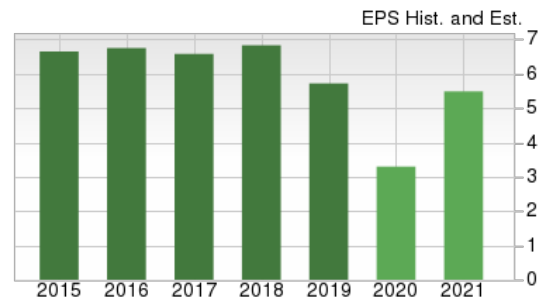
The company develops, manufactures and markets a wide range of automotive safety systems, which majorly includes passive safety systems. Systems offered by Autoliv include modules and components for frontal-impact airbag protection systems, side-impact airbag protection systems, seatbelts, steering wheels,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

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. 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.
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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	Apr 24, 2020
Sales Surprise	2.85%
EPS Surprise	51.72%
Quarterly EPS	0.88
Annual EPS (TTM)	5.40

Valuation

Autoliv's shares are down 26.2% and 23.6% 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 24.2% and 8.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 25.8% and 14.7%, respectively.

The S&P 500 index is down 12% in the year-to-date period and down 4.2% in the past year.

The stock is currently trading at 15.48X forward 12-month earnings, which compares to 18.79X for the Zacks sub-industry, 15.97X for the Zacks sector and 19.82X 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 15.32X.

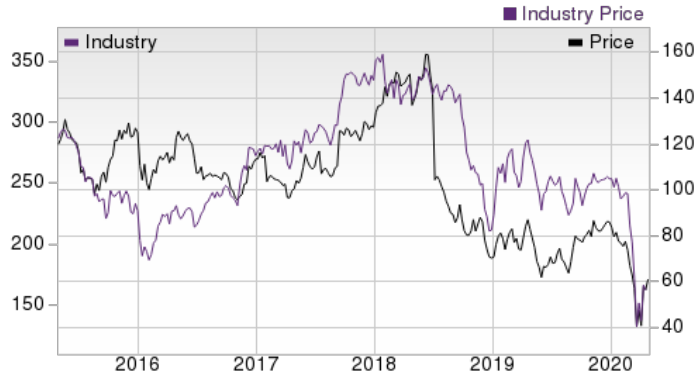
Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$53 price target reflects 13.18X F12M earnings per share.

The table below shows summary valuation data for ALV:

Valuation Multiples - ALV					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.48	18.79	15.97	19.82
	5-Year High	21.15	18.79	15.97	19.82
	5-Year Low	6.37	8.52	8.23	15.19
	5-Year Median	15.32	11.59	9.93	17.45
EV/EBITDA TTM	Current	6.66	4.99	9.17	10.37
	5-Year High	10.89	8.66	11.34	12.87
	5-Year Low	4.77	4.21	6.97	8.27
	5-Year Median	7.89	6.54	9.26	10.78
P/S F12M	Current	0.7	0.89	0.95	4.81
	5-Year High	1.24	0.89	0.95	4.81
	5-Year Low	0.4	0.47	0.5	2.54
	5-Year Median	0.89	0.64	0.62	3.01

As of 04/27/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (232 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
Dana Incorporated (DAN)	Neutral	3
Toyota Motor Corporation (TM)	Neutral	4
Cooper-Standard Holdings Inc. (CPS)	Underperform	NA
Delphi Technologies PLC (DLPH)	Underperform	3
Tenneco Inc. (TEN)	Underperform	3

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	3
VGM Score	D	-	-	-	B	B
Market Cap	5.44 B	574.93 M	19.77 B	189.28 M	16.34 B	712.67 M
# of Analysts	6	3	14	0	3	6
Dividend Yield	3.98%	0.00%	2.13%	0.00%	4.55%	0.00%
Value Score	C	-	-	-	A	A
Cash/Price	0.08	0.18	0.06	2.07	0.16	0.28
EV/EBITDA	6.40	4.11	12.09	2.16	2.31	5.42
PEG Ratio	2.42	1.75	2.36	NA	11.43	2.33
Price/Book (P/B)	2.56	0.88	2.70	0.22	0.92	1.57
Price/Cash Flow (P/CF)	6.39	3.41	10.70	1.27	2.71	1.68
P/E (F1)	18.87	18.32	18.72	NA	25.27	23.32
Price/Sales (P/S)	0.66	0.30	2.12	0.06	0.32	0.16
Earnings Yield	5.30%	4.73%	5.19%	NA%	3.92%	4.23%
Debt/Equity	0.87	0.53	0.72	0.92	0.19	3.20
Cash Flow (\$/share)	9.74	3.46	7.01	8.83	3.01	4.91
Growth Score	C	-	-	NA	B	C
Hist. EPS Growth (3-5 yrs)	-3.48%	8.45%	10.88%	-8.50%	NA	NA
Proj. EPS Growth (F1/F0)	-42.37%	-35.83%	-5.87%	NA	2,325.04%	-85.39%
Curr. Cash Flow Growth	-14.39%	-3.34%	5.92%	-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	1.23	1.67	1.05	1.35
Debt/Capital	46.51%	39.44%	43.90%	47.93%	16.21%	76.18%
Net Margin	5.17%	2.62%	11.32%	1.95%	-0.38%	0.39%
Return on Equity	22.95%	14.52%	16.60%	-1.13%	-0.81%	43.64%
Sales/Assets	1.22	1.30	0.55	1.15	1.04	1.14
Proj. Sales Growth (F1/F0)	-13.39%	-11.14%	-1.15%	0.00%	-8.72%	-19.20%
Momentum Score	F	-	-	-	F	F
Daily Price Chg	2.50%	2.70%	2.63%	8.73%	7.08%	3.63%
1 Week Price Chg	8.00%	0.00%	-1.74%	-7.62%	-5.10%	-7.52%
4 Week Price Chg	33.28%	10.96%	8.71%	24.97%	16.55%	-19.69%
12 Week Price Chg	-18.27%	-26.63%	-17.57%	-57.75%	-27.38%	-45.74%
52 Week Price Chg	-23.62%	-32.94%	-11.60%	-78.18%	-51.25%	-63.07%
20 Day Average Volume	828,723	189,221	2,734,148	257,353	383,604	2,826,616
(F1) EPS Est 1 week change	-19.23%	0.00%	0.00%	NA	0.00%	-49.29%
(F1) EPS Est 4 week change	-34.50%	-19.69%	-6.57%	NA	-51.98%	-80.88%
(F1) EPS Est 12 week change	-49.83%	-52.55%	-12.64%	NA	-72.05%	-82.40%
(Q1) EPS Est Mthly Chg	-120.95%	-18.11%	-10.33%	NA	NA	-150.25%

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	C
Growth Score	C
Momentum Score	F
VGM Score	D

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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