

Aptiv PLC(APTV)

\$89.51 (As of 01/10/20)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 12/04/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
4-Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: D

Summary

Weak global demand environment continues to weigh on Aptiv's performance. Automotive vehicle production has been declining over the past few years. The company is seeing 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. On the flip side, Aptiv is well positioned to leverage on growing electrification, connectivity and autonomy trends in the rapidly evolving automotive sector. Aptiv 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. Due to these positives, shares of Aptiv have outperformed the industry's growth over the past year.

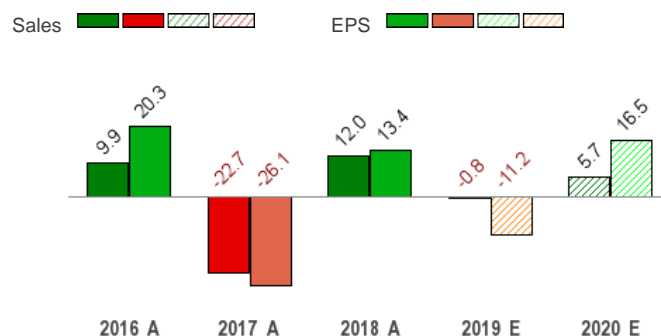
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$99.04 - \$63.36
20 Day Average Volume (sh)	1,095,944
Market Cap	\$22.9 B
YTD Price Change	-5.8%
Beta	2.01
Dividend / Div Yld	\$0.88 / 1.0%
Industry	Technology Services
Zacks Industry Rank	Bottom 39% (154 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	01/30/2020
Earnings ESP	-1.7%
P/E TTM	17.9
P/E F1	16.5
PEG F1	1.5
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,743 E	3,810 E	3,735 E	3,881 E	15,144 E
2019	3,575 A	3,627 A	3,559 A	3,558 E	14,321 E
2018	3,630 A	3,684 A	3,485 A	3,636 A	14,435 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.25 E	\$1.41 E	\$1.41 E	\$1.44 E	\$5.44 E
2019	\$1.05 A	\$1.33 A	\$1.27 A	\$1.02 E	\$4.67 E
2018	\$1.29 A	\$1.40 A	\$1.24 A	\$1.34 A	\$5.26 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 01/10/2020. The reports text is as of 01/13/2020.

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.

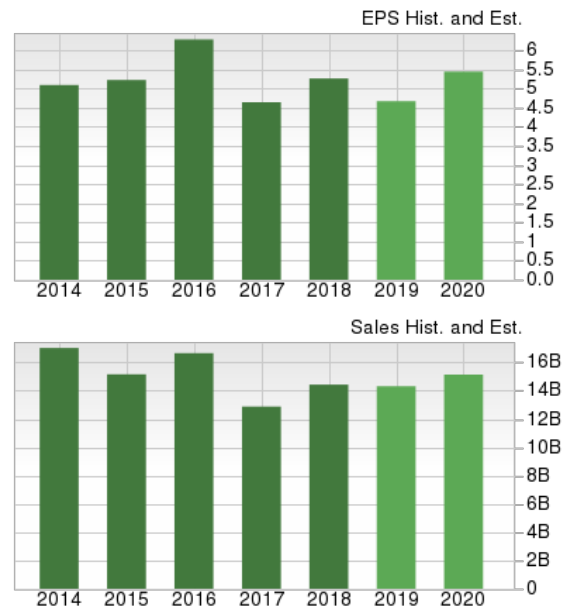
The company operates 126 major manufacturing facilities and 15 major technical centers. The company enjoys a presence in 44 countries and has approximately 18,600 scientists, engineers and technicians focused on developing market relevant product solutions for our customers.

Aptiv's business is diversified across end-markets, regions, customers, vehicle platforms and products. In 2018, 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 2018, the company generated \$14.4 billion revenues (up 12% 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 2018.

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. Automotive vehicle production has been declining over the past few years.
- ▼ 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.
- ▼ 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 that has gained 27.2% over the past year, significantly outperforming the 0.9% rally of the industry. 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 recent acquisition of gabocom 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 Meets Q3 Earnings & Revenue Estimates

Aptiv's third-quarter 2019 earnings came in line with the Zacks Consensus Estimate but revenues missed the same.

Adjusted earnings of \$1.27 per share increased 2.4% year over year and came at lower end of the guidance of \$1.27-\$1.33 per share. Revenues of \$3.56 billion missed the consensus mark by \$47 million but increased 2.1% year over year. Revenues came in below the guidance of \$3.60-\$3.70 billion.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-1.30%
EPS Surprise	0.00%
Quarterly EPS	1.27
Annual EPS (TTM)	4.99

Quarterly Numbers in Detail

Revenues in the Signal and Power Solutions segment totaled \$2.58 billion, up 2% on a year-over-year basis and contributed 73% to total revenues. Advanced Safety and User Experience revenues of \$985 million were up 3% year over year and contributed 27% to total revenues.

Adjusted operating income of \$410 million fell 2.4% year over year. Adjusted operating income margin declined to 11.5% from 12.1% in the prior-year quarter due to unfavorable impacts of GM labor strike, partially offset by higher sales growth.

Aptiv exited the quarter with cash and cash equivalents balance of \$341 million compared with \$365 million at the end of the prior quarter. Long-term debt was \$3.9 billion, compared with \$4 billion in the prior quarter.

Total available liquidity at the end of the quarter was \$2.3 billion compared with \$2.2 billion at the end of the prior quarter. Net cash provided by operating activities was \$325 million and capital expenditures were \$168 million in the quarter.

During the third quarter, Aptiv returned \$100 million to shareholders through share repurchases and dividends. The company repurchased 0.5 million shares for roughly \$44 million and paid out \$56 million in dividend payments.

