

Aptiv PLC(APTV)

\$68.91 (As of 03/09/20)

Price Target (6-12 Months): **\$58.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/18/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
5-Strong Sell

Zacks Style Scores:

VGM:B

Value: C

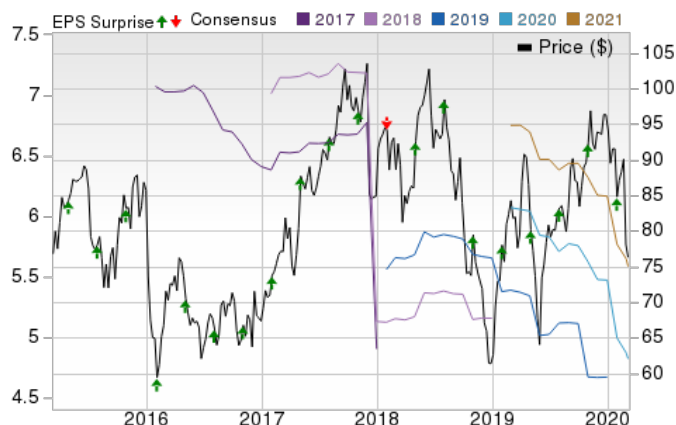
Growth: B

Momentum: D

Summary

Weak global demand environment continues to weigh on Aptiv's performance. For 2020, the company expects vehicle production to decline 3%. Additionally, the company continues to witness escalation in costs due to investment in organic as well as inorganic growth, and litigations. Seasonality causes considerable fluctuations in the company's revenues and makes forecasting difficult. Partly due to these negatives, shares of Aptiv have underperformed the industry over the past year. On the flip side, Aptiv is well positioned to leverage on growing electrification, connectivity and autonomy trends in the rapidly evolving automotive sector. It has ramped up investments in advanced technology and collaborations to make the most of the lucrative opportunities offered by the sector. Acquisitions have been helping the company to expand market presence.

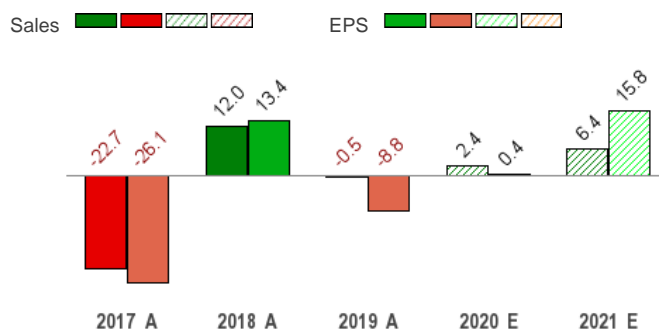
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|-------------------------------------|
| 52 Week High-Low | \$99.04 - \$63.36 |
| 20 Day Average Volume (sh) | 1,816,472 |
| Market Cap | \$17.6 B |
| YTD Price Change | -27.4% |
| Beta | 1.89 |
| Dividend / Div Yld | \$0.88 / 1.3% |
| Industry | Technology Services |
| Zacks Industry Rank | Top 27% (68 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 12.8% |
| Last Sales Surprise | 1.4% |
| EPS F1 Est- 4 week change | -3.0% |
| Expected Report Date | 05/07/2020 |
| Earnings ESP | -9.5% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2021 | 3,785 E | 3,967 E | 3,911 E | 4,036 E | 15,647 E |
| 2020 | 3,402 E | 3,726 E | 3,701 E | 3,782 E | 14,703 E |
| 2019 | 3,575 A | 3,627 A | 3,559 A | 3,596 A | 14,357 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.32 E | \$1.46 E | \$1.46 E | \$1.53 E | \$5.58 E |
| 2020 | \$0.77 E | \$1.28 E | \$1.34 E | \$1.45 E | \$4.82 E |
| 2019 | \$1.05 A | \$1.33 A | \$1.27 A | \$1.15 A | \$4.80 A |

*Quarterly figures may not add up to annual.

| | |
|---------|------|
| P/E TTM | 14.4 |
| P/E F1 | 14.3 |
| PEG F1 | 1.3 |
| P/S TTM | 1.2 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

Overview

Aptiv PLC is one of the leading global technology and mobility company which mainly serves the automotive sector. It is a designer and manufacturer of vehicle components as well as provider of electrical, electronic and safety technology solutions to the global automotive market. The company delivers end-to-end smart mobility solutions, active safety and autonomous driving technologies and provides enhanced user experience and connected services.

