

Cummins Inc. (CMI)

\$174.81 (As of 06/04/20)

Price Target (6-12 Months): **\$184.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: A

Momentum: F

Summary

Cummins focuses on introducing innovative products and strategies such as partnerships in order to record high returns. In sync with its aim to be a leader in electrified power, Cummins acquired Hydrogenic Corp. which will boost its ability to innovate hydrogen fuel-cell technologies across commercial markets. Its healthy balance sheet and improving cash flows along with investor friendly moves are other positives. However, with COVID-19 wreaking havoc on the auto industry, sales and earnings of Cummins is likely to suffer a major blow. Contracting demand for heavy trucks amid coronavirus crisis is likely to mar its prospects, going forward. Elevated expenses, owing to rising R&D expenses for product development and high material costs are also playing spoilsports. As such, the stock warrants a cautious stance.

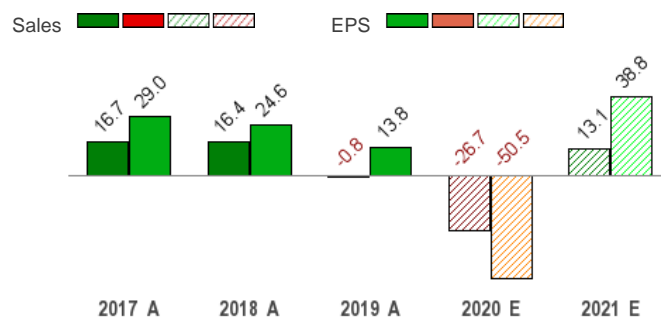
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$186.73 - \$101.03
20 Day Average Volume (sh)	1,412,373
Market Cap	\$25.8 B
YTD Price Change	-2.3%
Beta	1.14
Dividend / Div Yld	\$5.24 / 3.0%
Industry	Automotive - Internal Combustion Engines
Zacks Industry Rank	Top 34% (86 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	45.9%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	08/04/2020
Earnings ESP	-20.5%
P/E TTM	12.6
P/E F1	23.5
PEG F1	2.9
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,970 E	4,973 E	5,048 E	5,133 E	19,553 E
2020	5,011 A	3,621 E	4,009 E	4,556 E	17,281 E
2019	6,004 A	6,221 A	5,768 A	5,578 A	23,571 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.51 E	\$2.64 E	\$2.79 E	\$2.44 E	\$10.34 E
2020	\$3.18 A	\$0.82 E	\$1.42 E	\$1.58 E	\$7.45 E
2019	\$4.20 A	\$4.27 A	\$3.83 A	\$2.56 A	\$15.05 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 06/04/2020. The reports text is as of 06/05/2020.

Overview

Cummins Inc. is a leading global designer, manufacturer and distributor of diesel and natural gas engines and powertrain-related component products. Powertrain components include fuel systems, turbochargers, transmissions, batteries and electrified power systems, among others. Headquartered in Columbus, IN, the company offers products to original equipment manufacturers (OEMs), distributors and dealers through a network of roughly 600 company-owned and independent distributor facilities over 7,600 dealer locations in more than 190 countries and territories. Cummins has the following five operating segments:

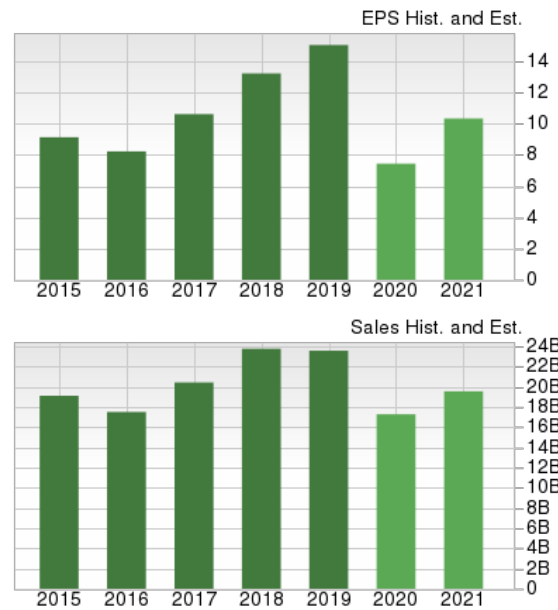
The **Engine** segment (34% of consolidated net sales in 2019) produces diesel and natural gas-based engines for on-highway and industrial markets. The engines are used in heavy and medium-duty trucks, buses, recreational vehicles, and various industrial applications such as construction, mining, agriculture, marine, oil and gas, rail, and defense.

