

## Astec Industries, Inc. (ASTE)

**\$52.95** (As of 08/19/20)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Outperform**

(Since: 08/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: C

### Summary

Astec's second-quarter 2020 adjusted earnings per share improved on a year-over-year basis despite a drop in revenues driven by the company's restructuring initiatives taken in 2019 and 2020, which mitigated the impact of lower revenues amid the coronavirus crisis. The company beat the Zacks Consensus Estimate on both the metrics. It is well poised to gain from cost-reduction actions and restructuring moves. It also remains focused on growing part sales volume and international business, and launching new products that will drive results 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. With a strong balance sheet and liquidity position, Astec seems well positioned to tide over the ongoing crisis.

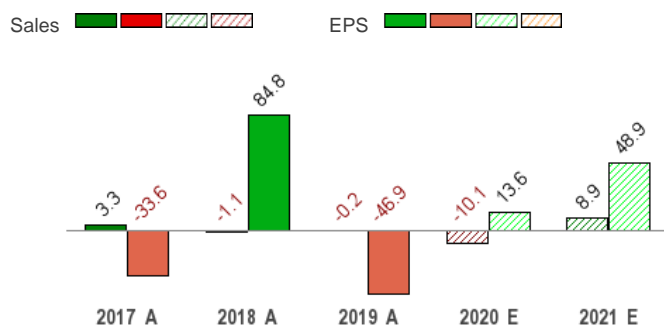
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$62.02 - \$25.17
20 Day Average Volume (sh)	186,410
Market Cap	\$1.2 B
YTD Price Change	26.1%
Beta	1.19
Dividend / Div Yld	\$0.44 / 0.8%
Industry	<a href="#">Manufacturing - Construction and Mining</a>
Zacks Industry Rank	Bottom 19% (205 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	458.3%
Last Sales Surprise	12.4%
EPS F1 Est- 4 week change	35.6%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	24.1
P/E F1	30.1
PEG F1	NA
P/S TTM	1.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	305 E	307 E	255 E	295 E	1,146 E
2020	289 A	265 A	228 E	270 E	1,052 E
2019	326 A	305 A	256 A	283 A	1,170 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.82 E	\$0.92 E	\$0.25 E	\$0.52 E	\$2.62 E
2020	\$1.00 A	\$0.67 A	\$0.11 E	\$0.40 E	\$1.76 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 08/19/2020. The reports text is as of 08/20/2020.

## Overview

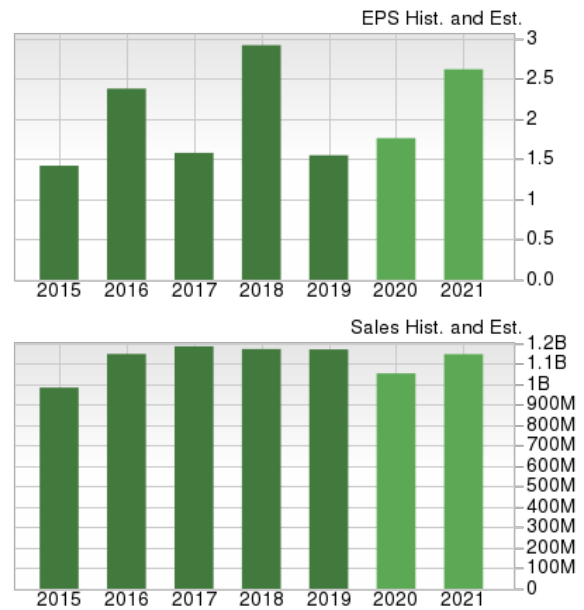
Chattanooga, TN-based Astec Industries Inc. is a leading manufacturer and marketer of road building equipment. The company sells equipment used in each phase of road building, from quarrying and crushing the aggregate to applying the asphalt.

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.

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

**Infrastructure Solutions** (approximately 69% 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 31% 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.



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## Reasons To Buy:

- ▲ 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 is making steady progress toward its strategy for profitable growth – Simplify, Focus and Grow. In the second quarter, Astec announced the closure of its Mequon, WI location, which will enable the company to leverage its footprint more efficiently. It also recently announced the acquisition of two premier full-line concrete batch plant manufacturers — CON-E-CO and BMH. Both the buyouts will significantly strengthen the Infrastructure Solutions group portfolio and provide customers with access to the most robust line of concrete products in the infrastructure industry. Astec is looking for avenues to grow regionally in attractive markets.
- ▲ 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 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. It intends to make investments in projects that generate more than 14% returns.
- ▲ 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 ended second-quarter 2020 with total available liquidity of \$270.6 million, which includes cash and cash equivalents of \$119.8 million. The company's total debt stood at \$1.4 million as of Jun 30, 2020. Its total debt is 0.1% of total capital, much lower than its industry's 73.6%. Its times interest earned ratio is at 9.5, higher than the industry's 5.7. Thus, with a strong balance sheet and liquidity position, Astec 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.

