Astec Industries, Inc. (ASTE)

$39.85 (As of 04/07/20)

Price Target (6-12 Months): **$34.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/30/19) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:F
	Value: F | Growth: D	Momentum: F

Summary

Astec's total backlog declined 23.6% year over year to $263.7 million in fourth-quarter 2019, which is likely to reflect on first-quarter 2020 performance. The late start to the construction season, nearly drought-free conditions and low oil prices will impact demand for Astec's equipment, and is expected to reflect on current year results. Given that domestic markets generate around 80% of the company's sales, weak demand in these markets is likely to limit revenues. On top of this, the coronavirus outbreak is likely to impact demand in its end markets due to the restrictions imposed. Astec's margins are bearing the brunt of competitive pricing pressures and input-cost inflation. Consequently, the estimates for the first-quarter earnings and fiscal 2020 have undergone negative revisions lately.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$46.37 - $25.17**
20 Day Average Volume (sh)	**194,988**
Market Cap	**$898.7 M**
YTD Price Change	**-5.1%**
Beta	**1.21**
Dividend / Div Yld	**$0.44 / 1.1%**
Industry	**[Manufacturing - Construction and Mining]**
Zacks Industry Rank	**Bottom 6% (238 out of 253)**
Last EPS Surprise	**-33.3%**
Last Sales Surprise	**-7.6%**
EPS F1 Est- 4 week change	**-41.1%**
Expected Report Date	**04/28/2020**
Earnings ESP	**-21.9%**
P/E TTM	**26.2**
P/E F1	**42.0**
PEG F1	**NA**
P/S TTM	**0.8**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	317 E	284 E	262 E	300 E	1,118 E
2020	309 E	253 E	226 E	272 E	1,060 E
2019	326 A	305 A	256 A	283 A	1,170 A

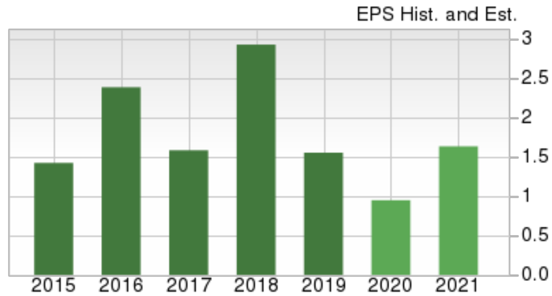
EPS Estimates

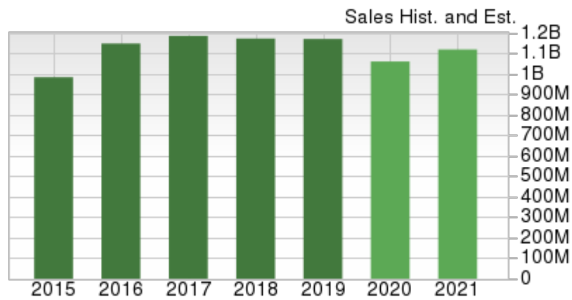
	Q1	Q2	Q3	Q4	Annual*
2021	$0.64 E	$0.53 E	$0.36 E	$0.43 E	$1.63 E
2020	$0.48 E	$0.25 E	$0.07 E	$0.15 E	$0.95 E
2019	$0.63 A	$0.36 A	$0.17 A	$0.36 A	$1.55 A

*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 04/07/2020. The reports text is as of 04/08/2020.

Overview





Chattanooga, TN-based Astec Industries Inc. is a leading manufacturer and marketer of road building equipment. The company sells equipment used in each phase of road building, from quarrying and crushing the aggregate to applying the asphalt. Astec also manufactures equipment and components unrelated to road construction, including equipment for the mining, quarrying, construction and demolition industries and port and rail yard operators; gas and oil drilling rigs; water well and geothermal drilling rigs; industrial heat transfer equipment; commercial whole-tree pulpwood chippers; horizontal grinders; blower trucks; concrete plants; commercial and industrial burners; and combustion control systems. For the current quarter, the company intends to restructure its segments from three to two segments by incorporating the energy group into the existing infrastructure group.

