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Feb 06, 2020

American Axle (AXL)

$10.18 (As of 02/05/20)

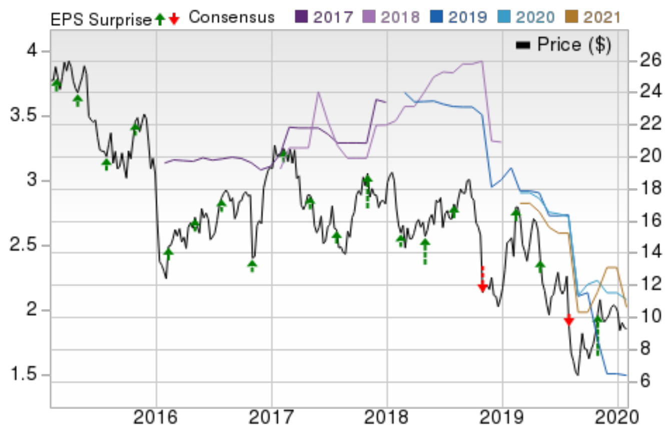
Price Target (6-12 Months): **$11.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/04/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: B | Momentum: F	

Summary

American Axle's program launches along with its strategic acquisitions and divestitures bode well. The acquisition of Metaldyne Performance Group has widened its operating scale, customer base and end markets. It expects to achieve synergy run rate of $120-$140 million by 2020 that will boost margins. Also, its efforts of business diversification and service to a diverse customer base will generate incremental revenues. However, lower global production volumes are hurting American Axle's financial performance. U.S.-Sino trade tensions is likely to weigh on the stock. Moreover, American Axle has revised down its full year outlook amid unfavorable impact from the 40-day strike of its largest customer General Motors. Amid such headwinds, the stock warrants a cautious stance from the investors.

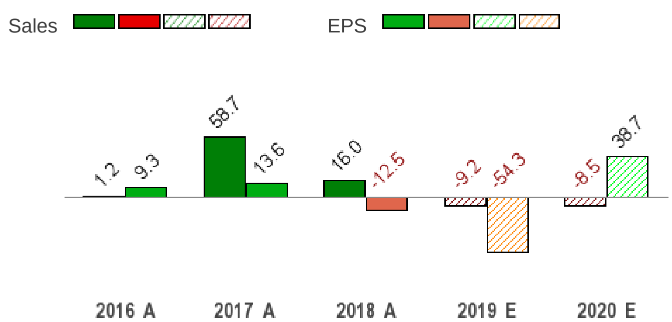
Price, Consensus & Surprise



Data Overview

52 Week High-Low	$17.20 - $5.87
20 Day Average Volume (sh)	1,235,254
Market Cap	$1.1 B
YTD Price Change	-5.4%
Beta	2.35
Dividend / Div Yld	$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 36% (163 out of 255)
Last EPS Surprise	41.5%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-2.5%
Expected Report Date	02/14/2020
Earnings ESP	-37.5%
P/E TTM	5.3
P/E F1	4.9
PEG F1	0.6
P/S TTM	0.2

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020					6,045 E
2019	1,719 A	1,704 A	1,677 A	1,492 E	6,604 E
2018	1,858 A	1,901 A	1,817 A	1,694 A	7,270 A

EPS Estimates

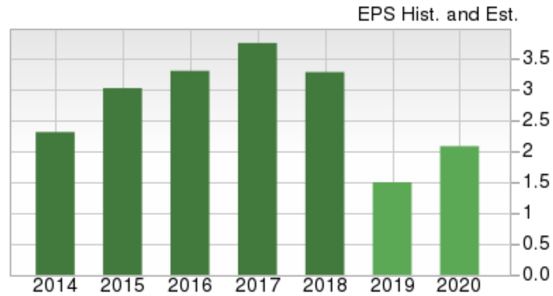
	Q1	Q2	Q3	Q4	Annual*
2020	$0.55 E	$0.64 E	$0.51 E	$0.52 E	$2.08 E
2019	$0.36 A	$0.55 A	$0.58 A	$0.03 E	$1.50 E
2018	$0.98 A	$1.23 A	$0.63 A	$0.45 A	$3.28 A

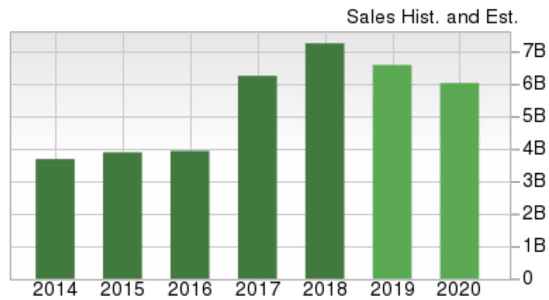
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/05/2020. The reports text is as of 02/06/2020.

