

American Axle (AXL)

\$7.78 (As of 06/12/20)

Price Target (6-12 Months): **\$8.25**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

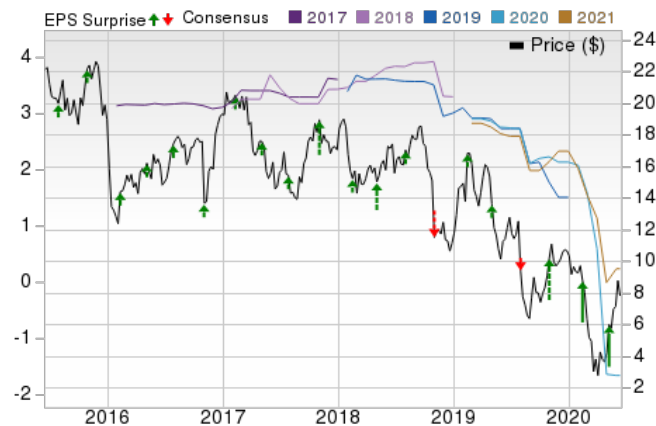
Growth: A

Momentum: F

Summary

American Axle's efforts of diversifying its business, products and customer base are generating impressive results. The firm's program launches will boost prospects in the days to come. Its strategic buyouts and divestments also bode well. In response to the uncertainty caused by the coronavirus pandemic, the firm has initiated a series of cost savings, including staffing adjustments and reducing production levels to help mitigate the business disruptions. However, its high manufacturing costs due to material freight and inflationary pressures, along with program-launch costs, are negatively impacting its margins. Further, restructuring and acquisition-related costs are other headwinds. Moreover, the firm withdrew its 2020 guidance amid COVID-19 concerns. High debt levels are also a concern. As such, the stock warrants a cautious stance.

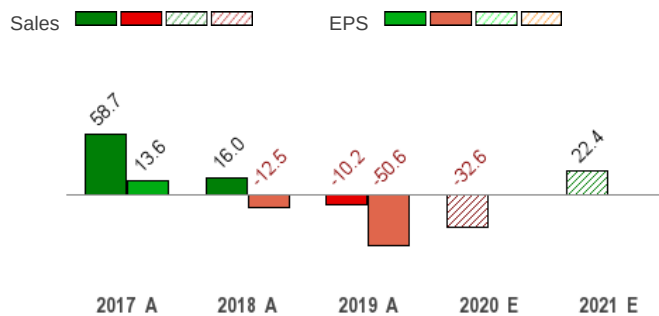
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$13.23 - \$2.50
20 Day Average Volume (sh)	2,689,259
Market Cap	\$879.8 M
YTD Price Change	-27.7%
Beta	2.74
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 48% (130 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	225.0%
Last Sales Surprise	3.6%
EPS F1 Est- 4 week change	-24.4%
Expected Report Date	08/07/2020
Earnings ESP	21.1%
P/E TTM	5.3
P/E F1	NA
PEG F1	NA
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,386 E
2020	1,344 A	432 E	1,278 E	1,357 E	4,399 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					\$0.24 E
2020	\$0.20 A	-\$2.04 E	-\$0.03 E	\$0.16 E	-\$1.66 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, except sales and EPS estimates, is as of 06/12/2020. The reports text and the analyst-provided sales and EPS estimates are as of 06/15/2020.

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.

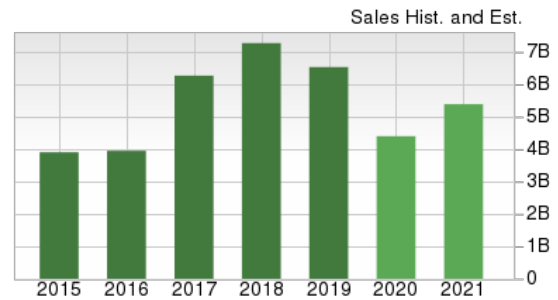
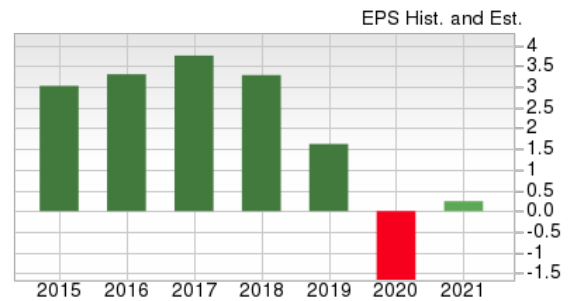
Metal Forming (26.1%) products consist primarily of axle and transmission shafts, ring and pinion gears, differential gears and assemblies, connecting rods and variable valve timing products for Original Equipment Manufacturers and Tier 1 automotive suppliers.