The **Infrastructure Group** (38% of the total revenues in 2019) is made up of five business units. Three of which design, engineer, manufacture and market portable, stationary and relocatable hot-mix asphalt plants, asphalt pavers, material transfer vehicles, milling machines and paver screeds. Two of the business units primarily sell service and install products produced by the manufacturing subsidiaries of the company.

The **Aggregate and Mining Group** (39%) is made up of eight business units focused on designing, manufacturing and marketing heavy equipment and servicing and supplying parts for the aggregate, metallic mining, quarrying, recycling, ports and bulk handling industries. The main purchasers of the group's products are distributors, open mine operators, quarry operators, port and inland terminal operators, highway and heavy equipment contractors and foreign and domestic governmental agencies.

The **Energy Group** (23%) is made up of six business units which design, manufacture and market heaters, drilling rigs, concrete plants, wood chippers and grinders, pump trailers, storage equipment and related parts to the oil and gas, construction, and water well industries, and commercial and industrial burners utilized primarily in commercial, industrial and process heating applications.

Astec has completed several acquisitions in the past, including the buyout of RexCon in October 2017 and Power Flame in August 2016, both of which are now

Reasons To Sell:

> Astec's results will bear the brunt of weak domestic markets, lower backlog, lower volume, competitive pricing pressures and input cost inflation owing to tariffs on imported steel.

- Astec had been witnessing weakening of demand for equipment and parts in all of its segments, particularly in domestic markets. This is likely to continue in the current year, which is concerning given that 80% of Astec's sales are generated from domestic markets. The company's results have also been plagued by continued softness in North America. Owing to the late start to the construction season, few customers are utilizing existing equipment for the remainder of the construction season. While the nearly drought-free conditions across the country have impacted demand for water well drilling equipment, low oil prices led to lower demand for high pressure pump trailers and process seeders used in oil and gas production. This will likely impact results in the current year.

- The coronavirus pandemic has led to travel restrictions and extended shutdown of businesses globally. This might disrupt the company's supply chain. Further, demand in the construction and mining industries is likely to be lower due to reduced operations amid the government enforced restrictions. This is likely to impact Astec's results in the near term.

- Astec's total backlog declined around 23.6% year over year to $263.7 million, as of Dec 31, 2019, owing to lower demand for paving equipment and difficult year-on-year backlog comparison. Backlog plunged 22.1%, 43.3% and 6.9% in the Energy, Aggregate and Mining Group, and Infrastructure Group, respectively. Domestic backlog dropped 25.4% year over year to $194.5 million at the end of 2019 and international backlog decreased to $69.2 million from the last year's $84.2 million. This indicates that current quarter revenues are likely to be impacted.

- Astec utilizes steel as a major raw material to manufacture products. The company is facing input cost inflation, particularly of steel owing to the imposition of tariffs. This is denting the company's margins. Given the competition, it might not be possible for Astec to raise prices to combat the raw material cost inflation. In addition to higher raw material prices, lower volume and competitive pricing pressures are also weighing on Astec's margins.

- In December 2015, the U.S. government enacted the Fixing America's Surface Transportation (FAST) Act, a five-year $305-billion highway-funding bill to fund highway and bridge projects. Though this provides stability, the funding levels have not increased much. It is set to expire in September 2020. The highway reauthorization bill, America's Transportation Infrastructure Act of 2019, was advanced by a Senate committee in July. The bill authorizes $287 billion over a span of five years to maintain and repair America's roads and bridges. It would increase spending by 27% over FAST Act. However, there is uncertainty whether the bill will advance at this point. This remains a concern.

Risks

- Astec anticipates savings from strategic sourcing improvement to grow through the balance of the year as it completes engineering validation of new vendors and components, and depletes inventory of existing components and material. Astec's new sales and operational planning procedures are leading to changes in its bill schedules and the company expects higher cash generation moving forward due to better management of building equipment and controlling inventory to match demand. Astec is actively aligning business to meet demand. The company also introduced its strategy for profitable growth – Simplify, Focus and Grow. The implementation of the Sales and Operations Planning process will help the company in dealing with the changing market scenario.