The **Power Generation** segment (15.9%) sells power generators, diesel and natural gas high-horsepower engines, and AC generator or alternator products for internal consumption and external generator set assemblers. The unit is organized in Power Generation, Industrial and Generator Technologies product lines.

The **Components** segment (23%) has five businesses namely, Emission solutions, Turbo technologies, Filtration, Electronics and fuel systems, and Automated transmissions. The systems offered by this unit support the Engine and Power Systems segments of Cummins.

The **Distribution** segment (27%) includes 28 wholly and partially-owned distributorships and 10 joint ventures that offer a varied range of products and services, including Parts, Engines, Power generation and Service. The segment has a diverse customer base, with a global presence.

The **New Power** segment (0.1%) designs, manufactures, sells and supports electrified power systems ranging from fully electric to hybrid. It currently offers the Cummins PowerDrive series of fully electric and hybrid powertrain systems targeting various applications in the Class 4-8 commercial vehicle markets and are developing the Cummins Battery Electric System and the Cummins Hybrid Power Plug-In System for the urban bus market.



Reasons To Buy:

- ▲ Cummins focuses on introducing innovative products and strategies such as partnerships in order to record high returns. Besides widening the product portfolio, it collaborated with Hyundai Construction and Isuzu Motors in October 2018. The collaboration with Hyundai is to develop an electric powered mini excavator while the one with Isuzu Motors will discover opportunity in the powertrain area. Further, the company partnered with Russia's KAMAZ to supply electrified power solutions for KAMAZ's new line of battery-powered vehicles.
- ▲ Cummins is poised to gain from acquisitions. In sync with its aim to be a leader in electrified power, the company has acquired Hydrogenic Corp. The buyout will likely boost Cummins' ability to innovate hydrogen fuel-cell technologies across commercial markets. The company also announced the acquisition of Efficient Drivetrains, Inc., in July 2018. Earlier in January 2018, the company announced its buyout of the automotive battery business of United Kingdom's Johnson Matthey.
- ▲ The company's healthy balance sheet and improving cash flows along with investor friendly moves are other positives. Cummins is focused on enhancing the shareholder value by pursuing aggressive share repurchases and increasing dividend payouts. For 2020, the company aimed at returning 75% of full-year operating cash flow to shareholders in forms of dividends and share repurchases. In Feb 2020, the company declared quarterly dividend of \$1.311 per share. Further, as of Mar 29, 2020, the company had long-term debt of \$1,580 million, down from \$1,605 million recorded as of Mar 31, 2019. The company has a low total debt-to-capital ratio of 0.17, same for both Cummins and its industry. This favorable reading indicates that the firm is not a very leveraged company.

Acquisitions, along with partnerships and product offerings, will aid Cummins. The company also remains committed to boost shareholders' value.

Reasons To Sell:

- ▼ The coronavirus pandemic has crippled the auto industry, and will lead to decline in sales and production, hurting the manufacturer and distributor of diesel and natural gas engines, and powertrain-related component products. Cummins withdrew the 2020 guidance in response to disruptions to the company's supply chain due to the pandemic-led crisis. The pandemic has affected Cummins' customers worldwide, leading to temporary plant closures, change in processes and cut in production levels, in line with the nationwide campaign addressing the crisis. Weak consumer sentiment amid the pandemic is likely to hurt the firm's sales and earnings in the near future.
- ▼ Cummins expects orders to remain weak in 2020 with continued weak freight activity resulting in excess capacity and lower used truck market prices. Industry truck production declined by 29% in 2019 and the trend is likely to continue in 2020 as well. Further, lower demand in global construction markets and soft light duty truck demand in China amid trade tussle and weak economy will dent its revenues in the Chinese markets. Construction demand of Cummins declined 34% in 2019. Cummins anticipates that construction, mining and oil and gas markets will experience double-digit declines in 2020, which will limit the prospects of the firm.
- ▼ The company is battling with elevated expenses, owing to rising R&D expenses for product development and high material costs. In 2019, the company reported R&D expenses of \$271 million, depicting an increase from the prior year's figure of \$244 million. Further, expenses are expected to increase in the coming quarters for launching on-highway products that comply with emission regulation. Additionally, tariff-related commodity costs and fluctuating foreign currencies will likely hamper Cummins' margins.

