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Jan 29, 2020

Amphenol Corporation (APH)

$103.41 (As of 01/28/20)

Price Target (6-12 Months): **$109.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/23/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: B | Momentum: D	

Summary

Amphenol's fourth-quarter 2019 results were negatively impacted by weakness in communications end markets, particularly the mobile devices and mobile networks markets. Both earnings and revenues declined on a year-over-year basis. However, adjusted operating margins for the year were strong and the company generated a record cash flow as well as free cash flow, indicating solid execution. Shares have outperformed the industry in the past year. The company 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 end-market diversifications have enabled Amphenol to reach new customers. This is expected to drive the top line in the long haul.

Price, Consensus & Surprise

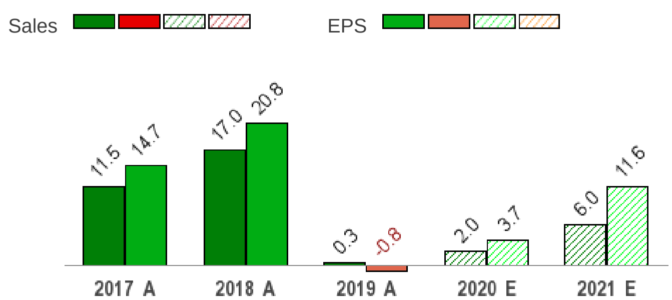
Data Overview

52 Week High-Low	**$110.24 - $83.78**
20 Day Average Volume (sh)	**1,083,266**
Market Cap	**$30.7 B**
YTD Price Change	**-4.5%**
Beta	**1.03**
Dividend / Div Yld	**$1.00 / 1.0%**
Industry	**Electronics - Connectors**
Zacks Industry Rank	**Top 45% (115 out of 255)**

Last EPS Surprise	**7.7%**
Last Sales Surprise	**7.9%**
EPS F1 Est- 4 week change	**-3.3%**
Expected Report Date	**04/22/2020**
Earnings ESP	**0.2%**

P/E TTM	**27.7**
P/E F1	**26.7**
PEG F1	**2.5**
P/S TTM	**3.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,076 E	2,179 E	2,256 E	2,301 E	8,886 E
2020	1,990 E	2,046 E	2,145 E	2,208 E	8,386 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	$1.00 E	$1.06 E	$1.15 E	$1.20 E	$4.33 E
2020	$0.87 E	$0.93 E	$1.00 E	$1.04 E	$3.88 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 01/28/2020. The reports text is as of 01/29/2020.

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Overview

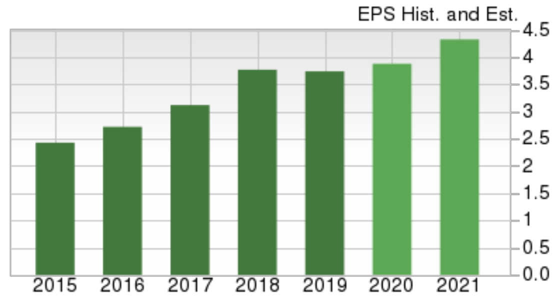
Headquartered in Wallingford, CT, Amphenol Corporation designs, manufactures and markets electrical, electronic and fiber optic connectors, interconnect systems, antennas, sensors and sensor-based products and coaxial and high-speed specialty cable.

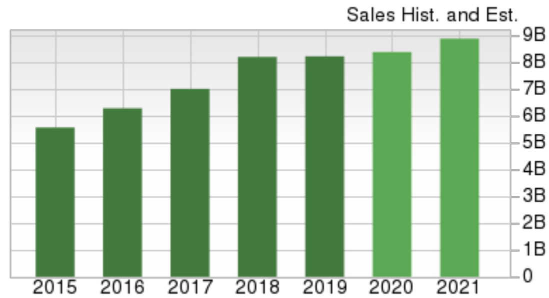
Amphenol's manufacturing facilities are generally vertically integrated operations from the initial design stage through final design and manufacturing. The company's manufacturing presence is in more than 30 countries.

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.

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▲ 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 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.

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.

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

- 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.

Last Earnings Report

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

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 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 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 7.8% in the six-months period and 17.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 8.1% and 12.9% in the six-months period, respectively. Over the past year, the Zacks sub-industry and sector are up 17.9% and 30.4%, respectively.

The S&P 500 index is up 8.9% in the six-months period and 21.4% in the past year.

