Astec Industries, Inc. (ASTE)

$46.14 (As of 06/10/20)

Price Target (6-12 Months): **$50.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/28/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: A | Momentum: D	

Summary

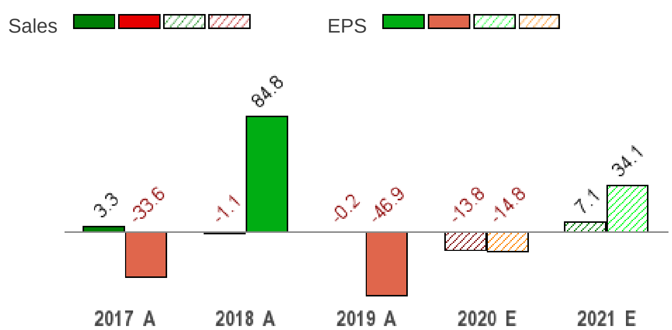
The estimate for Astec's 2020 earnings has undergone positive revisions lately. Astec is poised to gain from cost-reduction actions, restructuring and reorganization moves in the current year. However, the late start to the construction season, softer spending in the mining industry and low oil prices will adversely impact demand for Astec's equipment. On top of this, the coronavirus outbreak is likely to thwart its end markets. The company's margins are also bearing the brunt of competitive pricing pressures and input-cost inflation. Nevertheless, Astec remains focused on improvement of its part sales volume and international business which will drive growth in the forthcoming quarters. The company's transition to a two-segment organizational structure ensures that its products are better aligned to end markets and customers.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$49.18 - $25.17**
20 Day Average Volume (sh)	**164,626**
Market Cap	**$1.0 B**
YTD Price Change	**9.9%**
Beta	**1.21**
Dividend / Div Yld	**$0.44 / 1.0%**
Industry	**Manufacturing - Construction and Mining**
Zacks Industry Rank	**Bottom 17% (210 out of 252)**
Last EPS Surprise	**117.4%**
Last Sales Surprise	**-4.6%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**07/28/2020**
Earnings ESP	**0.0%**
P/E TTM	**24.4**
P/E F1	**35.0**
PEG F1	**NA**
P/S TTM	**0.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	286 E	260 E	243 E	303 E	1,081 E
2020	289 A	236 E	213 E	271 E	1,009 E
2019	326 A	305 A	256 A	283 A	1,170 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.63 E	$0.48 E	$0.22 E	$0.47 E	$1.77 E
2020	$1.00 A	$0.12 E	-$0.07 E	$0.28 E	$1.32 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 06/10/2020. The reports text is as of 06/11/2020.

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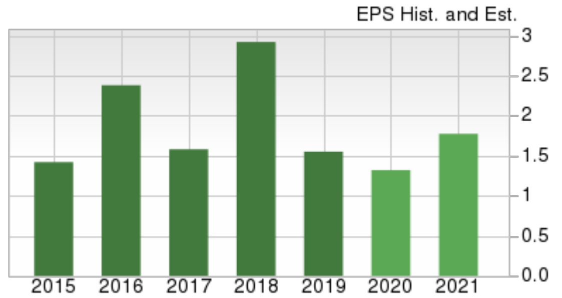
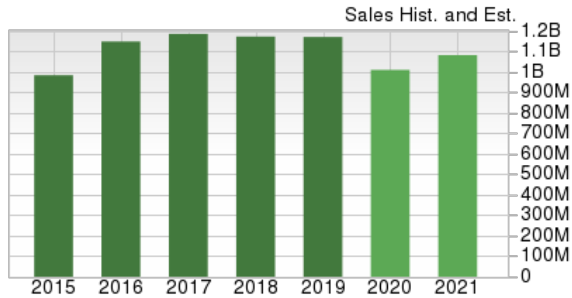
Overview

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.

In the first quarter of 2020, Astec completed an internal reorganization into two segments —

Infrastructure Solutions (approximately 65% of the total revenues) comprises 13 business units. The products include road building, asphalt and concrete plant equipment, thermal and storage solutions as well as wood grinding equipment. The purchasers of the segment's products are asphalt producers, highway and heavy equipment contractors, foreign and domestic governmental agencies, processors of oil, gas and biomass for energy production, ready mix concrete producers and contractors in the construction and demolition recycling markets.

Materials Solutions (approximately 35% of the total revenues) comprises 10 business units. Its products include crushing and screening, washing and classifying, plants and systems and material handling equipment. The purchasers of the segment'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.

Reasons To Buy:

Astec will gain from strategic sourcing improvement and exit from the wood pellet business. Launch of new products, efforts to grow part sales volumes and international business will also aid growth.

- 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's transition to a two-segment organizational structure ensures that its products are better aligned to end markets and customers. 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.