- The company is poised to gain from restructuring and reorganization moves in the current year. For the current quarter, the company intends to restructure its segments from three to two segments by incorporating the energy group into the existing infrastructure group. This move helps streamline the company's reporting structure as it is in the process of selling the GEFCO business that effectively eliminates Astec's exposure to the energy industry.

- Astec remains committed toward improvement of its part sales volume over the long term. It also intends to improve competitive part sales and service sales. Majority of its customers in the United States have been experiencing a stable product market, and the company remains focused on selling existing and new products. The company also continues to focus on growing its international sales through the establishment of new regional international sales offices and the new products for international customers. Astec remains well poised in the long term backed by the global population growth, increased urbanization and the need to repair the ageing infrastructure.

- Astec has sold its Hazlehurst, GA, wood pellet plant, which marks an end to its involvement in the wood pellet plant business. The company had forayed into the wood pellet industry in 2012 in order to diversify into new areas at a time when road building and aggregate industries were at a low. However, it was not a good fit for the pellet industry owing to size, complexity and time frames associated with fabrication, installation and commissioning of wood pellet plants. Consequently, it was a prudent move to exit from the industry.

- The company also decided to discontinue operations at its subsidiary in Germany, Astec Mobile Machinery, as it did not generate expected results. Going forward, this will lead to an annual saving of $1 million. Astec has also consolidated its Dillman operation into Astec Incorporated. With these actions, the infrastructure group will bolster growth, moving forward. Astec has a dominant share of the asphalt plant market in North America. These plants also better meet the needs of the international market and improve its competitiveness. Additionally, it will be introducing new paving equipment for both the domestic and international markets. The launch of new products from this group will drive the segment's revenues.

Last Earnings Report

Astec's Earnings & Revenues Miss Estimates in Q4

Quarter Ending	12/2019
Report Date	Mar 17, 2020
Sales Surprise	-7.56%
EPS Surprise	-33.33%
Quarterly EPS	0.36
Annual EPS (TTM)	1.52

Astec's fourth-quarter 2019 adjusted earnings per share of 36 cents missed the Zacks Consensus Estimate of 54 cents. The figure also declined 41% from the prior-year quarter, thanks to softer market conditions in North America.

Including one-time items, the company incurred loss per share of 81 cents in the fourth quarter, narrower than the loss per share of $2.08 posted in the year-ago quarter.

Astec reported revenues of $283.2 million in the quarter, down 10.7% from the year-ago quarter. Also, the top line missed the Zacks Consensus Estimate of $306 million. The company's domestic sales decreased 15.5% year over year to $209.6 million, while international sales rose 7% year over year to $73.6 million.

Cost of sales went down 20% year over year to $255.8 million. Adjusted gross profit came in at around $60 million, down from the year-ago quarter's $76 million. Gross margin was 21.2% in the reported quarter compared with the prior-year quarter's 24%. Selling, general, administrative and engineering (SG&A) dropped 4% year over year to $52.5 million. The company reported adjusted operating profit of $7.4 million, which slumped 65% from the prior-year quarter's $21.2 million.

Segment Performance

Revenues for the Infrastructure Group segment declined 7.4% to $115.7 million from the year-ago quarter. The segment reported an adjusted EBITDA of $9.8 million compared with the $8.1 million recorded in the prior-year quarter.

Total revenues for the Aggregate and Mining Group segment went down 20.7% year over year to $91.9 million. The segment reported an adjusted EBITDA of $4.6 million, suggesting a year-over-year drop of 66%.

The Energy Group segment's total revenues edged down 1.1%, year over year, to $75.1 million. The segment reported an adjusted EBITDA of $8.2 million, compared with $7 million in the year-ago quarter.