On Dec, 5, 2017, Delphi Automotive plc spun off its legacy powertrain business and the remainder of the company, changing its name to Aptiv.

Aptiv is one of the largest vehicle component manufacturers. Its customers include all 25 of the largest automotive original equipment manufacturers ("OEMs") in the world.

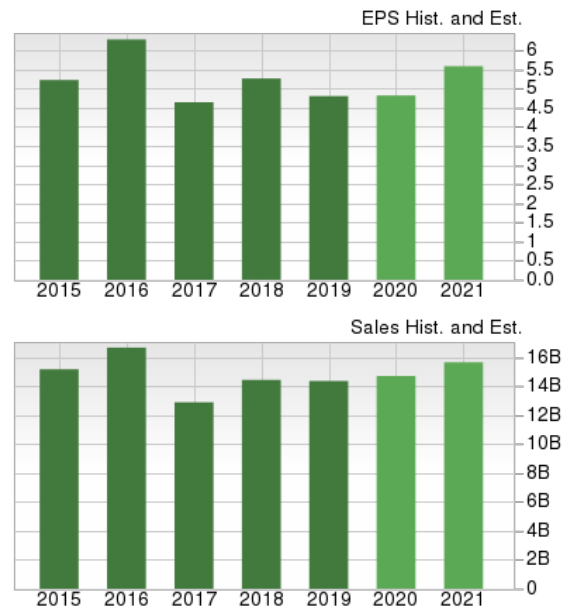
The company operates 126 major manufacturing facilities and 15 major technical centers. The company enjoys a presence in 44 countries and has approximately 18,600 scientists, engineers and technicians focused on developing market relevant product solutions for our customers.

Aptiv's business is diversified across end-markets, regions, customers, vehicle platforms and products. In 2019, 27% of net sales came from the Asia Pacific region, which has been identified as a key market likely to witness substantial long-term growth.

The company operates through two reportable segments — Signal and Power Solutions and Advanced Safety and User Experience. In 2019, the company generated \$14.4 billion revenues (down 1% year over year).

Signal and Power Solutions: This segment designs, manufactures and assembles vehicle's electrical architecture, including engineered component products, wiring assemblies and harnesses, connectors, cable management, electrical centers, and hybrid high voltage and safety distribution systems. The segment accounted for 72% of net sales in 2019.

Advanced Safety and User Experience: This segment provides critical components, systems and advanced software development for passenger safety, security, comfort and vehicle operation. Offerings include passive and active safety electronics, infotainment and connectivity systems, autonomous driving software and technologies, body controls, displays and systems integration.



Reasons To Sell:

- ▼ **Weak global demand environment** continues to weigh on Aptiv's performance. For 2020, the company expects vehicle production to decline 3%. Notably, 2020 is anticipated to reflect the third consecutive year of declining vehicle production.
- ▼ Aptiv is witnessing **escalation in costs** as it continues to invest in organic as well as inorganic growth, and remains embroiled in a legal matter. Investments in products like autonomous driving software are expected to make meaningful contributions to the company's growth after 2020, indicating that acceptance and integration of technology will take longer time. In addition, the company is embroiled with a litigation associated with general unsecured claims against the former Delphi Corporation, further adding to its costs. This may weigh on its share price which has declined 16.6% over the past year compared with 14.7% decline of the industry it belongs to.
- ▼ Aptiv's business experiences **seasonality**. The company's North American customers shrink production in July and halt operations for a week in December. European customers reduce production in July and August as well as for one week in December. There are shut down periods in other markets as well. Furthermore, overall automotive production remains down in July, August and September due to launch of component production for new vehicle models. Seasonality causes considerable fluctuations in revenues and makes profit forecasting difficult.

