

Amphenol Corporation (APH)

\$108.37 (As of 01/08/20)

Price Target (6-12 Months): **\$114.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: C

Growth: B

Momentum: F

Summary

Amphenol is benefiting from solid organic growth and end-market strength across military and commercial aerospace. Synergies from buyouts are also likely to aid the top line. Additionally, geographic and market diversifications have enabled Amphenol to reach new customers. Moreover, acquisitions have helped the company strengthen product offerings and expand the customer base. These factors are expected to drive the top line in the long haul. However, Amphenol expects demand for its solutions to be moderate across communications equipment, automotive and industrial end markets. This along with unfavorable foreign exchange is expected to hurt the top line. Moreover, a slowing China economy is a concern. Notably, Amphenol shares have underperformed the industry in the past year.

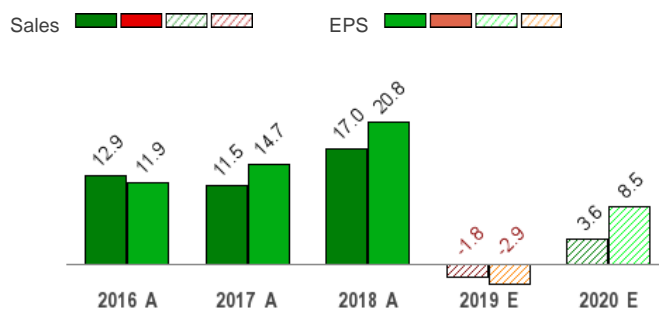
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$109.32 - \$79.52
20 Day Average Volume (sh)	828,153
Market Cap	\$32.1 B
YTD Price Change	0.1%
Beta	1.03
Dividend / Div Yld	\$1.00 / 0.9%
Industry	Electronics - Connectors
Zacks Industry Rank	Top 2% (4 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.2%
Last Sales Surprise	5.8%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	01/22/2020
Earnings ESP	0.0%
P/E TTM	28.4
P/E F1	27.3
PEG F1	2.5
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,941 E	2,038 E	2,155 E	2,178 E	8,343 E
2019	1,959 A	2,015 A	2,101 A	1,990 E	8,053 E
2018	1,867 A	1,981 A	2,129 A	2,225 A	8,202 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.89 E	\$0.96 E	\$1.04 E	\$1.06 E	\$3.97 E
2019	\$0.89 A	\$0.92 A	\$0.95 A	\$0.91 E	\$3.66 E
2018	\$0.83 A	\$0.90 A	\$0.99 A	\$1.05 A	\$3.77 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 01/08/2020. The reports text is as of 01/09/2020.

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 \$8.20 billion in 2018. 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.

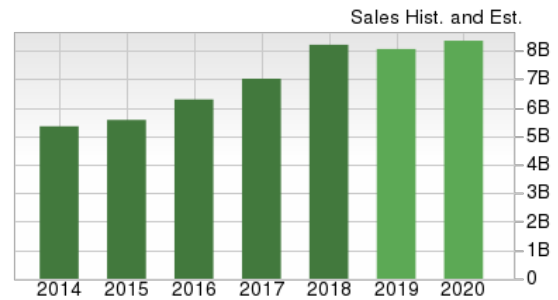
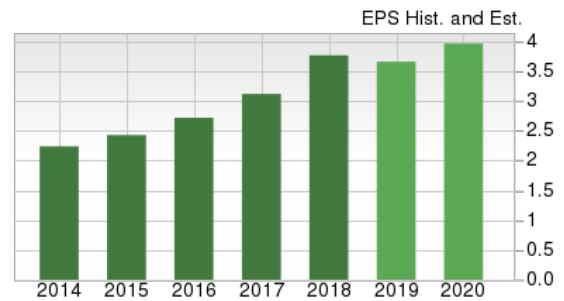
Interconnect Products & Assemblies (95% of 2018 revenues): Amphenol produces a wide range of connector and connector systems, value-added products and other products, including antennas and sensors, used in a broad range of applications in a diverse set of end markets. Interconnect products include connectors, 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 (18% of 2018 revenues), Broadband Communications (5%), Commercial Aerospace (4%), Industrial (19%), Information Technology and Data Communications (19%), Military (10%), Mobile Devices (17%), and Mobile Networks (8%) are the primary end-markets served by this segment.