Financial Position

Astec reported cash and cash equivalents of $48.8 million in 2019, up from the prior year's $25.8 million. Receivables declined to $124 million at the end of 2019, from the prior-year period's $134 million. Inventories were $279 million as of 2019-end compared with $356 million as of 2018-end.

The company's total backlog declined around 24% year over year to $263.7 million as of Dec 31, 2019. Backlog slid 22.1%, 43.3% and 6.9% in the Energy, Aggregate and Mining Group and Infrastructure Group, respectively. Domestic backlog dropped 25.4% year over year to $194.5 million at the end of 2019, and international backlog decreased to $69.2 million from last year's $84.2 million.

Astec is actively aligning the business to meet the current demand. The company is progressing towards its strategy for profitable growth — Simplify, Focus and Grow. The company is on track to sell its GEFCO business. This will further simplify the organization, while strengthening financial position and deploy additional capital for strategic growth opportunities. Astec has also taken vital steps for restructuring the company and streamlining its business units, in a bid to increase internal transparency and improve the decision-making process.

2019 Results

Astec reported adjusted earnings per share of $1.55 in 2019, down from the prior year's $2.94. Earnings also missed the Zacks Consensus Estimate of $1.71. Including one-time items, the company reported earnings per share of 98 cents, as against the loss of $2.64 per share posted in the previous year. Net sales were relatively flat at $1.17 billion, year over year. The top-line figure missed the Zacks Consensus Estimate of $1.19 billion.

Valuation

Astec's shares are down 1.6% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products sector are down 15.1% and 23.8% in the past year, respectively.
The S&P 500 index has lost 8.1% in the past year.

The stock is currently trading at 23.16X forward 12-month earnings, which compares with 15.69X for the Zacks sub-industry, 15.38X for the Zacks sector and 16.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.08X and as low as 9.01X, with the 5-year median being 18.05X.

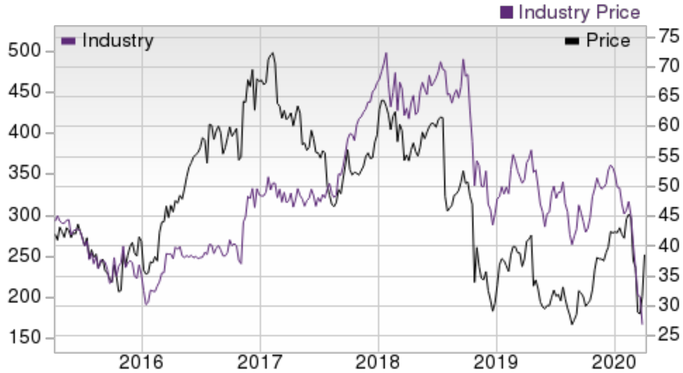
Our Underperform recommendation indicates that the stock will perform worse than the market. Our $34 price target reflects 19.76X Forward 12-month earnings.

The table below shows summary valuation data for ASTE:

Valuation Multiples - ASTE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.16	15.69	15.38	16.91
	5-Year High	39.08	30.83	19.93	19.34
	5-Year Low	9.01	9.47	12.55	15.19
	5-Year Median	18.05	16.7	16.47	17.44
P/S F12M	Current	0.78	1.16	2.11	2.92
	5-Year High	1.47	1.64	2.72	3.44
	5-Year Low	0.49	0.71	1.52	2.54
	5-Year Median	0.89	1.13	1.99	3
EV/EBITDA TTM	Current	13.13	7.08	13.23	9.75
	5-Year High	17.46	12.92	17.37	12.87
	5-Year Low	6.87	5.95	10.71	8.27
	5-Year Median	12.71	8.6	14.75	10.78

As of 04/07/2020

Industry Analysis **Zacks Industry Rank:** Bottom 6% (238 out of 253)



Top Peers

CNH Industrial N.V. **(CNHI)**	Neutral
Deere & Company **(DE)**	Neutral
John Bean Technologies Corporation **(JBT)**	Neutral
Lindsay Corporation **(LNN)**	Neutral
The Manitowoc Company, Inc. **(MTW)**	Neutral
Caterpillar Inc. **(CAT)**	Underperform
Cummins Inc. **(CMI)**	Underperform
Terex Corporation **(TEX)**	Underperform

