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Mar 12, 2020

American Axle (AXL)

$4.88 (As of 03/11/20)

Price Target (6-12 Months): **$4.25**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/04/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: C	Momentum: A

Summary

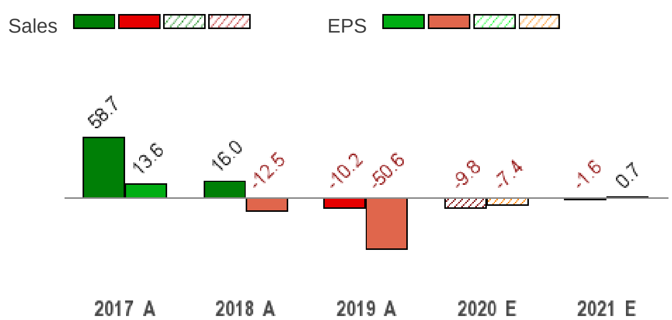
American Axle's high manufacturing costs due to material freight and inflationary pressures along with program launch costs are negatively impacting its profit margin. Further, restructuring and acquisition-related costs and, research and development costs are other cost headwinds for the company. Moreover, the company has revised down its full year outlook. It now expects sales of $5.8-6 billion, down from the 2019's figure of $6.53 billion. Further, its gross new and incremental business backlog is around $750 million for programs launching from 2020 to 2022, which may hurt the company's financial performance. The company's high leverage of 78.8% will restrict its financial flexibility and may lead to a rise in interest costs, clipping its net profit, going forward. As such, the stock is viewed as a risky bet at the moment.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$16.43 - $4.21
20 Day Average Volume (sh)	2,492,890
Market Cap	$549.2 M
YTD Price Change	-54.7%
Beta	2.51
Dividend / Div Yld	$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 29% (180 out of 253)
Last EPS Surprise	1,200.0%
Last Sales Surprise	-4.2%
EPS F1 Est- 4 week change	-28.1%
Expected Report Date	05/01/2020
Earnings ESP	0.0%
P/E TTM	3.0
P/E F1	3.3
PEG F1	0.4
P/S TTM	0.1

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					5,800 E
2020	1,497 E	1,434 E	1,554 E	1,441 E	5,894 E
2019	1,719 A	1,704 A	1,677 A	1,430 A	6,531 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					$1.51 E
2020	$0.31 E	$0.32 E	$0.54 E	$0.39 E	$1.50 E
2019	$0.36 A	$0.55 A	$0.58 A	$0.13 A	$1.62 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 03/11/2020. The reports text is as of 03/12/2020.

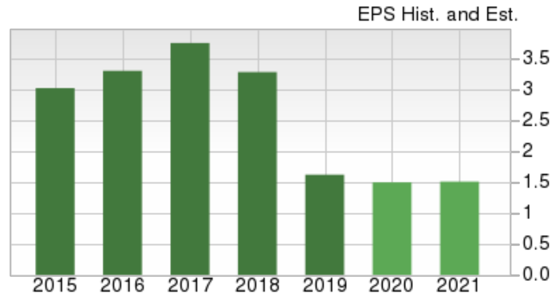
Overview

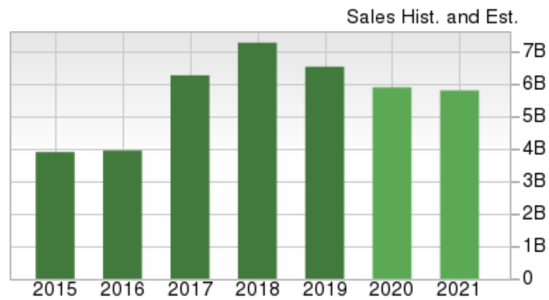
American Axle & Manufacturing Holdings, Inc. is a leading supplier of driveline and drivetrain systems, modules and components for the light vehicle market. In the first quarter of 2019, the company initiated a new global restructuring program to further streamline its business by consolidating four existing segments into three segments. American Axle has the following three operating segments:

Driveline (64.4% of consolidated net sales in 2019) products consist primarily of front and rear axles, driveshafts, differential assemblies, clutch modules, balance shaft systems, disconnecting driveline technology, and electric and hybrid driveline products and systems for light trucks, sport utility vehicles (SUVs), crossover vehicles, passenger cars and commercial vehicles.

Metal Forming (26.1%) products consist primarily of axle and transmission shafts, ring and pinion gears, differential gears and assemblies, connecting rods and variable valve timing products for Original Equipment Manufacturers and Tier 1 automotive suppliers.

In the fourth quarter of 2019, American Axle completed the sale of the U.S. operations of its **Casting** segment (9.5%) for net cash proceeds of $141.2 million. Prior to the Casting sale, the Casting segment produced both thin wall castings and high strength ductile iron castings, as well as transmission pump bodies, steering knuckles, control arms, brake anchors and calipers, and ball joint housings for the global light vehicle, commercial and industrial markets.





