

Amphenol Corporation (APH)

\$85.50 (As of 05/01/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

Amphenol's first-quarter 2020 results reflected lower sales in the mobile devices, mobile networks, IT data communications, automotive and industrial end-markets due to production shutdown in China during February and production limitations/ramp-downs imposed on other parts of the world in March. Both earnings and revenues declined on a year-over-year basis. Nevertheless, shares have outperformed the industry on a year-to-date basis. Solid organic growth and end-market strength across military and commercial aerospace bode well for Amphenol. Additionally, the company's diversified business model lowers volatility of individual end markets and geographies. Moreover, acquisitions helped the company strengthen its product offerings and expand customer base. These tailwinds to the top line are a boon in the long haul.

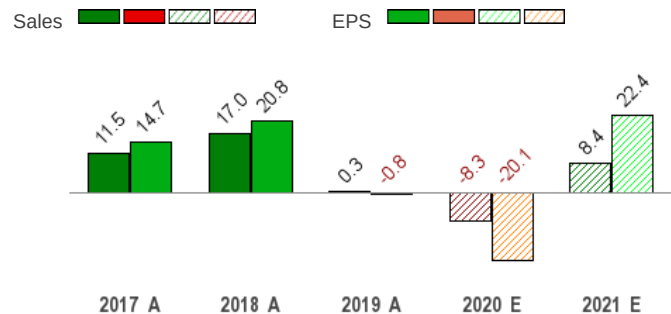
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$110.24 - \$63.05
20 Day Average Volume (sh)	2,116,606
Market Cap	\$25.3 B
YTD Price Change	-21.0%
Beta	1.25
Dividend / Div Yld	\$1.00 / 1.1%
Industry	Electronics - Connectors
Zacks Industry Rank	Top 30% (77 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.6%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	-12.6%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	24.0
P/E F1	28.6
PEG F1	3.2
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,927 E	2,038 E	2,105 E	2,236 E	8,175 E
2020	1,862 A	1,777 E	1,876 E	2,031 E	7,539 E
2019	1,959 A	2,015 A	2,101 A	2,151 A	8,225 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.82 E	\$0.90 E	\$0.96 E	\$1.04 E	\$3.66 E
2020	\$0.71 A	\$0.64 E	\$0.75 E	\$0.86 E	\$2.99 E
2019	\$0.89 A	\$0.92 A	\$0.95 A	\$0.98 A	\$3.74 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 05/01/2020. The reports text is as of 05/04/2020.

Overview

Headquartered in Wallingford, CT, Amphenol Corporation designs, manufactures and markets electrical, electronic and fiber optic connectors, interconnect systems, antennas, sensors and sensor-based products and coaxial and high-speed specialty cable.

Amphenol's manufacturing facilities are generally vertically integrated operations from the initial design stage through final design and manufacturing. The company's manufacturing presence is in more than 30 countries.

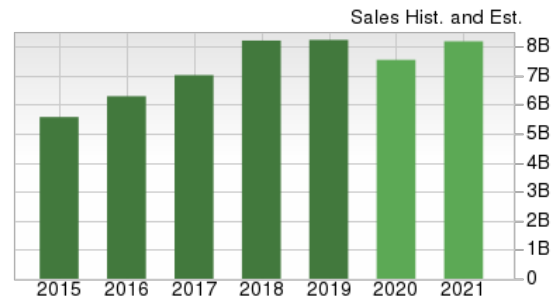
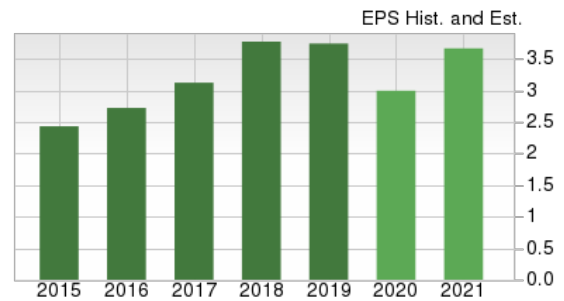
Amphenol reported net sales of \$8.23 billion in 2019. As of Dec 31, 2018, backlog was approximately \$1.72 billion.

The company has two reportable business segments: Interconnect Products & Assemblies and Cable Products & Solutions.