Cable Products & Solutions (5% of 2018 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.

Geographically, the United States and China accounted for 27.3% and 31.6% of net sales in 2018, respectively. Other foreign locations accounted for the rest.

Moreover, total sales to Apple, including sales of products to EMS companies that the company believes to be manufacturing products on Apple's behalf, accounted for roughly 12% of net sales in 2018.



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 won order worth \$2.091 billion in third-quarter 2019.
 - ▲ 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 Cablescon in the third quarter 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. Notably, the company has acquired nine businesses till date 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 to reward shareholders with risk-adjusted returns. Moreover, 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.
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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. Apple now accounts for more than 10% of revenues. Hence decline in iPhone demand will negatively impact Amphenol's sales. Additionally, this 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 (32% of 2018 revenues). Hence, sluggish macro-economic environment in China doesn't bode well for the company's growth prospects.
- ▼ Notably, non-U.S. business accounted for 73% of Amphenol's revenues in 2018. 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.
- ▼ We note that Amphenol stock currently has a trailing 12 month P/B ratio of 6.97 which compares unfavorably to a certain extent with what the industry saw over the last year. The ratio is closer to the high end of the valuation range over this period. Hence, valuation looks slightly stretched from a P/B perspective.

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 Q3 Earnings Beat Estimates, Revenues Down Y/Y

Amphenol reported third-quarter 2019 adjusted earnings of 95 cents per share that beat the Zacks Consensus Estimate by eight cents but declined 4% from the year-ago quarter's figure.

Net sales decreased 1.3% year over year to \$2.10 billion, which was slightly better than the consensus mark of \$1.99 billion. Unfavorable foreign exchange impacted sales by \$24 million.

At constant currency (cc), net sales were flat. Excluding acquisitions and currency impacts, sales decreased 6% year over year.

Orders were worth \$2.091 billion, which was down 1% year over year. This resulted in a book-to-bill ratio of 1:1.

Quarter Details

The year-over-year decrease in revenues was primarily due to weakness in industrial, automotive and communications end markets.

Interconnect Products and Assemblies (95.2% of net sales) sales decreased 0.9% from the year-ago quarter to \$2 billion. At cc, net sales were flat on a year-over-year basis.

Moreover, Cable Products and Solutions sales were \$99.8 million, down 9% year over year. At cc, net sales declined 8% year over year.

Gross margin contracted 80 basis points (bps) on a year-over-year basis to 31.5%.

Selling, general and administrative expenses (SG&A) as a percentage of revenues increased 40 bps to 11.8%.

Consolidated operating margin contracted 120 bps on a year-over-year basis to 19.7%.

Segment-wise, Interconnect Products and Assemblies operating margin shrank 100 bps to 21.7%, while Cable Products and Solutions operating margin contracted 290 bps to 10.2%.

Interconnect Products and Assemblies margin contracted due to restructuring costs and negative impact from acquisitions, which are currently operating at a profitability level below the company average.

Cable Products and Solutions margins shrank due to lower volume and unfavorable product mix.

Acquisitions

During the quarter, Amphenol bought China-based XGiga Communication Technology and U.K.-based Cablescon for roughly \$87 million in total.

XGiga designs and manufactures active fiber optic interconnect components used primarily in communications infrastructure markets.

Cablescon designs and manufactures high-technology interconnect assemblies for military and commercial aerospace markets.

Balance Sheet and Cash Flow

As of Sep 30, 2019, Amphenol had cash and cash equivalents worth \$986.7 million, lower than \$997 million as of Jun 30, 2019.

On Sep 4, the company launched a \$900-million U.S. bond offering, which has a 10-year term and bears interest at 2.8%. Moreover, in combination with the U.S. senior note issuance on Sep 11, the company tendered \$147 million of its \$375 million 3.125% U.S. senior notes and \$205 million of its \$500 million 4% U.S. senior notes.

