

Amphenol Corporation (APH)

\$79.17 (As of 03/26/20)

Price Target (6-12 Months): **\$83.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: F

Growth: B

Momentum: C

Summary

Amphenol's shares have underperformed the industry in the past year. The company now expects not to meet its previously provided guidance for the first quarter due to the coronavirus outbreak in China. Moreover, demand for its solutions is expected to be moderate across communications equipment, automotive and industrial end markets. This along with an unfavorable foreign exchange is expected to hurt the top line in the near term. Nevertheless, Amphenol is benefiting from solid organic growth and end-market strength across military and commercial aerospace. Additionally, geographic and market diversifications enabled Amphenol to reach new customers. Moreover, acquisitions helped the company strengthen its product offerings and expand customer base. These factors are expected to drive the top line in the long haul.

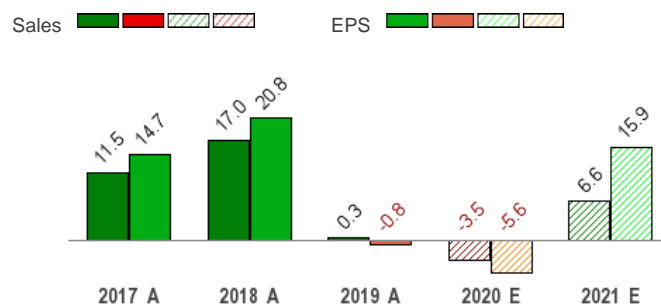
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$110.24 - \$63.05 |
| 20 Day Average Volume (sh) | 2,741,749 |
| Market Cap | \$23.6 B |
| YTD Price Change | -26.9% |
| Beta | 1.06 |
| Dividend / Div Yld | \$1.00 / 1.3% |
| Industry | Electronics - Connectors |
| Zacks Industry Rank | Top 5% (13 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 7.7% |
| Last Sales Surprise | 7.9% |
| EPS F1 Est- 4 week change | -7.8% |
| Expected Report Date | 04/22/2020 |
| Earnings ESP | -6.1% |
| P/E TTM | 21.2 |
| P/E F1 | 22.4 |
| PEG F1 | 2.1 |
| P/S TTM | 2.9 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,894 E | 1,989 E | 2,058 E | 2,099 E | 8,468 E |
| 2020 | 1,925 E | 1,911 E | 2,029 E | 2,108 E | 7,940 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 | \$0.92 E | \$0.97 E | \$1.05 E | \$1.09 E | \$4.09 E |
| 2020 | \$0.80 E | \$0.80 E | \$0.89 E | \$0.95 E | \$3.53 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 03/26/2020. The reports text is as of 03/27/2020.

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.

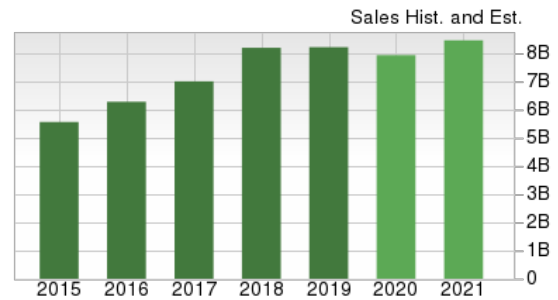
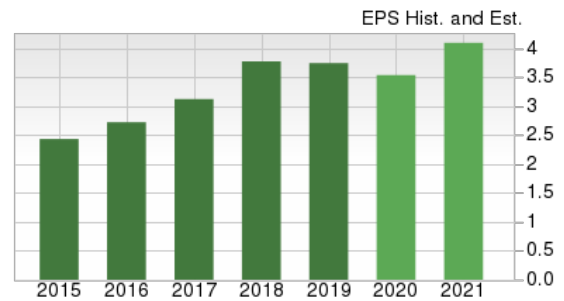
Amphenol reported net sales of \$8.23 billion in 2019. As of Dec 31, 2018, backlog was approximately \$1.72 billion.

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 \$2.2 billion in the fourth quarter.
 - ▲ 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. The recent 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 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. 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 outbreak of the coronavirus in China is expected to hurt Amphenol's results in first-quarter 2020.
- ▼ 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.

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 Q4 Earnings Beat Estimates, Revenues Down Y/Y

Amphenol reported fourth-quarter 2019 adjusted earnings of 98 cents per share that beat the Zacks Consensus Estimate by 7.7% but declined 6.7% from the year-ago quarter's figure.

Net sales decreased 3.3% year over year to \$2.15 billion, which was slightly better than the consensus mark of \$2 billion. Unfavorable foreign exchange impacted sales by \$14 million.

At constant currency (cc), net sales declined 2%. Excluding acquisitions and currency impacts, sales decreased 8% year over year.

Orders were worth \$2.2 billion, which resulted in a book-to-bill ratio of 1.02:1.

Quarter Details

The year-over-year decrease in revenues was primarily due to weakness in communications end markets, particularly the mobile devices and mobile networks markets.