Interconnect Products & Assemblies (95.3% of 2019 revenues): Amphenol produces a wide range of connector and connector systems, value-added products and other products, including antennas and sensors, used in a broad range of applications in a diverse set of end markets. Interconnect products include connectors, which when attached to an electrical, electronic or fiber optic cable, a printed circuit board or other device, facilitate transmission of power or signals. Value-added systems generally consist of a system of cable, flexible circuits or printed circuit boards and connectors for linking electronic equipment.

Automotive (19% of 2019 revenues), Broadband Communications (4%), Commercial Aerospace (5%), Industrial (20%), Information Technology and Data Communications (19%), Military (12%), Mobile Devices (13%), and Mobile Networks (8%) are the primary end markets served by this segment.

Cable Products & Solutions (4.7% of 2019 revenues): Amphenol designs, manufactures and markets cable (coaxial, power and specialty), value-added products and components for addressing the needs of broadband communications and information technology markets as well as certain applications in other markets.



Reasons To Buy:

- ▲ Amphenol's top-line growth is benefiting from improved end-market demand, new product rollouts, and market share gains. Demand continues to be strong in automotive industrial and mobile networks and military markets. The diversification in end markets with a consistent focus on technology innovation and customer support through all phases of the economic cycle is driving top-line growth. Moreover, continuing focus on geographic and market diversification has enabled Amphenol to extend its presence into new customers and new applications. The company booked orders worth \$2.150 billion in the first quarter of 2020. Further, a balanced organic and inorganic growth model, a lean and flexible cost structure, and an agile and entrepreneurial management team augur well for its long-term growth perspectives.
- ▲ Amphenol remains encouraged by its expanding presence in the fast-growing commercial aerospace market and is well positioned to capitalize on the proliferation of electronics content on next-generation planes. These advanced electronic systems also require new higher technology interconnect solutions to enhance fuel efficiency and improve passenger experience, all of which creates excellent opportunities for Amphenol. In order to fuel further growth, Amphenol aims to acquire on a global basis in the high-growth segments that have complementary capabilities from a product, customer and/or geographic standpoint.
- ▲ Acquisitions have helped the company strengthen product offerings and expand customer base. For instance, the addition of Cablescan further strengthens the company's value-add interconnect offerings for a wide range of harsh environment applications. Moreover, XGiga strengthens the company's offering for high-speed applications by adding active fiber optic interconnect to Amphenol's passive fiber optic and high-speed copper solutions. The acquisition of EXA Thermometrics bolsters Amphenol's overall sensor portfolio and expands its sensor manufacturing footprint in India. Notably, the company acquired nine businesses in 2019, which on a combined basis represent annualized revenues of roughly \$530 million.
- ▲ Amphenol generates solid cash flow, which allows management the opportunity to invest in product innovations, acquisitions and business development. At the same time, the company has historically returned significant cash through a combination of share repurchases and dividend. The company generated cash flow from operations of \$384.3 million in first-quarter 2020 and paid dividend worth \$74.4 million. Moreover, free cash flow increased 20.2% year over year to \$323.5 million in the first-quarter. The company's ability to generate solid free cash flow is expected to help it sustain current dividend payout level, at least in the near term.

Amphenol's top-line growth is benefiting from improved end-market demand, new product rollouts, and market share gains.

Reasons To Sell:

- ▼ Bulk of Amphenol's revenues comes from sales to the communications industry, demand for which is subject to rapid technological change. Declining demand for smartphones is a concern. Additionally, the smartphone market is dominated by several large manufacturers and operators who exert significant price pressure on Amphenol. Furthermore, increasing cost of raw materials is also a matter of concern and is likely to be an additional drag on its profitability.
- ▼ Moreover, the company faces significant competition in almost all areas of operation that hurts growth. Also, it has significant exposure to China (28% of 2019 revenues). Hence, sluggish macro-economic environment in China doesn't bode well for the company's growth prospects. Further, the lockdowns and movement-restrictions related to the coronavirus globally are expected to hurt Amphenol's results in the near-term.
- ▼ Notably, non-U.S. business accounted for 69% of Amphenol's revenues in 2019. Since, the company conducts businesses in major foreign currencies, unfavorable movement in foreign currency exchange rates often adversely impact sales. Amphenol attempts to minimize currency exposure risk by producing its products in the same country or region in which the products are sold. Despite these attempts, the company is susceptible to volatility in foreign exchanges, which undermines its growth potential to some extent.
- ▼ Amphenol also has a leveraged balance sheet. As of Mar 31, 2020, the company's net debt was \$2.71 billion compared with \$2.69 billion as of Dec 31, 2019. Moreover, debt-to-equity stands at 114.6% much higher than technology sector's 61.4%.