Weak global demand environment, investments and litigation continues to weigh on Aptiv's bottom line.

Risks

- Prospects over Aptiv's exposure to the **lucrative connected cars market** are benefitting its stock. With safety becoming a key selling point for these cars, automakers are increasingly seeking related technologies. This is one of the reasons behind quick advancement of the driver-assistance system market. Demand for personalization, infotainment connectivity and convenience are also increasing rapidly. Furthermore, added features require more wiring inside vehicles. We believe that with excellent system integration expertise, Aptiv is well positioned to leverage on growing electrification, connectivity and autonomy trends in the automotive sector. The company's "smart architecture" provides a competitive advantage and should help it continue gaining market share. Decreasing environmental impact and increasing fuel economy is a key trend in the industry today and OEMs have increased their search for better engine management and lower power consumption. Aptiv intends to take advantage of this trend as its "smart architecture" reduces wiring requirement in cars, thus helping them to become more fuel efficient and add new features.
 - Aptiv has ramped up **investments in advanced technology** and collaborations to make the most of the lucrative opportunities offered by the rapidly evolving automotive sector. In terms of technology, the company has developed automated driving software, key active safety sensing technologies and Multi-Domain Controller — an advanced centralized supercomputer platform that integrates information from sensing systems — and mapping and navigation data to assist driving decisions. Aptiv has collaborated with Mobileye N.V. for joint development of Centralized Sensing Localization and Planning ("CSLP") system — a complete turn-key fully autonomous driving platform. It has also collaborated with BMW and Intel for development and use of self-driving technology.
 - **Acquisition is a key growth strategy** for Aptiv. The acquisition of gabocom (in October 2019) enhances Aptiv's cable management portfolio and strengthens its position in the telecommunications market. In 2018, the company acquired KUM and Winchester Interconnect. Both the buyouts have strengthened its Signal and Power Solutions segment. Aptiv intends to continue making investments aimed at organic as well as inorganic growth. Investments are an integral part of Aptiv's productivity initiatives, which should help the company grow on its operating margin, going ahead.
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Last Earnings Report

Aptiv Surpasses Q4 Earnings and Revenue Estimates

Aptiv reported better-than-expected fourth-quarter 2019 results.

Adjusted earnings of \$1.15 per share beat the Zacks Consensus Estimate by 12.7% but declined 14.2% year over year. Revenues of \$3.6 billion surpassed the consensus mark by 1.4% but declined 1% year over year.

Quarterly Numbers in Detail

Revenues in the Signal and Power Solutions segment totaled \$2.57 billion, down 1% on a year-over-year basis and contributed 71% to total revenues. Advanced Safety and User Experience revenues of \$1.03 billion were down 1% year over year and contributed 29% to total revenues.

Adjusted operating income of \$388 million fell 9.8% year over year. Adjusted operating income margin declined to 10.8% from 11.5% in the prior-year quarter due to unfavorable impacts of the GM labor strike.

Aptiv exited the quarter with cash and cash equivalents balance of \$412 million compared with \$341 million at the end of the prior quarter. Long-term debt was \$4 billion, flat with the prior quarter.

Total available liquidity at the end of the quarter was \$2.4 billion compared with \$2.3 billion at the end of the prior quarter. Net cash provided by operating activities was \$703 million and capital expenditures were \$162 million in the quarter.

During the fourth quarter, Aptiv returned \$86 million to shareholders through share repurchases and dividends. The company repurchased shares for roughly \$30 million and paid out \$56 million in dividend payments.

Q1 Guidance

The company expects adjusted earnings in the range of 86 cents to 94 cents per share. Net sales are anticipated between \$3.47 billion and \$3.57 billion. Adjusted operating income is expected in the range of \$303-\$308 million. Adjusted operating income margin is anticipated between 8.7% and 9.2%. The company expects effective tax rate between 12% and 13% for the quarter.