- Astec ended the first quarter of 2020 with total available liquidity of $186 million which includes cash and cash equivalents of $44 million. The company expects $26 million cash from income-tax refund due to the CARES Act. The company's total debt stood at $1.2 million as of Mar 31, 2020. Its total debt is 0.1% of total capital, much lower than its industry's 72%. Its times interest earned ratio is at 30.8, higher than the industry's 7.0. Thus, with a strong balance sheet and liquidity position, Asted seems well poised to sail through these turbulent times. In the wake of the coronavirus pandemic, the company continues to implement actions to reduce expenses and conserve cash. These actions include hiring suspension (except for critical positions), reduction in workforce and cutting down discretionary spending.

- 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.

Reasons To Sell:

Astec's results will bear the brunt of weak domestic markets, impact of the coronavirus pandemic, competitive pricing pressures and input-cost inflation due 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. The coronavirus outbreak also adds to the concerns.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 mining industries is likely to be lower due to reduced operations amid the government enforced restrictions as well as low commodity prices. Spending in the construction sector also remains restrained. This is likely to impact Astec's results in the near term.

- 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.

Last Earnings Report

Astec Q1 Earnings Surpass Estimates, Improve Y/Y

Quarter Ending	03/2020
Report Date	May 06, 2020
Sales Surprise	-4.55%
EPS Surprise	117.39%
Quarterly EPS	1.00
Annual EPS (TTM)	1.89

Astec's first-quarter 2020 adjusted earnings per share of $1.00 beat the Zacks Consensus Estimate of 46 cents by a margin of 117%. The bottom line also improved 54% from the prior-year quarter. The better-than-expected results were driven by the company's restructuring initiatives taken in 2019 and 2020, which offset the impact of lower revenues amid the coronavirus crisis.

Including one-time items, the company reported earnings per share of 91 cents in the reported quarter, up 44% from 63 cents in the year-ago quarter.
Astec reported revenues of $289 million in the quarter, down 11% from the year-ago quarter. Further, the top line missed the Zacks Consensus Estimate of $303 million. The company's domestic sales decreased 11% year over year to $263 million as dealers were slow to convert rentals to retail sales. International sales declined 13% year over year to $55 million owing to COVID-19-related softness, the wildfires in Australia and the temporary shutdown of Johannesburg, South Africa and Omagh, Northern Ireland facilities in late-March.

Cost of sales declined 14% year over year to $215 million. Adjusted gross profit came in at $74 million, down from the year-ago quarter figure of $77 million. Gross margin was 25.6% in the reported quarter compared with the prior-year quarter's 23.6%.

Selling, general, administrative and engineering (SG&A) decreased 3% year over year to $56 million primarily to the decline in sales, partially offset by cost savings related to the company's strategic transformation. The company reported adjusted operating profit of $17.9 million, which declined 5% from the prior-year quarter's $18.7 million. First-quarter 2020 adjusted operating margin was 6.2% compared with 5.7% in the prior-year quarter driven by improvement in gross margin courtesy of transformation initiatives put in place beginning in late 2019 and the start of this year.

Adjusted EBITDA came in at $24.3 million in the reported quarter, a decline of 4.7% from $25.5 million a year ago. Adjusted EBITDA margin was 8.4%, a 60 basis point expansion from 7.8% in first-quarter 2019. Despite lower sales, the company's restructuring initiatives benefited margins in the quarter.

Segment Performance

As part of the company's continued transformation under its strategic pillars for profitable growth – Simplify, Focus and Grow, the company has simplified operations into two business segments: Infrastructure Solutions and Materials Solutions.

Infrastructure Solutions includes road building, asphalt and concrete plant equipment, thermal and storage solutions and wood grinding equipment. Revenues for the segment declined 8% to $203 million from the year-ago quarter. The segment reported an adjusted EBITDA of $24.9 million compared with the $23.7 million in the prior-year quarter.

Materials Solutions includes crushing and screening, washing and classifying, plants and systems and material handling equipment. The segment's total revenues decreased 19%, year over year to $86 million. The segment reported an adjusted EBITDA of $8.4 million, reflecting year-over-year decline of 25%.

Financial Position

Astec reported cash and cash equivalents of $43.9 million as of Mar 31, 2020, up from $28.6 million as of Mar 31, 2019. As of first-quarter 2020, total debt was at $1.2 million. The company has available liquidity in excess of $186.0 million as of Mar 31, 2020.

Receivables were at $141 million at the end of first-quarter 2020 compared with $137 million as of the prior-year quarter end. Inventories were $295 million as of Mar 31, 2020 compared with $367 million as of Mar 31, 2019.

The company's total backlog increased 4% year over year to $245 million as of Mar 31, 2020. Domestic backlog rose 14.4% year over year to $185 million while international backlog decreased 19% to $60.2 million.

Astec is taking actions to counter the financial and operations impacts of COVID-19, by reducing expenses and conserving cash. The company is suspending hiring, except for critical positions, lowering discretionary spending and reductions in work force as necessary.

Valuation

Astec's shares are up 9.9% in the year-to-date period and 51.4% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products sector are down 11.2% and 9.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are up 2.5% while the sector was down 2.5%.