Intensifying competition, sluggish China economy, weakness in mobile devices and foreign currency exchange rate volatility undermines growth potential to some extent.

Last Earnings Report

Amphenol Q1 Earnings Lag Estimates, Revenues Decline Y/Y

Amphenol's first-quarter 2020 adjusted earnings of 71 cents per share missed the Zacks Consensus Estimate by 5.3% and also declined 20.2% from the year-ago quarter's figure.

Although net sales decreased 4.9% year over year to \$1.86 billion, the same was slightly better than the consensus mark of \$1.85 billion. Unfavorable foreign exchange impacted sales by \$19 million.

Topline was negatively impacted by production shutdown in China during February and production limitations imposed on other parts of the world in March.

Orders were worth \$2.150 billion, which resulted in a book-to-bill ratio of 1.15:1.

Quarterly Details

Interconnect Products and Assemblies (95.5% of net sales) sales dipped 4.5% from the year-ago quarter to \$1.78 billion. Moreover, Cable Products and Solutions sales were \$83 million, down 13.4% year over year.

Gross margin contracted 200 basis points (bps) on a year-over-year basis to 30.1%.

Selling, general and administrative expenses (SG&A) as a percentage of revenues increased 100 bps on a year-over-year basis to 13%.

Adjusted operating margin contracted 300 bps on a year-over-year basis to 17%.

Segment wise, Interconnect Products and Assemblies' operating margin shrank 290 bps on a year-over-year basis to 19.1% while Cable Products and Solutions' operating margin contracted 340 bps to 7.6%.

Balance Sheet and Cash Flow

As of Mar 31, 2020, Amphenol had cash and cash equivalents worth \$2.38 billion, higher than \$908.6 million as of Dec 31, 2019.

Cash flow from operations was \$384.3 million compared with \$424 million in the previous quarter.

During the quarter, the company repurchased shares worth \$257 million and paid roughly \$74 million in dividends.

Guidance

Amphenol expects second-quarter earnings and revenues to decline on a sequential basis.

Quarter Ending 03/2020

Report Date	Apr 22, 2020
Sales Surprise	-0.03%
EPS Surprise	-6.58%
Quarterly EPS	0.71
Annual EPS (TTM)	3.56

Recent News

On Apr 30, Amphenol announced second-quarter 2020 dividend of 25 cents per share to be paid on Jul 8, to shareholders of record Jun 16.

On Feb 13, Amphenol announced the pricing of its offering of \$400,000,000 aggregate principal amount of senior notes due 2025 (the "Notes"). The notes will have an interest rate of 2.050% per annum. The company intends to use the net proceeds from the offering of the Notes together with cash in hand for repaying its outstanding 2.200% senior notes due 2020 at maturity.

Valuation

Amphenol shares are down 21% in the year-to-date period and 13.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 21.6% and 5.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 12.8%, while the sector is up 3.3%.

The S&P 500 index is down 12.2% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 26.55X forward 12-month earnings, which compares to 24.36X for the Zacks sub-industry, 22.32X for the Zacks sector and 20.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.85X and as low as 17.52X, with a 5-year median of 23.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$89 price target reflects 27.88X forward 12-month earnings.

The table below shows summary valuation data for APH

Valuation Multiples - APH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.55	24.36	22.32	20.18
	5-Year High	29.85	25.71	22.32	20.18
	5-Year Low	17.52	18.25	16.71	15.19
	5-Year Median	23.36	22.19	19.23	17.44
P/S F12M	Current	3.26	3.01	3.41	3.19
	5-Year High	4.02	3.64	3.59	3.44
	5-Year Low	2.41	2.36	2.32	2.54
	5-Year Median	3.28	3.08	3.1	3.01
EV/Sales TTM	Current	3.38	3.15	3.79	2.8
	5-Year High	4.45	4.22	4.43	3.43
	5-Year Low	2.7	2.56	2.58	2.11
	5-Year Median	3.65	3.45	3.58	2.8