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. Sales to the company's major customers, including General Motors and Fiat Chrysler were 37% and 17% of the consolidated net sales, respectively in 2019.

During 2019, the company launched nearly 50 programs across its business units, supporting a variety of customers including General Motors, Fiat Chrysler, Ford, and Mercedes-AMG. In 2020, American Axle expects to launch approximately 15 new and replacement programs across all its business units.

As of December 2019, the company had 20,000 employees at roughly 80 facilities in 17 countries.

Reasons To Sell:

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

- American Axle has revised down its full-year 2020 outlook. For 2020, American Axle anticipates sales of $5.8-6 billion, down from the prior year's figure of $6.53 billion. Adjusted EBITDA forecast is now expected in the band of $930-$960 million, compared to the 2019's figure $970.3 million.

- 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 also likely to have weighed on the stock. As we know, in a bid to expand its global footprint, American Axle had formed a joint venture in China to build driveline systems. Hence, economic slowdown in China can further dampen the company's prospects in the country.

- American Axle's gross new and incremental business backlog is approximately $750 million for programs launching from 2020 to 2022. In 2018, its gross new and incremental business backlog was approximately $1.25 billion for programs launching from 2019 to 2021.

- 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 78.8% 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.

Risks

- 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's program launches will drive financials, going forward. AXL has two EV programs set to launch in 2020, including the electric front drive unit on the Baojun E300 with SAIC-GM-Wuling and another program (P3 hybrid) with a European luxury OEM. The company's acquisition of Metaldyne Performance Group has also 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 $140 million by 2020, which will contribute to margin enhancement.

- American Axle's completed the sale of its U.S iron casting operations for net cash proceeds of $141.2 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.

Last Earnings Report

American Axle's Q4 Earnings Top Estimates, Down Y/Y

Quarter Ending	12/2019
Report Date	Feb 14, 2020
Sales Surprise	-4.17%
EPS Surprise	1,200.00%
Quarterly EPS	0.13
Annual EPS (TTM)	1.62

American Axle reported mixed results for fourth-quarter 2019, wherein earnings topped the Zacks Consensus Estimate but revenues lagged the same. While the UAW-General Motors strike affected the company's performance, better-than-expected EBITDA in the Driveline and Metal Forming segments led to the outperformance.

The Detroit-based global automotive parts supplier posted adjusted earnings of 13 cents per share, topping the Zacks Consensus Estimate of 1 cent. The bottom-line figure, however, slumped 71.1%, year on year. The company reported revenues of $1,430 million, missing the Zacks Consensus Estimate of $1,492 million. The revenue number also came in lower than the year-ago figure of $1,694 million.

CHART

Segmental Highlights

The firm's Driveline segment recorded sales of $1,015.6 million, down 13.4% year over year. Negative impact of the 40-day strike of its largest customer GM, a choppy metal market and unfavorable foreign-currency translation resulted in this decline. The unit EBITDA also declined 23.7% from the prior-year quarter to $124.9 million. However, the figure surpassed the Zacks Consensus Estimate of $123 million.

The company's Metal Forming business generated revenues of $401.2 million, lower than the year-ago figure of $464.3 million. Its EBITDA also decreased $7.6 million year on year to $66.2 million. However, it beat the Zacks Consensus Estimate of $54 million. While lower North American and European production volumes marred the unit's performance, improved launch and operating performance offset the losses.

The Casting unit posted revenues of $127.5 million, significantly lower than the year-ago level of $184.2 million. The segment EBITDA also declined to $2.4 million from the $6.4 million recorded in fourth-quarter 2018. It also missed the Zacks Consensus Estimate of $12.8 million.

Costs & Financial Position

American Axle's SG&A (selling, general & administrative) expenses were $90 million in fourth-quarter 2019 comparison with the $97.1 million incurred in the prior-year period.

For the three-month period ended Dec 31, 2019, the company's adjusted free cash flow (FCF) was $116.5 million compared with the $142.4 million witnessed in the year-earlier period. Capital spending in the quarter came in at $95 million, down from the year-ago quarter's $131.2 million.

As of Dec 31, 2019, American Axle had cash and cash equivalents of $532 million, and net long-term debt of $3,612.3 million, representing a debt-to-capital ratio of 78.8%.

2020 Outlook

For 2020, American Axle anticipates sales of $5.8-$6 billion. While adjusted EBITDA is expected in the $930-$960 million band, adjusted EBITDA margin is likely to be around 16% of sales. Adjusted FCF is projected at $300 million, which assumes capital spending of 5.5% of sales.

Valuation

American Axle's shares are down 54.6% in the year-to-date period and down 66.2% in the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are down 20.7% and 10.8%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 14.2% and 0.2%, respectively.

The S&P 500 index is down 10.2% in the year-to-date period and up 3.6% in the past year.