Overview

American Axle & Manufacturing Holdings, Inc. is a leading supplier of driveline and drivetrain systems, modules and components for the light vehicle market. Driveline and drivetrain systems comprise components that transfer power from the engine to the drive wheels of a vehicle. The company makes axles, chassis modules, driveshafts, power transfer units, transfer cases, chassis and steering components, driveheads, transmission parts, electric drive systems and metal-formed products for light trucks, sport utility vehicles (SUVs), passenger cars, crossover vehicles and commercial vehicles.





The principal manufacturing and engineering facilities of American Axle are located in Mexico, Czech Republic, England, France, Germany, Poland, Scotland, Spain, Sweden, Brazil, China, India, South Korea, Thailand and the United States. Its major customers include General Motors and Fiat Chrysler, which constituted total 54% of its net sales in 2018.

The North American market alone accounts for a substantial part of American Axle’s annual sales. Among the company’s diverse product portfolio, rear and front axles, as well as driveshafts, contribute about 84% to annual sales, while drivetrain components, forged products and others generate the remaining 16%.

American Axle has acquired Metaldyne Performance Group Inc. in April 2017. This buyout will enable the company to widen its operating scale, customer base and the end markets.

As of December 2018, the company had 25,000 employees at roughly 90 facilities in 17 countries. American Axle focuses on delivering operational excellence, technology leadership and quality to its customers.

In 2018, the company generated $7.2 billion in net sales compared to $6.3 billion in the prior year.

Reasons To Buy:

American Axle's program launches along with its strategic acquisitions and divestitures bode well.

- American Axle's program launches will drive financials, going forward. Also, new business backlogs and reduced production downtime by automakers will further boost American Axle's financials.

- The company has completed the acquisition of Metaldyne Performance Group, Inc. in April 2017. The acquisition has widened American Axle's operating scale, customer base and end markets. Further, MPG's expertise in complex, highly-engineered powertrain components will aid the company to offer enhanced products to customers. American Axle expects to achieve synergy run rate $120-$140 million by 2020, which will contribute to margin enhancement.

- American Axle's efforts of diversifying its business, products and customer base are generating incremental revenues. Apart from GM and Fiat Chrysler, the company supplies driveline systems and other components to Jaguar Land Rover, Ford, Harley-Davidson, Volkswagen, Nissan, Honda, Mercedes-Benz, Isuzu and various other OEMs. In addition, the company is gaining new businesses with its latest innovative driveline solution. It expects that this will support customer demand for advanced technologies, thus leading to greater business diversification and profitable growth.

- American Axle'sagreement to sell its U.S iron casting operations for $245 million also bodes well. The sale will help the firm to streamline its portfolio, reduce debt and improve margin profile. The net cash proceeds from the sale will be used to repay outstanding debt of American Axle. Further, this can help the company to invest in its highly engineered product portfolio and more profitable growth opportunities — including electrification, which will bolster its value proposition.

Reasons To Sell:

- American Axle has revised down its full year outlook amid unfavorable impact from the 40-day strike of its largest customer General Motors. For 2019, American Axle anticipates sales of $6.6 billion, down from the previous view of $6.9-$7 billion. Adjusted EBITDA forecast is now expected in the band of $950-$975 million, compared to the prior range of $1.05-$1.10 billion. Adjusted FCF is now forecasted at $175 million, lower than the prior view of 250 $million.

Bleak full year outlook of the firm along with high debt level remain major headwinds.

- Higher manufacturing costs due to material freight and inflationary pressures along with program launch costs negatively impacted American Axle's profit margin. Further, restructuring and acquisition-related costs and research and development costs are other cost headwinds for the company. These incremental costs are likely to hurt American Axle in the coming quarters.

- U.S.-Sino trade tensions is likely to weigh on the stock. As we know, in a bid to expand its global footprint, American Axle had formed a joint venture in China to to build driveline systems. Uncertainty with the U.S.-China trade war can further dampen the company's prospects in the country.