2020 Guidance

Adjusted earnings are expected in the range of \$4.75-\$5.05 per share. Net sales are anticipated between \$14.5 billion and \$14.9 billion. Adjusted operating income is expected in the range of \$1,670-\$1,770 million. Adjusted operating income margin is anticipated between 11.5% and 11.9%. The company expects capital expenditures of \$750 million and adjusted effective tax rate between 12% and 13% for the year.

Quarter Ending **12/2019**

| Report Date | Jan 30, 2020 |
|------------------|--------------|
| Sales Surprise | 1.41% |
| EPS Surprise | 12.75% |
| Quarterly EPS | 1.15 |
| Annual EPS (TTM) | 4.80 |

Recent News

On **Feb 14, 2020**, Aptiv announced that its president and chief executive officer, Kevin Clark, and senior vice president and chief financial officer, Joseph Massaro, will attend the Barclays Industrial Select Conference, scheduled to be held on Feb 19, 2020 in Miami.

On **Jan 23, 2020**, Aptiv's board of directors declared a quarterly cash dividend of 22 cents per share, payable on Feb 19, 2020, to shareholders of record at the close of business on Feb 5, 2020.

On **Jan 9, 2020**, Aptiv announced the appointment of Joseph L. (Jay) Hooley to its board of directors, effective Jan 8, 2020.

On **Jan 6, 2020**, Aptiv announced that it has got access to pick up and drop off a select group of passengers through its self-driving vehicles at the McCarran International Airport, Las Vegas.

Valuation

Aptiv shares are down 16.6% over the trailing 12-month period. The Zacks sub-industry is down 14.7% while the sector and S&P 500 index are down 1.6% and 2.4%, respectively in the same time frame.

The stock is currently trading at trailing 12-month EV/EBITDA of 10.59X, which compares to 17.07X for the Zacks sub-industry, 10.99X for the Zacks sector and 11.04X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.62X and as low as 8.75X, with a 5-year median of 11.24X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$58.00 price target reflects 8.92X forward 12-month earnings.

The table below shows summary valuation data for APTV

| Valuation Multiples - APTV | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| EV/EBITDA TTM | Current | 10.59 | 17.07 | 10.99 | 11.04 |
| | 5-Year High | 12.62 | 17.95 | 12.27 | 12.63 |
| | 5-Year Low | 8.75 | 11.99 | 10.99 | 10.51 |
| | 5-Year Median | 11.24 | 15.12 | 11.51 | 11.21 |
| P/E F12M | Current | 13.89 | 55.05 | 23 | 17.01 |
| | 5-Year High | 20.63 | 55.08 | 25.27 | 18.69 |
| | 5-Year Low | 11.97 | 41.39 | 22.94 | 16.14 |
| | 5-Year Median | 15.67 | 44.78 | 23.71 | 17.15 |
| P/S F12M | Current | 1.18 | 2.55 | 3.65 | 3.14 |
| | 5-Year High | 1.72 | 2.55 | 3.97 | 3.44 |
| | 5-Year Low | 1.09 | 1.66 | 3.62 | 3 |
| | 5-Year Median | 1.45 | 2.1 | 3.72 | 3.16 |

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Top 27% (68 out of 253)



Top Peers

| | |
|--------------------------------|------------|
| NOMURA RESH LTD (NRILY) | Outperform |
| Autoliv, Inc. (ALV) | Neutral |
| Delphi Technologies PLC (DLPH) | Neutral |
| IQVIA Holdings Inc. (IQV) | Neutral |
| Ntt Data Corporation (NTDTY) | Neutral |
| Spotify Technology SA (SPOT) | Neutral |
| Thomson Reuters Corp (TRI) | Neutral |
| WARTSILA OYJ (WRTBY) | Neutral |