The S&P 500 index is down 1.0% in the year-to-date period and up 10.8% in the past year.

The stock is currently trading at 30.33X forward 12-month earnings, which compares with 24.28X for the Zacks sub-industry, 22.75X for the Zacks sector and 23.05X for the S&P 500 index.

Over the past five years, the stock has traded as high as 49.50X and as low as 9.01X, with the 5-year median being 18.29X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $50 price target reflects 32.32X Forward 12-month earnings.

Valuation Multiples - ASTE

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	30.33	24.28	22.75	23.05
	5-Year High	49.5	30.83	22.75	23.05
	5-Year Low	9.01	9.47	12.55	15.23
	5-Year Median	18.29	16.81	16.66	17.49
P/S F12M	Current	1	1.4	2.83	3.58
	5-Year High	1.47	1.64	2.83	3.58
	5-Year Low	0.49	0.71	1.52	2.53
	5-Year Median	0.88	1.15	2	3.02
EV/EBITDA TTM	Current	15.65	8.1	16.53	11.82
	5-Year High	17.46	12.92	17.45	12.85
	5-Year Low	6.87	5.95	10.74	8.25
	5-Year Median	12.85	8.5	14.81	10.81

As of 06/10/2020

Industry Analysis **Zacks Industry Rank:** Bottom 17% (210 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Cummins Inc. **(CMI)**	Neutral	3
CNH Industrial N.V. **(CNHI)**	Neutral	4
DeereCompany **(DE)**	Neutral	3
John Bean Technologies Corporation **(JBT)**	Neutral	3
Lindsay Corporation **(LNN)**	Neutral	3
The Manitowoc Company, Inc. **(MTW)**	Neutral	3
Terex Corporation **(TEX)**	Neutral	3
Caterpillar Inc. **(CAT)**	Underperform	5

Industry Comparison Industry: Manufacturing - Construction And Mining

Industry Peers

	ASTE	X Industry	S&P 500	CAT	HEES	MTW
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	2	-	-	5	5	3
VGM Score	B	-	-	C	D	F
Market Cap	1.04 B	1.38 B	22.63 B	71.68 B	718.58 M	400.64 M
# of Analysts	2	6	14	10	2	6
Dividend Yield	0.95%	1.44%	1.87%	3.11%	5.50%	0.00%
Value Score	B	-	-	C	C	D
Cash/Price	0.04	0.10	0.06	0.10	0.02	0.25
EV/EBITDA	18.89	5.32	12.91	7.69	3.48	4.98
PEG Ratio	NA	3.09	3.07	2.23	14.09	NA
Price/Book (P/B)	1.70	1.45	3.09	5.03	2.74	0.65
Price/Cash Flow (P/CF)	16.94	5.65	12.15	8.23	1.86	3.94
P/E (F1)	34.95	21.79	22.10	26.80	25.65	NA
Price/Sales (P/S)	0.92	0.73	2.40	1.41	0.54	0.23
Earnings Yield	2.86%	3.81%	4.30%	3.73%	3.90%	-6.29%
Debt/Equity	0.00	0.56	0.76	1.71	3.61	0.56
Cash Flow ($/share)	2.72	3.85	7.01	16.10	10.78	2.95
Growth Score	A	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	4.49%	16.77%	10.87%	30.62%	22.33%	-16.47%
Proj. EPS Growth (F1/F0)	-14.84%	-43.31%	-10.71%	-55.33%	-70.79%	-138.62%
Curr. Cash Flow Growth	-35.51%	11.85%	5.46%	-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	3.16	1.64	1.29	1.42	0.93	1.91
Debt/Capital	0.08%	35.73%	44.75%	63.12%	78.32%	35.73%
Net Margin	2.53%	3.24%	10.54%	10.41%	2.73%	3.75%
Return on Equity	6.99%	13.23%	16.08%	37.15%	32.92%	9.41%
Sales/Assets	1.39	0.87	0.55	0.65	0.66	1.08
Proj. Sales Growth (F1/F0)	-13.74%	-12.75%	-2.59%	-24.07%	-11.76%	-26.51%
Momentum Score	D	-	-	D	F	F
Daily Price Chg	-1.66%	-1.48%	-1.68%	-1.30%	-3.59%	-4.05%
1 Week Price Chg	14.31%	13.40%	7.51%	12.48%	21.94%	29.95%
4 Week Price Chg	25.45%	26.10%	16.99%	26.76%	59.02%	49.04%
12 Week Price Chg	66.21%	37.89%	37.11%	32.28%	109.48%	17.75%
52 Week Price Chg	51.38%	-0.47%	0.02%	4.20%	-25.27%	-23.32%
20 Day Average Volume	164,626	280,725	2,620,901	3,804,412	396,823	433,074
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-1.00%	0.00%	-15.57%
(F1) EPS Est 12 week change	-17.84%	-45.30%	-15.86%	-45.30%	-70.84%	-208.69%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-1.08%

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	A
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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