- American Axle's major OEM customers are constantly demanding concessions in the form of lower prices. If the company gives in to the demand for higher annual price reductions and is unable to offset the impact of such price reductions through technology improvements and cost reductions, its results of operations and financial condition could be adversely affected. American Axle's high leverage of 70.18% (versus industry's 64.5%). This higher leverage will restrict the financial flexibility of the firm and limit its growth. It will further lead to an increase in interest costs which might clip its net profit.

Last Earnings Report

American Axle's Q3 Earnings Top Estimates, Down Y/Y

Quarter Ending	09/2019
Report Date	Nov 01, 2019
Sales Surprise	-1.13%
EPS Surprise	41.46%
Quarterly EPS	0.58
Annual EPS (TTM)	1.94

American Axle delivered mixed 2019 third-quarter results, wherein the earnings topped the Zacks Consensus Estimates, but the revenues lagged the same. While the company's results were negatively impacted by UAW-General Motors strike, operational efficiency offset the results. Detroit-based global automotive parts supplier posted adjusted earnings of 58 cents per share, topping the Zacks Consensus Estimate of 41 cents. Nonetheless, the bottom line reduced 7.9% year-over-year. The company reported revenues of $1,677 million, missing the Zacks Estimate of $1,697 million and also below the year ago figure of $1,817 million.

Segmental Highlights

The firm's driveline segment recorded sales of $1,146.7 million, down 6.6% year-over-year. The EBITDA from the unit also declined 3% to come in at $171.6 million. Unfavorable impact from the 40-day strike of its largest customer General Motors (GM) led to weaker contribution. However, American Axle was able to improve its EBITDA margin from 14.4% to 14.9% in the quarter under review on the back of operational efficiency along with lower project and launch costs.

The company's metal forming business generated revenues of $476.6 million, lower than the year-ago figure of $509 million. The EBITDA also scaled down 3.9% year-over-year to $80.4 million. While work stoppage at General Motors impacted the unit's results, lower launch costs and synergy benefits offset the losses.

Casting unit posted revenues of $209 million, comparing unfavorably with the year-ago level of $219.1 million. The EBITDA from the segment also declined to $13.8 million from $14.5 million recorded in the third quarter of 2018. The segment bore the brunt of high operating costs and lower sales in commercial and industrial market.

Costs & Financial Position

American Axle's SG&A (selling, general & administrative) expenses were $92.7 million for thirdd-quarter 2019 in comparison with $96.3 million in the prior-year quarter.

For the three months ending Sep 30, the company's adjusted free cash flow (FCF) was $160.5 million compared with $121.3 million for the same period of last year. Capital spending in the quarter came in at $97.5 million, declining from $116.5 million in the year-quarter figure.

As of Sep 30, American Axle had cash and cash equivalents of $375.1 million and Net long-term debt was $3,673.3 million, representing debt-to-capital ratio of 72.3%.

Outlook Trimmed

Amid the negative strike-related impacts, the company lowered its full year guidance and expects the stoppage to cost it $250 million. For 2019, American Axle anticipates sales of $6.6 billion, down from the previous view of $6.9-$7 billion. Adjusted EBITDA forecast is now expected in the band of $950-$975 million, compared to the prior range of $1.05-$1.10 billion. Adjusted FCF is now forecasted at $175 million, lower than the prior view of 250 $million.

Valuation

American Axle's shares are down 5.4% in the year-to-date period and down 27.3% in the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are down 2.4% and up 8.7%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 7.2% and 23.1%, respectively.

The S&P 500 index is up 2.4% in the year-to-date period and 23.4% in the past year.

The stock is currently trading at 4.9X forward 12-month earnings, which compares to 12.96X for the Zacks sub-industry, 11.67X for the Zacks sector and 18.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 9.52X and as low as 2.85X, with a 5-year median of 4.99X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $11 price target reflects 5.24X Forward 12-month earnings.