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 Buy:

- ▲ American Axle's efforts of diversifying its business, products and customer base are generating impressive results. 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 solid growth.
 - ▲ Moreover, the company's acquisition of Metaldyne Performance Group 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. Divestment of its U.S iron casting operations has streamlined American Axle's portfolio and improved margin profile.
 - ▲ In response to the uncertainty caused by the coronavirus pandemic, American Axle initiated a series of cost savings throughout the enterprise, including substantial staffing adjustments and reducing production levels to help mitigate the business disruptions. The focus on cost discipline is likely to offer some respite to the company amid coronavirus-induced financial crisis. Notably, in the first quarter of 2020, American Axle's SG&A (selling, general & administrative) expenses and CapEx totaled \$90.3 million and \$69.2 million, down from the \$90.7 million and \$123.9 million incurred in the prior-year period.
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American Axle's program launches along with its strategic acquisitions and divestitures bode well.

Reasons To Sell:

- ▼ The coronavirus pandemic has crippled the auto industry, and will cause a decline in sales and production, hurting this leading supplier of driveline and drivetrain systems, modules and components for the light vehicle market. The pandemic has affected American Axle's customers worldwide, resulting in temporary plant closures, changes in processes and cut in production levels, in line with the nationwide campaign addressing the crisis. Such unprecedented challenges have prompted the automotive supplier to withdraw its 2020 outlook. Weak consumer sentiment amid the COVID-19 outbreak is likely to hurt the firm's sales and earnings in the near future.
- ▼ Higher manufacturing costs due to material freight and inflationary pressures, along with program-launch costs, hurt 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. The U.S.-Sino trade tensions are 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.
- ▼ As of Mar 31, 2020, the company's net long-term debt amounted to \$3,511.7 million, as compared to cash and cash equivalents of \$682.7 million during the same period. Its total debt-to-capital ratio stands at 0.9, higher than its industry's 0.45. A high total debt-to-capital ratio often indicates that a firm may not be able to generate enough cash to satisfy its debt obligations. Moreover, the company's times interest earned ratio of -3.97X is unfavorable to the industry ratio of 6.28X.

Guidance withdrawal and high operating expenses have dampened investors' confidence in the stock.

Last Earnings Report

American Axle Q1 Earnings & Sales Surpass Estimates

American Axle posted first-quarter 2020 adjusted earnings of 20 cents per share, as against the Zacks Consensus Estimate of loss of 16 cents on higher-than-anticipated revenues. The bottom-line figure, however, slumped 44.4%, year on year.

The company reported net loss of \$501.3 million in the quarter, as against the net income of \$41.6 million recorded in the year-ago period.

The Detroit-based global automotive parts supplier reported revenues of \$1,344 million, beating the Zacks Consensus Estimate of \$1,297 million. Revenues, however, came in lower than the year-ago figure of \$1,719 million.

Quarter Ending **03/2020**

Report Date	May 08, 2020
Sales Surprise	3.55%
EPS Surprise	225.00%
Quarterly EPS	0.20
Annual EPS (TTM)	1.46

Segmental Highlights

The firm's Driveline segment recorded sales of \$1,031.7 million, down 11.5% year over year. The unit EBITDA also declined 2.4% from the prior-year quarter to \$139.3 million. The figure missed the Zacks Consensus Estimate of \$150 million.

The company's Metal Forming business generated revenues of \$422.3 million, lower than the year-ago figure of \$483.3 million. Its EBITDA also decreased \$10.4 million year on year to \$74 million. The reported figure also missed the Zacks Consensus Estimate of \$78 million.

Costs & Financial Position

American Axle's SG&A (selling, general & administrative) expenses totaled \$90.3 million in first-quarter 2020, down from the \$90.7 million incurred in the prior-year period.

For the three-month period ended Mar 31, 2020, the company's adjusted free cash flow (FCF) was \$83.3 million compared with the negative adjusted FCF of \$188.5 million witnessed in the year-earlier period. Capital spending in the quarter came in at \$69.2 million, down from the year-ago quarter's \$123.9 million.

As of Mar 31, 2020, American Axle had cash and cash equivalents of \$682.7 million, compared with \$532 million as of Dec 31, 2019. The company had net long-term debt of \$3,511.7 million as of Mar 31, 2020, down from \$3,612.3 million as of Dec 31, 2019.

2020 Outlook

American Axle suspended the 2020 guidance as it expects the coronavirus pandemic's impact to strain its operations in the days to come.

Valuation

American Axle's shares are down 27.7% in the year-to-date period and down 31.5% in the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are down 13.9% and up 0.9%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7.6% and up 14%, respectively.

The S&P 500 index is down 5.5% in the year-to-date period and up 5.2% in the past year.

The stock is currently trading at 0.18X forward 12-month sales, which compares to 0.66X for the Zacks sub-industry, 0.75X for the Zacks sector and 3.41X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.48X and as low as 0.05X, with a 5-year median of 0.27X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$8.25 price target reflects 0.19X forward 12-month sales.