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.

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## Risks

- Astec's backlog as of Jun 30, 2020 was \$182 million, down 26.1% year over year. While domestic backlog declined 20.6%, international backlog plunged 36.6% driven by COVID-19 uncertainties. 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. 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. 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. There remains an uncertainty till it is passed.
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## Last Earnings Report

### Astec Q2 Earnings and Revenues Surpass Estimates

Astec's second-quarter 2020 adjusted earnings per share of 67 cents beat the Zacks Consensus Estimate of 12 cents by a wide margin. The bottom line also improved 81% 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 41 cents in the quarter under review, down 60% from \$1.03 in the year-ago quarter.

Astec reported revenues of \$265 million in the quarter, down 6.8% from the year-ago quarter's adjusted figure of \$285 million. However, the top line surpassed the Zacks Consensus Estimate of \$236 million. Including \$20 million from sale of a wood pellet plant in the prior-year quarter, revenues in the second quarter of 2020 declined 13%. In the reported quarter, the company's both domestic and international sales declined 10% and 25%, respectively, on a year-over-year basis owing to COVID-19-related disruptions.

Cost of sales declined 8% year over year to \$204 million. Adjusted gross profit was \$62 million, down 3% from the year-ago quarter figure of \$63 million. Gross margin was 23.2% in the reported quarter compared with the prior-year quarter's 22.2%.

Selling, general, administrative and engineering (SG&A) decreased 19% year over year to \$43 million, driven by reductions in consulting fees, travel and employee expenses. Adjusted operating profit for the quarter under review was \$18.8 million, which improved 78% from the prior-year quarter's \$10.5 million. Adjusted operating margin was 7.1% compared with 3.7% in the prior-year quarter courtesy of transformation initiatives put in place beginning in late 2019.

Adjusted EBITDA was \$25 million in the reported quarter, up 47% from \$17 million a year ago. Adjusted EBITDA margin was 9.5% compared with 6.0% in the prior-year quarter. Despite lower sales, the company's restructuring initiatives benefited margins in the quarter.

### Segment Performance

Revenues for the Infrastructure Solutions segment increased 2% to \$182 million from the year-ago quarter. The segment reported an adjusted EBITDA of \$22.6 million compared with \$12.5 million in the prior-year quarter.

Materials Solutions segment's total revenues decreased 21% year over year to \$83 million. The segment reported an adjusted EBITDA of \$12.1 million, reflecting year-over-year increase of 7%.

### Financial Position

Astec reported cash and cash equivalents of \$119.8 million as of Jun 30, 2020, up from \$24.9 million as of Jun 30, 2019. As of second-quarter 2020-end, total debt was \$1.4 million. The company has available liquidity in excess of \$270.6 million as of Mar 31, 2020.

The company's total backlog fell 26% year over year to \$182 million as of Jun 30, 2020. Orders in Materials and Infrastructure Solutions segments were down 17.3% and 30.9%, respectively. While domestic backlog slumped 21% year over year to \$128 million, international backlog plunged 37% to \$54 million.

Astec is undertaking initiatives to counter the financial and operational impacts of COVID-19. These steps include reducing expenses, conserving cash, suspending hiring, except for critical positions, lowering discretionary spending and overall headcount reduction.

Quarter Ending **06/2020**

Report Date	Aug 05, 2020
Sales Surprise	12.35%
EPS Surprise	458.33%
Quarterly EPS	0.67
Annual EPS (TTM)	2.20

## Valuation

Astec's shares are up 26.1% in the year-to-date period and 91.5% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products sector are down 7.3% and 1.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 17.1% and 13.6%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period and up 17.1% in the past year.

The stock is currently trading at 21.72X forward 12-month earnings, which compares with 21.96X for the Zacks sub-industry, 22.06X for the Zacks sector and 22.78X 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 18.67X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$61 price target reflects 25.02X Forward 12-month earnings.