The table below shows summary valuation data for AXL:

Valuation Multiples - AXL

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	4.9	12.96	11.67	18.89
	5-Year High	9.52	13.46	11.75	19.34
	5-Year Low	2.85	8.52	8.23	15.18
	5-Year Median	4.99	11.6	9.91	17.46
EV/EBITDA TTM	Current	3.2	6.05	8.7	11.95
	5-Year High	7.41	8.66	11.34	12.85
	5-Year Low	2.93	4.63	7.05	8.49
	5-Year Median	4.13	6.62	9.27	10.66
P/S F12M	Current	0.19	0.63	0.72	3.5
	5-Year High	0.48	0.81	0.76	3.5
	5-Year Low	0.1	0.49	0.5	2.54
	5-Year Median	0.28	0.65	0.62	3

As of 02/05/2020

Industry Analysis **Zacks Industry Rank:** Bottom 36% (163 out of 255)

Top Peers

Adient PLC **(ADNT)**	Neutral
Allison Transmission Holdings, Inc. **(ALSN)**	Neutral
BorgWarner Inc. **(BWA)**	Neutral
Cooper-Standard Holdings Inc. **(CPS)**	Neutral
Dana Incorporated **(DAN)**	Neutral
Lear Corporation **(LEA)**	Neutral
Magna International Inc. **(MGA)**	Neutral
Garrett Motion Inc. **(GTX)**	Underperform

Industry Comparison Industry: Automotive - Original Equipment

Industry Peers

	AXL Neutral	X Industry	S&P 500	ADNT Neutral	ALSN Neutral	BWA Neutral
VGM Score	A	-	-	A	C	A
Market Cap	1.15 B	784.25 M	24.26 B	2.63 B	5.56 B	7.24 B
# of Analysts	6	3	13	5	8	9
Dividend Yield	0.00%	0.00%	1.75%	0.00%	1.29%	1.94%
Value Score	A	-	-	B	B	A
Cash/Price	0.36	0.12	0.04	0.40	0.03	0.13
EV/EBITDA	3.98	4.81	14.19	10.76	7.23	4.73
PEG Ratio	0.58	1.15	2.04	0.49	1.61	1.13
Price/Book (P/B)	0.81	1.31	3.31	1.26	7.49	1.58
Price/Cash Flow (P/CF)	0.82	5.02	13.70	5.57	7.48	5.33
P/E (F1)	4.71	11.59	19.17	15.94	11.24	8.73
Price/Sales (P/S)	0.17	0.45	2.67	0.16	2.04	0.71
Earnings Yield	20.43%	8.17%	5.22%	6.28%	8.89%	11.44%
Debt/Equity	2.61	0.41	0.71	1.79	3.38	0.36
Cash Flow ($/share)	12.39	3.65	6.92	5.03	6.24	6.58
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	-0.04%	8.47%	10.80%	-48.21%	20.84%	9.55%
Proj. EPS Growth (F1/F0)	38.94%	5.91%	7.35%	7.85%	-13.18%	0.53%
Curr. Cash Flow Growth	68.32%	5.67%	10.12%	-51.64%	39.24%	11.56%
Hist. Cash Flow Growth (3-5 yrs)	34.69%	9.98%	8.55%	-10.30%	6.55%	7.21%
Current Ratio	1.78	1.56	1.20	1.03	1.57	1.58
Debt/Capital	72.27%	35.95%	42.91%	64.45%	77.18%	26.56%
Net Margin	-5.77%	3.38%	11.79%	-3.93%	23.61%	7.43%
Return on Equity	14.79%	14.34%	17.21%	9.32%	91.48%	19.43%
Sales/Assets	0.91	1.30	0.54	1.56	0.63	1.00
Proj. Sales Growth (F1/F0)	-8.46%	0.00%	4.15%	-4.89%	-6.66%	-0.08%
Momentum Score	F	-	-	B	F	F
Daily Price Chg	3.88%	1.24%	1.40%	3.28%	3.07%	1.77%
1 Week Price Chg	-0.75%	-3.65%	-2.60%	26.84%	-4.82%	-12.61%
4 Week Price Chg	5.60%	-1.98%	1.96%	33.88%	-4.91%	-17.94%
12 Week Price Chg	0.00%	-0.76%	6.04%	32.92%	4.64%	-21.61%
52 Week Price Chg	-30.23%	-1.93%	16.68%	31.36%	-3.49%	-14.93%
20 Day Average Volume	1,235,254	152,572	1,966,046	1,827,274	851,304	2,864,836
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	10.68%	0.00%	-1.20%
(F1) EPS Est 4 week change	-2.50%	0.00%	0.00%	7.46%	-1.31%	-2.78%
(F1) EPS Est 12 week change	-5.66%	-3.88%	-0.08%	-8.44%	-2.87%	-2.22%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	5.74%	-4.04%	-4.29%

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	A
Growth Score	B
Momentum Score	F
VGM Score	A

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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.