The table below shows summary valuation data for AXL:

Valuation Multiples - AXL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.18	0.66	0.75	3.41
	5-Year High	0.48	0.78	0.75	3.44
	5-Year Low	0.05	0.44	0.49	2.53
	5-Year Median	0.27	0.61	0.61	3.02
EV/EBITDA TTM	Current	4.3	5.38	10.72	11.25
	5-Year High	7.5	8.44	11.3	12.85
	5-Year Low	2.91	3.96	6.94	8.25
	5-Year Median	4.09	6.33	9.25	10.82
P/B TTM	Current	2.24	2.29	1.69	4.16
	5-Year High	12.03	3.18	2.13	4.56
	5-Year Low	0.32	1.43	1.12	2.83
	5-Year Median	1.34	2.55	1.72	3.66

As of 06/12/2020

Industry Analysis Zacks Industry Rank: Bottom 48% (130 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Adient PLC (ADNT)	Neutral	2
Allison Transmission Holdings, Inc. (ALSN)	Neutral	3
BorgWarner Inc. (BWA)	Neutral	3
Dana Incorporated (DAN)	Neutral	3
Lear Corporation (LEA)	Neutral	3
Magna International Inc. (MGA)	Neutral	3
Modine Manufacturing Company (MOD)	Neutral	5
Garrett Motion Inc. (GTX)	Underperform	4

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	AXL	X Industry	S&P 500	ADNT	ALSN	BWA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	A	B	A
Market Cap	879.81 M	750.50 M	21.47 B	1.70 B	4.22 B	6.96 B
# of Analysts	4	3	14	6	8	9
Dividend Yield	0.00%	0.00%	1.96%	0.00%	1.82%	2.03%
Value Score	F	-	-	B	A	A
Cash/Price	0.69	0.20	0.06	0.82	0.02	0.12
EV/EBITDA	16.77	5.38	12.36	7.53	6.16	4.39
PEG Ratio	NA	2.07	2.92	NA	2.07	2.03
Price/Book (P/B)	2.24	1.26	2.96	0.90	6.09	1.43
Price/Cash Flow (P/CF)	1.22	4.18	11.51	3.61	5.78	5.36
P/E (F1)	NA	23.55	20.86	NA	14.49	18.58
Price/Sales (P/S)	0.14	0.36	2.25	0.11	1.59	0.70
Earnings Yield	-21.34%	2.24%	4.55%	-3.42%	6.92%	5.39%
Debt/Equity	8.95	0.42	0.76	1.97	3.62	0.34
Cash Flow (\$/share)	6.39	3.46	7.01	5.03	6.45	6.26
Growth Score	A	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	-9.73%	9.09%	10.87%	-45.42%	23.40%	9.34%
Proj. EPS Growth (F1/F0)	-202.16%	-59.88%	-10.81%	-137.93%	-47.02%	-56.28%
Curr. Cash Flow Growth	-19.99%	-4.87%	5.46%	-51.64%	-4.87%	-5.66%
Hist. Cash Flow Growth (3-5 yrs)	13.70%	4.57%	8.55%	-10.30%	2.51%	3.79%
Current Ratio	1.68	1.56	1.29	1.01	1.56	1.76
Debt/Capital	89.95%	41.77%	44.75%	66.58%	78.38%	25.49%
Net Margin	-16.69%	1.92%	10.54%	-3.28%	21.65%	7.24%
Return on Equity	15.33%	12.25%	16.08%	11.52%	78.97%	17.15%
Sales/Assets	0.89	1.26	0.55	1.49	0.60	1.00
Proj. Sales Growth (F1/F0)	-32.65%	-15.44%	-2.60%	-25.13%	-24.74%	-22.43%
Momentum Score	F	-	-	B	C	D
Daily Price Chg	9.27%	2.28%	1.48%	7.97%	1.86%	2.72%
1 Week Price Chg	23.07%	11.73%	7.51%	25.75%	8.80%	15.99%
4 Week Price Chg	45.15%	20.10%	9.78%	16.87%	9.74%	20.64%
12 Week Price Chg	161.95%	48.76%	27.11%	113.53%	16.45%	59.69%
52 Week Price Chg	-33.33%	-8.69%	-5.42%	-13.78%	-16.03%	-18.39%
20 Day Average Volume	2,689,259	204,573	2,634,935	1,234,016	850,354	3,461,271
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-24.44%	-1.01%	0.00%	2.37%	0.00%	-9.27%
(F1) EPS Est 12 week change	-210.63%	-66.00%	-15.86%	-133.07%	-35.08%	-54.67%
(Q1) EPS Est Mthly Chg	-26.32%	-4.14%	0.00%	-11.48%	0.00%	-17.48%

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	F
Growth Score	A
Momentum Score	F
VGM Score	C

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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