The stock is currently trading at 3.24X forward 12-month earnings, which compares to 10.78X for the Zacks sub-industry, 9.76X for the Zacks sector and 16.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 9.49X and as low as 2.85X, with a 5-year median of 4.96X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $4.25 price target reflects 2.81X 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	3.24	10.78	9.76	16.58
	5-Year High	9.49	13.46	11.75	19.34
	5-Year Low	2.85	8.52	8.23	15.18
	5-Year Median	4.96	11.59	9.88	17.42
EV/EBITDA TTM	Current	4.12	5.58	9.88	11.04
	5-Year High	7.41	8.66	11.35	12.87
	5-Year Low	2.93	4.64	7.05	8.49
	5-Year Median	4.14	6.59	9.36	10.79
P/S F12M	Current	0.09	0.52	0.59	3.05
	5-Year High	0.48	0.81	0.76	3.44
	5-Year Low	0.09	0.49	0.5	2.54
	5-Year Median	0.28	0.64	0.62	3.01

As of 03/11/2020

Industry Analysis **Zacks Industry Rank:** Bottom 29% (180 out of 253)

Top Peers

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

Industry Comparison Industry: Automotive - Original Equipment

Industry Peers

	AXL Underperform	X Industry	S&P 500	ADNT Neutral	ALSN Neutral	BWA Neutral
VGM Score	A	-	-	A	B	C
Market Cap	549.22 M	548.55 M	19.20 B	1.54 B	4.23 B	5.53 B
# of Analysts	5	2	13	5	8	9
Dividend Yield	0.00%	0.00%	2.31%	0.00%	1.89%	2.54%
Value Score	A	-	-	A	B	A
Cash/Price	0.92	0.14	0.05	0.51	0.04	0.14
EV/EBITDA	16.41	4.11	11.76	8.60	6.10	3.62
PEG Ratio	0.38	0.93	1.73	0.27	1.29	0.96
Price/Book (P/B)	0.56	0.98	2.64	0.74	5.48	1.14
Price/Cash Flow (P/CF)	0.76	3.78	10.55	3.27	5.56	4.28
P/E (F1)	3.10	8.58	15.66	8.78	9.05	6.73
Price/Sales (P/S)	0.08	0.33	2.06	0.09	1.57	0.54
Earnings Yield	30.74%	10.98%	6.38%	11.37%	11.06%	14.86%
Debt/Equity	3.68	0.51	0.70	1.79	3.22	0.35
Cash Flow ($/share)	6.39	3.79	7.01	5.03	6.45	6.26
Growth Score	C	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	-5.13%	7.17%	10.85%	-48.21%	22.02%	9.76%
Proj. EPS Growth (F1/F0)	-7.65%	4.85%	6.02%	14.97%	-18.39%	-3.55%
Curr. Cash Flow Growth	-19.99%	-2.66%	6.09%	-51.64%	-4.87%	-5.66%
Hist. Cash Flow Growth (3-5 yrs)	13.70%	6.21%	8.52%	-10.30%	2.51%	3.79%
Current Ratio	1.81	1.56	1.24	1.03	1.65	1.65
Debt/Capital	78.65%	38.59%	42.57%	64.45%	76.28%	25.68%
Net Margin	-7.42%	3.15%	11.69%	-3.93%	22.39%	7.34%
Return on Equity	13.56%	13.35%	16.74%	9.32%	81.36%	18.68%
Sales/Assets	0.90	1.30	0.54	1.56	0.61	1.01
Proj. Sales Growth (F1/F0)	-9.75%	-0.32%	3.55%	-5.11%	-9.87%	-1.60%
Momentum Score	A	-	-	B	C	D
Daily Price Chg	-2.01%	-3.42%	-5.37%	-3.86%	-0.75%	-3.60%
1 Week Price Chg	-18.80%	-6.59%	-0.67%	-15.75%	-4.90%	-8.64%
4 Week Price Chg	-52.81%	-23.74%	-20.57%	-42.12%	-20.04%	-22.77%
12 Week Price Chg	-54.69%	-27.79%	-17.57%	-30.74%	-26.26%	-40.73%
52 Week Price Chg	-66.21%	-24.68%	-8.21%	14.31%	-22.49%	-30.65%
20 Day Average Volume	2,492,890	191,373	2,882,511	1,603,197	1,327,641	4,487,251
(F1) EPS Est 1 week change	-0.66%	0.00%	0.00%	0.00%	0.00%	-0.28%
(F1) EPS Est 4 week change	-28.14%	-0.43%	-0.23%	7.79%	-4.46%	-0.75%
(F1) EPS Est 12 week change	-29.93%	-4.48%	-0.60%	19.94%	-6.61%	-3.78%
(Q1) EPS Est Mthly Chg	-44.73%	-1.78%	-0.52%	-22.88%	-5.49%	-7.01%

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	C
Momentum Score	A
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.

Disclosures

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