Valuation Multiples - ASTE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.72	21.96	22.06	22.78
	5-Year High	49.5	30.83	22.06	22.78
	5-Year Low	9.01	9.47	12.55	15.25
	5-Year Median	18.67	18.06	17.48	17.58
P/S F12M	Current	1.08	1.42	2.96	3.7
	5-Year High	1.47	1.64	2.96	3.7
	5-Year Low	0.49	0.71	1.52	2.53
	5-Year Median	0.91	1.19	2.04	3.05
EV/EBITDA TTM	Current	16.55	9.56	19.64	12.76
	5-Year High	17.57	12.92	19.95	12.85
	5-Year Low	6.87	5.95	10.76	8.25
	5-Year Median	13.16	8.5	14.96	10.91

As of 08/19/2020

## Industry Analysis Zacks Industry Rank: Bottom 19% (205 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
DeereCompany (DE)	Outperform	2
Caterpillar Inc. (CAT)	Neutral	3
Cummins Inc. (CMI)	Neutral	2
CNH Industrial N.V. (CNHI)	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

Industry Comparison Industry: Manufacturing - Construction And Mining				Industry Peers		
	ASTE	X Industry	S&P 500	CAT	HEES	MTW
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	B	-	-	C	A	D
Market Cap	1.20 B	1.41 B	23.61 B	74.74 B	735.87 M	339.69 M
# of Analysts	3	3	14	9	2	6
Dividend Yield	0.83%	0.95%	1.65%	2.99%	5.37%	0.00%
Value Score	C	-	-	B	A	D
Cash/Price	0.10	0.12	0.07	0.12	0.01	0.35
EV/EBITDA	20.37	5.93	13.36	8.03	3.53	4.68
PEG Ratio	NA	4.80	2.99	2.22	9.12	NA
Price/Book (P/B)	1.92	1.55	3.16	5.42	2.81	0.55
Price/Cash Flow (P/CF)	19.44	6.98	12.71	8.57	1.90	3.34
P/E (F1)	30.09	26.69	21.82	26.69	16.59	NA
Price/Sales (P/S)	1.09	0.82	2.47	1.61	0.58	0.22
Earnings Yield	3.32%	3.68%	4.37%	3.75%	6.05%	-10.37%
Debt/Equity	0.00	0.63	0.76	1.95	3.61	0.63
Cash Flow (\$/share)	2.72	3.46	6.94	16.10	10.78	2.95
Growth Score	A	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	4.15%	13.04%	10.44%	31.63%	22.93%	-18.48%
Proj. EPS Growth (F1/F0)	13.76%	-52.11%	-5.97%	-53.25%	-53.75%	-153.88%
Curr. Cash Flow Growth	-35.51%	-0.57%	5.22%	-6.65%	22.89%	71.04%
Hist. Cash Flow Growth (3-5 yrs)	0.86%	2.40%	8.52%	4.31%	11.66%	-13.41%
Current Ratio	3.68	1.68	1.33	1.50	1.09	2.10
Debt/Capital	0.07%	38.79%	44.50%	66.14%	78.33%	38.79%
Net Margin	1.34%	1.75%	10.13%	8.90%	1.75%	0.43%
Return on Equity	8.15%	6.70%	14.67%	30.52%	28.42%	1.49%
Sales/Assets	1.36	0.73	0.51	0.60	0.66	0.98
Proj. Sales Growth (F1/F0)	-10.02%	-14.33%	-1.54%	-23.33%	-13.19%	-27.20%
Momentum Score	C	-	-	D	A	F
Daily Price Chg	-1.01%	-0.13%	-0.38%	-0.25%	0.94%	-0.30%
1 Week Price Chg	8.17%	6.17%	1.09%	3.74%	6.23%	6.11%
4 Week Price Chg	14.86%	0.38%	2.23%	0.76%	8.93%	-14.66%
12 Week Price Chg	22.66%	13.61%	6.91%	12.74%	14.47%	-5.38%
52 Week Price Chg	88.43%	7.74%	2.28%	17.28%	-20.43%	-30.95%
20 Day Average Volume	186,410	220,052	1,899,976	2,780,451	253,695	321,849
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	35.64%	0.89%	1.70%	-0.34%	59.35%	-39.50%
(F1) EPS Est 12 week change	35.64%	14.30%	3.08%	3.61%	58.33%	-39.50%
(Q1) EPS Est Mthly Chg	260.00%	-16.34%	0.83%	-16.34%	42.31%	-217.07%

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## 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.

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### 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	A
Momentum Score	C
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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### Disclosures

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