Interconnect Products and Assemblies (95.4% of net sales) sales declined 3.3% from the year-ago quarter to \$2.05 billion. At cc, net sales declined 3% on a year-over-year basis.

Moreover, Cable Products and Solutions sales were \$99.7 million, down 2.5% year over year. At cc, net sales declined 1% on a year-over-year basis.

Gross margin contracted 60 basis points (bps) on a year-over-year basis to 31.6%.

Selling, general and administrative expenses (SG&A), as a percentage of revenues, increased 40 bps to 11.6%.

Adjusted operating margin contracted 100 bps on a year-over-year basis to 20%.

Segment-wise, Interconnect Products and Assemblies operating margin shrank 80 bps to 22%, while Cable Products and Solutions operating margin contracted 190 bps to 10%.

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

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

Acquisitions

Amphenol recently bought EXA Thermometrics, a provider of high technology temperature sensors based in Bangalore, India, with annual sales of approximately \$10 million.

Balance Sheet and Cash Flow

As of Dec 31, 2019, Amphenol had cash and cash equivalents worth \$908.6 million, lower than \$986.7 million as of Sep 30.

Cash flow from operations was \$424 million compared with \$412 million in the previous quarter.

During the quarter, the company repurchased 0.4 million shares for \$43 million.

Guidance

For the first quarter of 2020, Amphenol projects sales between \$1.960 billion and \$2 billion.

Adjusted earnings are expected between 85 cents and 87 cents per share.

For 2020, Amphenol expects sales between \$8.240 billion and \$8.400 billion (flat to up 2% on a year-over-year basis).

Moreover, the company expects adjusted earnings of \$3.76-\$3.84 per share, which indicates a year-over-year increase of 1-3%.

End-Market Guidance

Military end-market sales are expected to decrease slightly from the reported figure in fourth quarter. For 2020, sales growth is expected to be mid-to-high-single digit over 2019.

Commercial aerospace end-market sales are expected to increase modestly from fourth-quarter levels. For 2020, management expects sales similar to 2019's level.

Moreover, for the first quarter, slowing demand in Europe is expected to hurt sales from the industrial end market. For 2020, Amphenol expects growth in low-single digits.

Additionally, sales from the automotive end market are expected to be moderate in the first quarter on a sequential basis, while full-year sales are

Quarter Ending **12/2019**

| Report Date | Jan 22, 2020 |
|------------------|--------------|
| Sales Surprise | 7.94% |
| EPS Surprise | 7.69% |
| Quarterly EPS | 0.98 |
| Annual EPS (TTM) | 3.74 |

expected to increase low-single digit year over year.

Mobile devices end-market sales are expected to decline roughly 25% in the first quarter on a sequential basis. For 2020, Amphenol expects flat sales on a year-over-year basis.

Further, the mobile networks end market's first-quarter sales are expected to increase modestly on a sequential basis. For 2020, sales are expected to decline low-single digits year over year.

Information technology and data communications end-market sales are expected to be moderate from fourth-quarter levels in the first quarter. For 2020, management anticipates flat sales on a year-over-year basis.

Broadband sales are expected to be moderate on a sequential basis in the first quarter. Moreover, 2020 sales are expected to increase in the low-double-digit range year over year.

Recent News

On Feb 24, Amphenol announced that due to the COVID-19 outbreak in China, it doesn't expect to meet its first-quarter 2020 sales and adjusted earnings guidance provided on Jan 22. Amphenol had projected sales between \$1.960 billion and \$2 billion. Adjusted earnings were expected between 85 cents and 87 cents per share.

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 18% in the past six-month period and 15.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 17.9% and 2.4% in the past six-month period, respectively. Over the past year, while the Zacks sub-industry is down 15.4%, the sector is up 0.5%.

The S&P 500 index is up 16.7% in the past six-month period and 7.5% in the past year.

The stock is currently trading at 20.22X forward 12-month earnings, which compares to 18.91X for the Zacks sub-industry, 17.88X for the Zacks sector and 14.93X 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 23.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$83 price target reflects 21.17X 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 | 20.22 | 18.91 | 17.88 | 14.93 |
| | 5-Year High | 29.85 | 25.71 | 22.02 | 19.34 |
| | 5-Year Low | 17.52 | 18.25 | 16.85 | 14.93 |
| | 5-Year Median | 23.32 | 22.13 | 19.3 | 17.42 |
| P/S F12M | Current | 2.79 | 2.56 | 2.9 | 2.68 |
| | 5-Year High | 4.02 | 3.64 | 3.58 | 3.43 |
| | 5-Year Low | 2.41 | 2.36 | 2.3 | 2.54 |
| | 5-Year Median | 3.28 | 3.09 | 3.02 | 3 |
| EV/Sales TTM | Current | 3.13 | 2.78 | 3.41 | 2.48 |
| | 5-Year High | 4.45 | 4.22 | 4.48 | 3.46 |
| | 5-Year Low | 2.7 | 2.56 | 2.57 | 2.16 |
| | 5-Year Median | 3.65 | 3.46 | 3.54 | 2.83 |