| Industry Comparison Industry: Technology Services | | | | Industry Peers | | |
|---|-------------------|------------|-----------|----------------|-------------|---------------|
| | APTV Underperform | X Industry | S&P 500 | ALV Neutral | IQV Neutral | NTDTY Neutral |
| VGM Score | B | - | - | B | A | A |
| Market Cap | 17.59 B | 157.03 M | 19.13 B | 5.04 B | 23.85 B | 15.64 B |
| # of Analysts | 11 | 2 | 13 | 6 | 11 | 2 |
| Dividend Yield | 1.28% | 0.00% | 2.26% | 4.30% | 0.00% | 1.15% |
| Value Score | C | - | - | B | C | A |
| Cash/Price | 0.02 | 0.10 | 0.05 | 0.08 | 0.03 | 0.13 |
| EV/EBITDA | 10.66 | -0.08 | 11.99 | 6.02 | 17.32 | 6.70 |
| PEG Ratio | 1.36 | 1.31 | 1.68 | NA | 1.22 | NA |
| Price/Book (P/B) | 4.39 | 2.30 | 2.64 | 2.37 | 3.84 | 1.73 |
| Price/Cash Flow (P/CF) | 8.98 | 12.26 | 10.70 | 5.92 | 10.02 | 6.90 |
| P/E (F1) | 15.15 | 20.93 | 15.44 | 9.13 | 17.05 | 19.22 |
| Price/Sales (P/S) | 1.23 | 1.40 | 2.05 | 0.59 | 2.15 | 0.80 |
| Earnings Yield | 6.99% | 0.72% | 6.47% | 10.95% | 5.86% | 5.20% |
| Debt/Equity | 1.07 | 0.05 | 0.70 | 0.87 | 1.91 | 0.60 |
| Cash Flow (\$/share) | 7.67 | -0.05 | 7.01 | 9.74 | 12.38 | 1.62 |
| Growth Score | B | - | - | B | A | A |
| Hist. EPS Growth (3-5 yrs) | -1.17% | 2.09% | 10.85% | -1.99% | 16.64% | NA |
| Proj. EPS Growth (F1/F0) | 0.34% | 16.67% | 6.25% | 10.52% | 13.80% | -3.33% |
| Curr. Cash Flow Growth | -5.77% | 3.36% | 6.09% | -14.39% | 8.25% | 4.97% |
| Hist. Cash Flow Growth (3-5 yrs) | -1.25% | 8.85% | 8.52% | -0.08% | 37.91% | NA |
| Current Ratio | 1.31 | 1.28 | 1.24 | 1.25 | 1.05 | 1.16 |
| Debt/Capital | 51.74% | 12.43% | 42.57% | 46.51% | 65.60% | 37.37% |
| Net Margin | 6.90% | -13.12% | 11.69% | 5.40% | 1.72% | 4.29% |
| Return on Equity | 32.61% | -11.80% | 16.74% | 24.56% | 17.65% | 9.90% |
| Sales/Assets | 1.09 | 0.66 | 0.54 | 1.27 | 0.48 | 0.89 |
| Proj. Sales Growth (F1/F0) | 2.41% | 10.50% | 3.76% | 3.18% | 7.10% | 7.04% |
| Momentum Score | D | - | - | D | B | D |
| Daily Price Chg | -9.67% | -7.14% | -7.65% | -7.93% | -8.86% | -4.27% |
| 1 Week Price Chg | -2.33% | -1.08% | -0.67% | -6.07% | -2.47% | 0.00% |
| 4 Week Price Chg | -21.07% | -17.27% | -19.26% | -22.66% | -22.47% | -17.44% |
| 12 Week Price Chg | -27.43% | -8.13% | -17.26% | -32.52% | -15.38% | -18.38% |
| 52 Week Price Chg | -16.55% | -43.70% | -6.83% | -26.20% | -11.05% | -1.15% |
| 20 Day Average Volume | 1,816,472 | 89,433 | 2,684,709 | 652,990 | 1,906,886 | 99 |
| (F1) EPS Est 1 week change | -0.53% | 0.00% | 0.00% | -0.85% | -0.00% | 0.00% |
| (F1) EPS Est 4 week change | -2.98% | 0.00% | -0.06% | -1.82% | -1.79% | -7.20% |
| (F1) EPS Est 12 week change | -12.04% | -0.41% | -0.46% | -4.67% | -1.79% | -6.45% |
| (Q1) EPS Est Mthly Chg | -15.78% | 0.00% | -0.40% | -1.78% | -7.14% | NA |

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 | D |
| VGM Score | B |

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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