Declining demand for heavy trucks — which is Cummins' chief end market — is likely to mar its prospects in both domestic and international regions, going forward.

Last Earnings Report

Cummins Q1 Earnings & Sales Decline Y/Y

Cummins reported earnings of \$3.18 per share in first-quarter 2020, surpassing the Zacks Consensus Estimate of \$2.18. Higher-than-expected contribution from Components and Engine segments led to the outperformance. EBITDA from the said segments came in at \$279 million and \$365 million, topping the consensus mark of \$208 million and \$243 million, respectively.

The bottom line, however, declined from earnings of \$4.20 a share recorded in first-quarter 2019. Cummins' revenues also declined 16.7% year over year to \$5,011 million in the reported quarter. However, revenues beat the Zacks Consensus Estimate of \$4,946 million.

Quarter Ending **03/2020**

Report Date	Apr 28, 2020
Sales Surprise	2.11%
EPS Surprise	45.87%
Quarterly EPS	3.18
Annual EPS (TTM)	13.84

Segmental Performance

Sales for the Engine segment declined 19% year over year to \$2,158 million. The segment's EBITDA (excluding restricting actions) declined to \$365 million (16.9% of sales) from \$438 million (16.5% of sales) a year ago. Decline in global demand in truck and construction markets resulted in lower on- and off-highway revenues than the prior-year quarter.

Sales for the Distribution segment totaled \$1,814 million, down 9% year over year. Revenues from North America declined 11% and international sales were down 6% from the year-ago quarter. The segment's EBITDA fell to \$158 million (8.7% of sales) from \$171 million (8.5% of sales) a year ago.

Sales for the Components segment declined 19% from the prior-year quarter to \$1,502 million. The segment's EBITDA was \$279 million (18.6% of sales) compared with the year-ago figure of \$325 million (17.5% of sales). Sales in North America and international markets declined 24% and 12% year over year, respectively.

Sales for the Power Systems segment declined 18% from the year-ago quarter to \$884 million. The segment's EBITDA declined to \$77 million (8.7% of sales) in first-quarter 2020 from \$138 million (12.8% of sales) in the year-ago period. Power generation and industrial revenues fell 8% and 30%, respectively, from a year ago.

Sales for the New Power segment were \$10 million. The segment recorded EBITDA loss of \$43 million.

Financial Position & Outlook

Cummins' cash and cash equivalents were \$1,691 million as of Mar 29, 2019, up from \$1,129 million on Dec 31, 2019. Long-term debt totaled \$1,580 million.

Amid coronavirus-led uncertainty, Cummins scrapped its annual view. The company anticipates second-quarter results to take a severe hit due to disruptions across customer and supplier operations, and lower end-market demand. In a bid to conserve cash, Cummins is implementing various cost-cut initiatives including temporary reduction in salaries. The company targets 2020 capex to decline 25% from 2019 levels.

Valuation

Cummins' shares are down 2.3% in the year-to-date period and up 8.7% over the trailing 12-month period. Stocks in the Zacks Automotive – Internal Combustion Engines industry and the Zacks Automotive sector are down 2.3% and up 1.1%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 8.7% and 17%, respectively.

The S&P 500 index is down 3.6% and up 9.4% in the in the year-to-date period and over the past year, respectively.

The stock is currently trading at 19.88X forward 12-month earnings, which compares to 20.13X for the Zacks sub-industry, 24.64X for the Zacks sector and 22.55X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.94X and as low as 8.06X, with a 5-year median of 12.8X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$184 price target reflects 20.93X forward 12-month earnings.