2019 Guidance

The company expects adjusted earnings in the range of \$4.62-\$4.68 per share. Net sales are anticipated between \$14.255 billion and \$14.355 billion. Adjusted operating income is expected in the range of \$1,525-\$1,545 million. Adjusted operating income margin is anticipated between 10.7% and 10.8%. The company expects capital expenditures of \$800 million and adjusted effective tax rate between 12 and 13% for the year.

Recent News

On **Dec 4, 2019**, Aptiv announced that its Pittsburgh Technology Center will move to new offices at Mill 19 in Hazelwood Green.

On **Nov 19, 2019**, Aptiv announced that it has completed the acquisition of gabo Systemtechnik GmbH ("gabocom") from Bregal Unternehmerkapital. gabocom is a German-based provider of highly-engineered, cable management and protection solutions for the telecommunications industry.

On **Oct 24, 2019**, Aptiv's board of directors declared a quarterly cash dividend of 22 cents per share, which is payable on Nov 20, to shareholders of record at the close of business on Nov 6.

Valuation

Aptiv shares are up 27.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 0.9% and 28.3%, respectively, over the past year.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 11.63X, which compares to 17.79X for the Zacks sub-industry, 12.09X for the Zacks sector and 11.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.44X and as low as 6.9X, with a 5-year median of 9.72X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$72.00 price target reflects 13.18X 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	11.63	17.79	12.09	11.99
	5-Year High	12.44	18.01	12.56	12.86
	5-Year Low	6.90	6.76	8.75	8.48
	5-Year Median	9.72	12.08	10.43	10.67
P/E F 12M	Current	16.39	53.09	25.29	18.88
	5-Year High	20.63	53.09	25.29	19.34
	5-Year Low	9.03	12.61	18.76	15.17
	5-Year Median	13.64	34.29	20.56	17.44
P/S F12M	Current	151	2.23	3.98	3.5
	5-Year High	1.86	2.54	5.13	3.5
	5-Year Low	0.92	1.55	3.09	2.54
	5-Year Median	1.36	2.03	3.63	3

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (154 out of 254)



Top Peers

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

Industry Comparison Industry: Technology Services				Industry Peers		
	APT Underperform	X Industry	S&P 500	ALV Neutral	IQV Neutral	NTDTY Neutral
VGM Score	C	-	-	A	C	A
Market Cap	22.85 B	215.21 M	24.03 B	6.92 B	30.91 B	20.38 B
# of Analysts	12	3	13	6	10	2
Dividend Yield	0.98%	0.00%	1.78%	3.13%	0.00%	0.88%
Value Score	B	-	-	A	D	A
Cash/Price	0.01	0.09	0.04	0.05	0.03	NA
EV/EBITDA	12.40	-0.23	14.04	7.92	22.08	NA
PEG Ratio	1.48	1.85	2.02	NA	1.59	NA
Price/Book (P/B)	6.04	2.91	3.32	3.46	4.83	NA
Price/Cash Flow (P/CF)	11.20	13.86	13.52	6.95	14.36	8.99
P/E (F1)	16.45	23.25	18.82	11.96	21.94	23.25
Price/Sales (P/S)	1.59	1.84	2.63	0.81	2.84	1.05
Earnings Yield	6.08%	0.32%	5.31%	8.36%	4.56%	4.34%
Debt/Equity	1.13	0.04	0.72	0.97	1.85	NA
Cash Flow (\$/share)	8.00	-0.03	6.94	11.40	11.09	1.62
Growth Score	C	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	0.23%	2.09%	10.56%	-0.80%	17.29%	NA
Proj. EPS Growth (F1/F0)	16.55%	18.18%	7.49%	17.41%	13.97%	4.17%
Curr. Cash Flow Growth	15.76%	3.36%	14.83%	-19.12%	9.13%	4.97%
Hist. Cash Flow Growth (3-5 yrs)	2.02%	8.85%	9.00%	3.21%	40.99%	NA
Current Ratio	1.39	1.35	1.23	1.26	1.12	NA
Debt/Capital	53.03%	12.81%	42.99%	49.15%	64.93%	NA
Net Margin	6.99%	-12.27%	11.08%	2.51%	2.24%	NA
Return on Equity	34.88%	-17.29%	17.16%	23.42%	16.95%	NA
Sales/Assets	1.12	0.64	0.55	1.27	0.48	NA
Proj. Sales Growth (F1/F0)	5.75%	10.53%	4.20%	3.72%	7.21%	8.32%
Momentum Score	D	-	-	B	C	A
Daily Price Chg	-2.42%	0.00%	-0.33%	-2.07%	-0.13%	7.55%
1 Week Price Chg	-2.29%	1.31%	-0.30%	-2.78%	-0.16%	-0.29%
4 Week Price Chg	-6.58%	5.49%	1.71%	-7.57%	9.64%	5.67%
12 Week Price Chg	0.53%	0.26%	6.05%	-0.56%	11.13%	11.00%
52 Week Price Chg	27.45%	-13.06%	22.39%	2.51%	29.13%	25.26%
20 Day Average Volume	1,095,944	101,018	1,580,816	268,139	1,258,984	82
(F1) EPS Est 1 week change	-0.51%	0.00%	0.00%	0.00%	0.00%	0.81%
(F1) EPS Est 4 week change	-0.66%	0.00%	0.00%	0.00%	0.00%	0.81%
(F1) EPS Est 12 week change	-5.18%	-0.90%	-0.50%	-2.52%	0.97%	1.63%
(Q1) EPS Est Mthly Chg	-0.19%	0.00%	0.00%	0.00%	0.00%	NA

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	B
Growth Score	C
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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