Industry Comparison Industry: Manufacturing - Construction And Mining

Industry Peers

	ASTE Underperform	X Industry	S&P 500	CAT Underperform	HEES Neutral	MTW Neutral
VGM Score	F	-	-	C	A	D
Market Cap	898.69 M	1.08 B	18.38 B	67.07 B	524.78 M	305.68 M
# of Analysts	3	6	13	10	2	6
Dividend Yield	1.10%	2.92%	2.31%	3.38%	7.52%	0.00%
Value Score	F	-	-	B	A	C
Cash/Price	0.06	0.13	0.06	0.13	0.03	0.69
EV/EBITDA	16.09	4.07	11.23	7.36	3.07	3.52
PEG Ratio	NA	3.06	1.91	1.70	3.78	2.46
Price/Book (P/B)	1.49	1.02	2.45	4.58	1.71	0.48
Price/Cash Flow (P/CF)	14.63	4.41	9.63	7.57	1.36	2.96
P/E (F1)	41.05	14.40	15.92	16.48	6.88	24.56
Price/Sales (P/S)	0.77	0.55	1.94	1.25	0.39	0.17
Earnings Yield	2.38%	7.09%	6.15%	6.07%	14.56%	4.01%
Debt/Equity	0.00	0.54	0.70	1.80	3.08	0.54
Cash Flow ($/share)	2.72	3.85	7.01	16.10	10.78	2.95
Growth Score	D	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	5.21%	16.36%	10.92%	27.28%	19.59%	-23.30%
Proj. EPS Growth (F1/F0)	-38.92%	-26.24%	-0.12%	-33.11%	-20.41%	-81.22%
Curr. Cash Flow Growth	-35.51%	11.85%	5.93%	-6.65%	22.89%	71.04%
Hist. Cash Flow Growth (3-5 yrs)	0.86%	4.31%	8.55%	4.31%	11.66%	-13.41%
Current Ratio	2.93	1.64	1.24	1.47	0.79	1.98
Debt/Capital	0.11%	34.88%	42.36%	64.24%	75.47%	34.88%
Net Margin	1.91%	4.51%	11.64%	11.32%	6.47%	2.54%
Return on Equity	5.64%	19.11%	16.74%	41.85%	34.12%	11.03%
Sales/Assets	1.40	0.91	0.54	0.68	0.67	1.13
Proj. Sales Growth (F1/F0)	-9.41%	-8.23%	0.85%	-13.56%	1.33%	-14.70%
Momentum Score	F	-	-	F	B	F
Daily Price Chg	-2.95%	0.00%	0.69%	1.24%	1.32%	-1.69%
1 Week Price Chg	22.07%	-2.31%	-4.40%	8.75%	-1.54%	4.95%
4 Week Price Chg	19.89%	-12.05%	-10.67%	14.49%	-18.81%	-18.51%
12 Week Price Chg	-6.87%	-31.86%	-23.70%	-16.88%	-52.45%	-45.77%
52 Week Price Chg	1.43%	-29.40%	-15.92%	-10.58%	-43.71%	-48.74%
20 Day Average Volume	194,988	434,828	4,068,329	7,284,180	617,277	729,717
(F1) EPS Est 1 week change	-23.04%	0.00%	0.00%	-2.82%	0.00%	0.00%
(F1) EPS Est 4 week change	-41.08%	-20.69%	-5.24%	-20.69%	-20.56%	-47.15%
(F1) EPS Est 12 week change	-53.06%	-42.00%	-6.86%	-30.94%	-21.30%	-76.77%
(Q1) EPS Est Mthly Chg	-56.65%	-56.65%	-8.25%	-37.24%	0.00%	-94.78%

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	D
Momentum Score	F
VGM Score	F

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.

Disclosures

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