These offerings strengthened Amphenol's capital structure by extending its average debt maturities by roughly two years, while keeping average effective interest rate on outstanding borrowings unchanged.

As of Sept 30, the company had issued approximately \$754 million (including the new bond offerings) under its U.S. and Euro commercial paper programs. The company's cash available under credit facilities totaled nearly \$2.7 billion.

Total debt as of Sep 30 was approximately \$3.9 billion and net debt was approximately \$3 billion.

Cash flow from operations was \$412 million compared with \$322 million in the previous quarter. Free cash flow was \$341 million or 117% of adjusted net income.

During the quarter, the company repurchased 1.7 million shares for \$150 million.

Guidance

For the fourth quarter of 2019, Amphenol projects sales between \$1.960 billion and \$2 billion. Adjusted earnings are expected between 89 cents and 91 cents per share.

For 2019, Amphenol expects sales between \$8.035 billion and \$8.075 billion, up from the previous guidance of \$7.920-\$8 billion. The latest guidance indicates a year-over-year sales decline of 2%. Unfavorable currency fluctuation is expected to hurt sales by roughly \$30 million.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	5.78%
EPS Surprise	9.20%
Quarterly EPS	0.95
Annual EPS (TTM)	3.81

Moreover, the company now expects adjusted earnings of \$3.65-\$3.67 per share, up from the previous guidance of \$3.56-\$3.60. The latest guidance indicates a decrease of 3% year over year.

End-Market Guidance

Military end-market sales are expected to increase modestly from in the fourth quarter. For 2019, sales growth is expected to be above 20%.

Commercial aerospace end-market sales are expected to increase modestly from third-quarter levels. For 2019, management continues to expect a low-double-digit increase in sales year over year.

Moreover, for the fourth quarter, slowing demand in Europe is expected to hurt sales from industrial end market. For 2019, Amphenol now expects growth in low-single digits, a modest decline from its prior expectations, due to lowered demand outlook from distributors and OEM customers.

Additionally, sales from the automotive end market are expected to decline slightly in the fourth quarter, while full-year sales are expected to increase slightly year over year.

Mobile devices end-market sales are also expected to moderate from third-quarter levels in the fourth quarter. For 2019, Amphenol now expects sales decline in the mid 20% range, an improvement from its previous guidance of roughly 30% decline from the prior year.

However, mobile networks end-market sales are expected to further decline in the fourth quarter. For 2019, sales are expected to be flat year over year. Organically, sales are expected to decline in high-single digits due to lower demand from OEM and operator customers.

Information technology and data communications end-market sales are expected to moderate from third-quarter levels in the fourth quarter. For full-year 2019, management anticipates a decline in the low-single-digit range.

Broadband sales are expected to moderate seasonally in the fourth quarter. Moreover, 2019 sales are expected to decline in the high-single-digit range year over year due to reduced investments by broadband operators.

Recent News

On Oct 31, Amphenol announced that its board of directors approved the fourth quarter 2019 dividend 25 cents per share. The company will pay this fourth quarter 2019 dividend on Jan 8, 2020 to shareholders of record as of Dec 17, 2019.

On Sep 4, Amphenol announced the pricing of its offering of \$900,000,000 aggregate principal amount of senior notes due 2030 (the "Notes"). The notes will have an interest rate of 2.800% per annum.

Valuation

Amphenol shares are up 11.1% in the six-months period and 32.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 12.1% and 13.3% in the six-months period, respectively. Over the past year, the Zacks sub-industry and sector are up 33.1% and 31.4%, respectively.

The S&P 500 index is up 9.3% in the six-months period and 24.3% in the past year.