The table below shows summary valuation data for CMI:

Valuation Multiples - CMI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.88	20.13	24.64	22.55
	5-Year High	19.94	20.13	24.64	22.55
	5-Year Low	8.06	8.58	8.2	15.23
	5-Year Median	12.8	12.4	9.87	17.49
EV/EBITDA TTM	Current	7.85	7.85	10.95	11.56
	5-Year High	11.28	11.28	11.3	12.86
	5-Year Low	4.63	4.63	6.94	8.26
	5-Year Median	7.3	7.3	9.25	10.81
P/S F12M	Current	1.4	1.41	0.76	3.51
	5-Year High	1.53	1.49	0.76	3.51
	5-Year Low	0.74	0.85	0.49	2.53
	5-Year Median	1.13	1.14	0.61	3.02

As of 06/04/2020

Industry Analysis Zacks Industry Rank: Top 34% (86 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Allison Transmission Holdings, Inc. (ALSN)	Neutral	3
American AxleManufacturing Holdings, Inc. (AXL)	Neutral	3
Daimler AG (DDAIF)	Neutral	3
Meritor, Inc. (MTOR)	Neutral	3
Mazda Motor Corporation (MZDAY)	Neutral	3
Navistar International Corporation (NAV)	Neutral	3
Unique Fabricating, Inc. (UFAB)	Neutral	2
PACCAR Inc. (PCAR)	Underperform	5

Industry Comparison

Industry: Automotive - Internal Combustion Engines

Industry Peers

	CMI	X Industry	S&P 500	AXL	MZDAY	UFAB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	B	-	-	C	B	A
Market Cap	25.79 B	7.52 B	22.58 B	940.88 M	4.30 B	31.78 M
# of Analysts	6	8	14	5	2	1
Dividend Yield	3.00%	1.24%	1.87%	0.00%	1.37%	0.00%
Value Score	B	-	-	F	A	A
Cash/Price	0.08	0.02	0.06	0.85	1.31	0.02
EV/EBITDA	7.01	6.12	12.93	17.04	1.82	8.37
PEG Ratio	3.01	3.61	3.06	NA	NA	NA
Price/Book (P/B)	3.22	3.22	3.09	2.40	0.37	0.81
Price/Cash Flow (P/CF)	8.86	6.20	12.17	1.30	2.97	2.60
P/E (F1)	24.11	17.40	22.17	NA	NA	6.63
Price/Sales (P/S)	1.14	0.67	2.41	0.15	0.13	0.21
Earnings Yield	4.26%	6.55%	4.27%	-21.88%	-23.98%	15.08%
Debt/Equity	0.20	0.20	0.76	8.95	0.37	1.13
Cash Flow (\$/share)	19.73	2.01	7.01	6.39	1.15	1.25
Growth Score	A	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	16.19%	16.19%	10.87%	-9.73%	-25.10%	-25.78%
Proj. EPS Growth (F1/F0)	-50.53%	-27.77%	-10.79%	-212.59%	-488.10%	152.69%
Curr. Cash Flow Growth	9.29%	-7.79%	5.48%	-19.99%	-26.16%	1.21%
Hist. Cash Flow Growth (3-5 yrs)	7.28%	12.37%	8.55%	13.70%	NA	6.79%
Current Ratio	1.40	1.23	1.29	1.68	1.43	2.77
Debt/Capital	16.46%	41.30%	44.75%	89.95%	27.03%	53.08%
Net Margin	9.34%	5.43%	10.59%	-16.69%	1.68%	-5.95%
Return on Equity	24.86%	67.59%	16.26%	15.33%	5.16%	1.71%
Sales/Assets	1.12	1.45	0.55	0.89	1.23	1.38
Proj. Sales Growth (F1/F0)	-26.69%	0.00%	-2.61%	-32.65%	-21.49%	0.00%
Momentum Score	F	-	-	D	C	D
Daily Price Chg	-0.09%	-0.99%	-0.08%	-1.07%	-1.80%	0.00%
1 Week Price Chg	9.39%	0.26%	4.60%	2.45%	12.81%	5.90%
4 Week Price Chg	12.26%	-12.74%	12.07%	95.31%	31.95%	6.91%
12 Week Price Chg	35.42%	-8.67%	25.17%	106.96%	20.76%	27.95%
52 Week Price Chg	8.73%	-12.30%	0.34%	-25.45%	-32.99%	10.92%
20 Day Average Volume	1,412,373	36,092	2,537,324	3,214,032	130,709	8,110
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.84%	-0.42%	-0.08%	-1.29%	7.39%	0.00%
(F1) EPS Est 12 week change	-38.45%	-23.98%	-16.19%	-209.89%	-432.65%	0.00%
(Q1) EPS Est Mthly Chg	-2.84%	-2.84%	0.00%	-33.62%	0.00%	0.00%

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	F
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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