The stock is currently trading at 26.14X forward 12-month earnings, which compares to 24.77X for the Zacks sub-industry, 22.39X for the Zacks sector and 18.62X 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 23.24X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $109 price target reflects 27.53X 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	26.14	24.77	22.39	18.62
	5-Year High	29.85	25.71	22.39	19.34
	5-Year Low	17.84	18.25	16.87	15.18
	5-Year Median	23.24	22.13	19.24	17.45
P/S F12M	Current	3.64	3.35	3.63	3.46
	5-Year High	4.02	3.64	3.63	3.46
	5-Year Low	2.43	2.36	2.3	2.54
	5-Year Median	3.26	3.09	3.01	3
EV/Sales TTM	Current	4.04	3.74	4.3	3.25
	5-Year High	4.45	4.22	4.3	3.3
	5-Year Low	2.7	2.56	2.56	2.16
	5-Year Median	3.65	3.46	3.46	2.8

As of 01/28/2020

Industry Analysis **Zacks Industry Rank:** Top 45% (115 out of 255)

Top Peers

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

Industry Comparison Industry: Electronics - Connectors

Industry Peers

	APH Neutral	X Industry	S&P 500	KEM Neutral	MEI Neutral	TEL Neutral
VGM Score	C	-	-	B	B	B
Market Cap	30.66 B	692.97 M	23.90 B	1.53 B	1.33 B	32.80 B
# of Analysts	8	4	13	3	2	9
Dividend Yield	0.97%	0.48%	1.8%	0.57%	1.22%	1.88%
Value Score	D	-	-	A	A	C
Cash/Price	0.03	0.07	0.04	0.13	0.07	0.03
EV/EBITDA	16.69	10.32	14.05	6.59	10.32	13.11
PEG Ratio	2.49	2.65	2.00	NA	NA	1.79
Price/Book (P/B)	7.28	1.96	3.28	2.34	1.82	3.12
Price/Cash Flow (P/CF)	21.09	9.20	13.57	6.02	8.56	12.79
P/E (F1)	26.86	18.73	18.76	11.93	10.81	19.15
Price/Sales (P/S)	3.73	1.87	2.63	1.11	1.28	2.44
Earnings Yield	3.75%	6.51%	5.33%	8.39%	9.26%	5.22%
Debt/Equity	0.84	0.39	0.72	0.42	0.39	0.32
Cash Flow ($/share)	4.90	3.29	6.89	4.35	4.20	7.67
Growth Score	B	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	13.37%	13.37%	10.68%	179.51%	7.71%	11.41%
Proj. EPS Growth (F1/F0)	3.74%	9.85%	7.63%	-37.95%	36.83%	-7.69%
Curr. Cash Flow Growth	21.82%	16.05%	13.04%	72.61%	10.28%	-2.61%
Hist. Cash Flow Growth (3-5 yrs)	14.17%	12.55%	8.78%	50.32%	10.94%	3.85%
Current Ratio	1.99	2.53	1.24	2.15	2.53	1.57
Debt/Capital	45.71%	27.84%	42.99%	29.81%	27.84%	24.31%
Net Margin	14.04%	14.04%	11.47%	11.56%	10.13%	13.71%
Return on Equity	27.42%	18.42%	17.21%	32.53%	15.27%	18.20%
Sales/Assets	0.78	0.83	0.54	1.03	0.83	0.69
Proj. Sales Growth (F1/F0)	1.95%	1.95%	4.10%	-9.03%	10.88%	-3.09%
Momentum Score	D	-	-	A	D	A
Daily Price Chg	0.76%	0.07%	0.90%	-0.15%	0.14%	1.30%
1 Week Price Chg	-3.74%	-2.98%	-1.09%	-0.83%	-4.46%	-1.78%
4 Week Price Chg	-4.45%	-4.40%	0.46%	-3.11%	-8.62%	2.36%
12 Week Price Chg	-0.96%	1.80%	4.15%	13.86%	-3.18%	3.74%
52 Week Price Chg	20.15%	30.55%	18.27%	28.48%	40.96%	24.57%
20 Day Average Volume	1,083,266	104,196	1,730,811	871,989	142,682	1,560,152
(F1) EPS Est 1 week change	-3.54%	-1.85%	0.00%	0.00%	-0.15%	0.09%
(F1) EPS Est 4 week change	-3.33%	-1.74%	0.00%	0.00%	-0.15%	0.20%
(F1) EPS Est 12 week change	-3.29%	-0.01%	-0.13%	-22.75%	3.26%	0.07%
(Q1) EPS Est Mthly Chg	-2.07%	-1.04%	0.00%	0.00%	0.00%	0.46%

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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