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 5% (13 out of 253)



Top Peers

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

| Industry Comparison Industry: Electronics - Connectors | | | | Industry Peers | | |
|--|-------------|------------|-----------|----------------|----------------|-------------|
| | APH Neutral | X Industry | S&P 500 | KEM Neutral | MEI Outperform | TEL Neutral |
| VGM Score | C | - | - | C | B | C |
| Market Cap | 23.60 B | 532.01 M | 18.50 B | 1.42 B | 1.03 B | 22.76 B |
| # of Analysts | 7 | 4.5 | 13 | 3 | 2 | 9 |
| Dividend Yield | 1.26% | 0.63% | 2.35% | 0.41% | 1.58% | 2.70% |
| Value Score | F | - | - | B | B | C |
| Cash/Price | 0.04 | 0.09 | 0.07 | 0.16 | 0.09 | 0.04 |
| EV/EBITDA | 13.45 | 8.25 | 11.16 | 6.13 | 8.25 | 9.46 |
| PEG Ratio | 1.97 | 2.23 | 1.74 | NA | NA | 1.28 |
| Price/Book (P/B) | 5.11 | 1.27 | 2.44 | 2.07 | 1.34 | 2.16 |
| Price/Cash Flow (P/CF) | 16.05 | 6.63 | 9.87 | 5.62 | 6.63 | 8.89 |
| P/E (F1) | 21.23 | 15.27 | 15.29 | 11.16 | 8.14 | 13.97 |
| Price/Sales (P/S) | 2.87 | 1.04 | 1.93 | 1.08 | 0.96 | 1.72 |
| Earnings Yield | 4.46% | 8.37% | 6.47% | 8.96% | 12.28% | 7.16% |
| Debt/Equity | 0.70 | 0.34 | 0.70 | 0.41 | 0.34 | 0.32 |
| Cash Flow (\$/share) | 4.93 | 3.29 | 7.01 | 4.35 | 4.20 | 7.67 |
| Growth Score | B | - | - | D | C | C |
| Hist. EPS Growth (3-5 yrs) | 13.37% | 13.37% | 10.85% | 186.47% | 8.10% | 11.53% |
| Proj. EPS Growth (F1/F0) | -5.50% | 7.37% | 2.89% | -38.14% | 40.74% | -12.01% |
| Curr. Cash Flow Growth | -1.02% | 4.63% | 5.93% | 72.61% | 10.28% | -2.61% |
| Hist. Cash Flow Growth (3-5 yrs) | 10.51% | 10.72% | 8.55% | 50.32% | 10.94% | 3.85% |
| Current Ratio | 1.97 | 2.84 | 1.23 | 2.38 | 2.84 | 1.64 |
| Debt/Capital | 41.07% | 25.45% | 42.57% | 29.15% | 25.45% | 24.43% |
| Net Margin | 14.04% | 14.02% | 11.64% | 10.21% | 10.74% | 12.01% |
| Return on Equity | 26.78% | 17.68% | 16.74% | 25.26% | 15.86% | 17.72% |
| Sales/Assets | 0.78 | 0.85 | 0.54 | 0.96 | 0.85 | 0.67 |
| Proj. Sales Growth (F1/F0) | -3.47% | 0.00% | 2.37% | -10.52% | 11.22% | -6.41% |
| Momentum Score | C | - | - | C | B | D |
| Daily Price Chg | 5.67% | 0.16% | 6.21% | 4.53% | 8.12% | 7.42% |
| 1 Week Price Chg | -12.01% | -16.71% | -16.96% | -6.23% | -16.18% | -20.87% |
| 4 Week Price Chg | -14.49% | -22.37% | -15.70% | -6.40% | -10.48% | -18.02% |
| 12 Week Price Chg | -27.52% | -35.87% | -23.67% | -8.98% | -29.36% | -29.33% |
| 52 Week Price Chg | -15.80% | -18.23% | -13.99% | 46.70% | -0.78% | -14.76% |
| 20 Day Average Volume | 2,741,749 | 186,086 | 4,286,768 | 1,729,727 | 318,313 | 3,443,906 |
| (F1) EPS Est 1 week change | -3.25% | -1.62% | -0.15% | -2.23% | 0.00% | -3.11% |
| (F1) EPS Est 4 week change | -7.82% | -2.48% | -2.28% | -2.23% | 2.86% | -5.93% |
| (F1) EPS Est 12 week change | -10.95% | -4.12% | -3.22% | 1.15% | 2.70% | -4.50% |
| (Q1) EPS Est Mthly Chg | -7.20% | -6.77% | -1.60% | -18.92% | -6.34% | -8.00% |

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 | F |
| Growth Score | B |
| Momentum Score | C |
| 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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