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Top 30% (77 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AVX Corporation (AVX)	Neutral	NA
CommScope Holding Company, Inc. (COMM)	Neutral	3
Kemet Corporation (KEM)	Neutral	4
Littelfuse, Inc. (LFUS)	Neutral	4
Methode Electronics, Inc. (MEI)	Neutral	3
Sensata Technologies Holding N.V. (ST)	Neutral	5
TE Connectivity Ltd. (TEL)	Neutral	4
Vishay Intertechnology, Inc. (VSH)	Underperform	3

Industry Comparison Industry: Electronics - Connectors				Industry Peers		
	APH	X Industry	S&P 500	AVX	COMM	MEI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-		3	3
VGM Score	C	-	-	-	A	B
Market Cap	25.30 B	575.99 M	20.61 B	3.67 B	2.01 B	1.06 B
# of Analysts	8	4.5	14	0	5	2
Dividend Yield	1.17%	0.57%	2.11%	2.12%	0.00%	1.54%
Value Score	D	-	-	-	B	B
Cash/Price	0.09	0.09	0.06	0.21	0.29	0.08
EV/EBITDA	14.71	8.80	11.87	6.88	41.42	8.80
PEG Ratio	3.15	3.29	2.47	NA	0.61	NA
Price/Book (P/B)	5.69	1.46	2.67	1.49	2.38	1.37
Price/Cash Flow (P/CF)	17.89	7.15	10.66	10.10	1.81	7.15
P/E (F1)	28.20	19.41	19.01	NA	6.04	8.37
Price/Sales (P/S)	3.11	1.27	2.10	2.35	0.24	0.98
Earnings Yield	3.50%	7.06%	5.05%	NA%	16.55%	11.95%
Debt/Equity	1.03	0.34	0.72	0.00	11.72	0.34
Cash Flow (\$/share)	4.93	3.29	7.01	2.14	6.09	4.20
Growth Score	B	-	-	NA	A	C
Hist. EPS Growth (3-5 yrs)	12.53%	12.53%	10.88%	14.45%	0.45%	8.10%
Proj. EPS Growth (F1/F0)	-19.99%	-9.19%	-7.32%	NA	-20.93%	5.90%
Curr. Cash Flow Growth	-1.02%	4.63%	5.92%	86.42%	53.52%	10.28%
Hist. Cash Flow Growth (3-5 yrs)	10.51%	10.72%	8.55%	15.34%	11.92%	10.94%
Current Ratio	2.54	2.84	1.23	6.82	1.72	2.84
Debt/Capital	50.81%	25.45%	43.84%	0.00%	92.81%	25.45%
Net Margin	13.90%	13.90%	11.08%	13.15%	-11.14%	10.74%
Return on Equity	25.06%	17.68%	16.44%	8.48%	31.35%	15.86%
Sales/Assets	0.74	0.85	0.54	0.55	0.60	0.85
Proj. Sales Growth (F1/F0)	-8.35%	-4.17%	-1.42%	NA	5.25%	0.00%
Momentum Score	D	-	-	-	B	B
Daily Price Chg	-4.23%	-0.93%	-2.39%	0.00%	-5.09%	-1.86%
1 Week Price Chg	2.32%	1.34%	-1.74%	0.00%	3.00%	0.36%
4 Week Price Chg	28.36%	30.72%	17.07%	0.00%	26.70%	13.84%
12 Week Price Chg	-15.10%	-13.30%	-18.53%	5.71%	-11.35%	-11.50%
52 Week Price Chg	-10.97%	-10.32%	-9.82%	37.09%	-53.88%	2.95%
20 Day Average Volume	2,116,606	134,200	2,641,413	0	3,032,867	214,188
(F1) EPS Est 1 week change	-2.56%	-1.28%	0.00%	NA	0.00%	0.00%
(F1) EPS Est 4 week change	-12.63%	-9.47%	-6.62%	NA	0.00%	-6.31%
(F1) EPS Est 12 week change	-22.00%	-13.03%	-13.28%	NA	-20.75%	-4.06%
(Q1) EPS Est Mthly Chg	-16.48%	-19.44%	-11.97%	NA	0.00%	-22.40%

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	D
Growth Score	B
Momentum Score	D
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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