The stock is currently trading at 27.23X forward 12-month earnings, which compares to 25.59X for the Zacks sub-industry, 22.46X for the Zacks sector and 18.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.85X and as low as 17.84X, with a 5-year median of 23.19X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$114 price target reflects 28.64X 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	27.23	25.59	22.46	18.82
	5-Year High	29.85	25.71	22.46	19.34
	5-Year Low	17.84	18.25	16.86	15.17
	5-Year Median	23.19	22.13	19.24	17.44
P/S F12M	Current	3.85	3.57	3.62	3.49
	5-Year High	4.02	3.64	3.62	3.49
	5-Year Low	2.43	2.36	2.3	2.54
	5-Year Median	3.23	3.09	3.01	3
EV/Sales TTM	Current	4.18	3.9	4.26	3.25
	5-Year High	4.45	4.22	4.26	3.3
	5-Year Low	2.7	2.56	2.56	2.16
	5-Year Median	3.64	3.45	3.44	2.8

As of 01/08/2020

Industry Analysis Zacks Industry Rank: Top 2% (4 out of 254)



Top Peers

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

Industry Comparison Industry: Electronics - Connectors				Industry Peers		
	APH Neutral	X Industry	S&P 500	KEM Underperform	MEI Neutral	TEL Neutral
VGM Score	D	-	-	C	B	B
Market Cap	32.13 B	753.46 M	23.84 B	1.56 B	1.45 B	32.81 B
# of Analysts	8	4.5	13	3	2	9
Dividend Yield	0.92%	0.46%	1.79%	0.75%	1.12%	1.88%
Value Score	C	-	-	B	A	C
Cash/Price	0.03	0.07	0.04	0.12	0.07	0.03
EV/EBITDA	17.43	11.13	13.88	6.71	11.13	13.12
PEG Ratio	2.53	2.84	2.02	NA	NA	1.78
Price/Book (P/B)	7.63	2.06	3.33	2.39	1.98	3.10
Price/Cash Flow (P/CF)	22.10	9.41	13.76	6.15	9.33	12.73
P/E (F1)	27.30	19.54	18.76	12.19	11.77	19.10
Price/Sales (P/S)	3.87	1.91	2.63	1.13	1.40	2.44
Earnings Yield	3.66%	6.08%	5.32%	8.22%	8.50%	5.23%
Debt/Equity	0.84	0.39	0.72	0.42	0.39	0.32
Cash Flow (\$/share)	4.90	3.29	6.94	4.35	4.20	7.67
Growth Score	B	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	13.78%	13.78%	10.56%	179.51%	7.71%	11.41%
Proj. EPS Growth (F1/F0)	8.32%	11.77%	7.46%	-37.95%	37.04%	-7.87%
Curr. Cash Flow Growth	21.82%	16.05%	14.83%	72.61%	10.28%	-2.61%
Hist. Cash Flow Growth (3-5 yrs)	14.17%	12.55%	9.00%	50.32%	10.94%	3.85%
Current Ratio	1.99	2.53	1.23	2.15	2.53	1.57
Debt/Capital	45.71%	27.84%	42.99%	29.81%	27.84%	24.31%
Net Margin	14.15%	14.15%	11.08%	11.56%	10.13%	13.71%
Return on Equity	28.19%	18.42%	17.16%	32.53%	15.27%	18.20%
Sales/Assets	0.80	0.83	0.55	1.03	0.83	0.69
Proj. Sales Growth (F1/F0)	3.60%	3.60%	4.16%	-9.03%	10.92%	-2.96%
Momentum Score	F	-	-	B	D	A
Daily Price Chg	0.24%	0.30%	0.39%	0.15%	0.36%	1.03%
1 Week Price Chg	0.03%	-0.32%	-0.30%	-0.11%	-0.64%	-0.15%
4 Week Price Chg	2.30%	-2.86%	2.38%	-0.67%	-3.80%	4.85%
12 Week Price Chg	9.71%	11.10%	6.40%	18.08%	15.13%	5.43%
52 Week Price Chg	34.65%	45.58%	22.97%	44.13%	56.51%	26.73%
20 Day Average Volume	828,153	150,680	1,610,101	1,162,328	205,501	1,213,643
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.07%	-0.03%	0.00%	0.00%	0.00%	0.16%
(F1) EPS Est 12 week change	-0.67%	-0.56%	-0.50%	-22.75%	-0.45%	-12.06%
(Q1) EPS Est Mthly Chg	0.19%	0.09%	0.00%	0.00%	0.00%	0.00%

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	B
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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