

CNH Industrial N.V.(CNHI)

\$9.30 (As of 02/28/20)

Price Target (6-12 Months): **\$8.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/31/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: F

Summary

Shares of CNH Industrial have underperformed the industry it belongs to over the past year. Headwinds surrounding agriculture and construction sectors are likely to take a toll on CNH Industrial in 2020. The 2020 EPS is expected within 78-86 cents, indicating a 2% year-over-year fall from the midpoint of the guidance. The company expects adjusted EPS to decline 40-50% year over year in the first quarter of 2020. Unfavorable volume and mix in North America and Rest-of-World markets, along with high costs of raw materials are likely to dent the construction segment's results. Soft commodity prices, after-effects of unfavorable weather and trade uncertainty will play spoilsports for the agriculture segment. High raw material costs and elevated leverage are other concerns. As such, the stock is viewed as a risky bet.

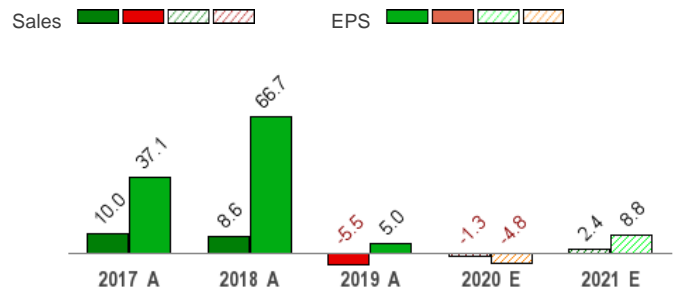
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$11.99 - \$8.53
20 Day Average Volume (sh)	2,845,134
Market Cap	\$12.6 B
YTD Price Change	-15.5%
Beta	1.38
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Foreign
Zacks Industry Rank	Bottom 16% (214 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-5.9%
EPS F1 Est- 4 week change	-7.7%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	10.9
P/E F1	11.6
PEG F1	NA
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					28,372 E
2020	6,044 E	7,265 E	6,447 E	7,883 E	27,719 E
2019	6,457 A	7,567 A	6,360 A	7,695 A	28,079 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.13 E	\$0.33 E	\$0.19 E	\$0.22 E	\$0.87 E
2020	\$0.11 E	\$0.26 E	\$0.20 E	\$0.23 E	\$0.80 E
2019	\$0.18 A	\$0.31 A	\$0.16 A	\$0.20 A	\$0.84 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 02/28/2020. The reports text is as of 03/02/2020.

Overview

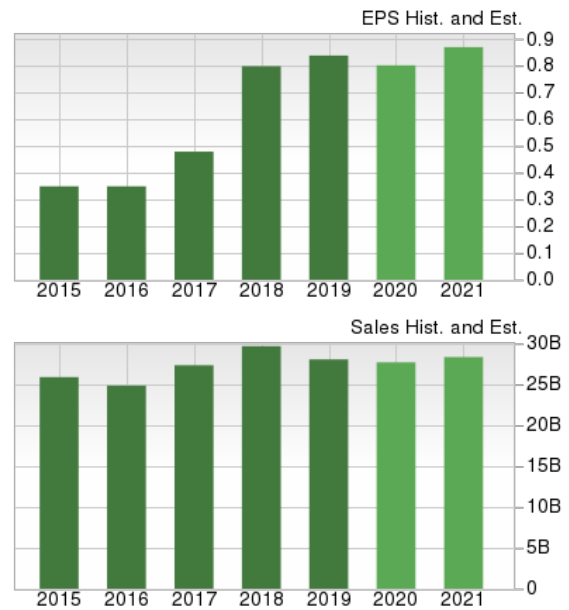
CNH Industrial N.V., with principal office in London, United Kingdom, offers vehicles for agricultural and industrial purposes. Its products range from tractors to trucks and buses, along with powertrain solutions for off and on-road, and marine vehicles. It has 12 brands that offer equipment, catering to a wide consumer base. In September 2013, the company was formed after merging Fiat Industrial S.p.A. ("Fiat Industrial") and CNH Global N.V. ("CNH Global"). It has four operating segments:

Agricultural Equipment (contributed 38.7% to net Industrial sales of 2019): The segment engages in designing, manufacturing and distribution of farm machinery. Its products include two-wheel and four-wheel drive tractors, and crawler tractors, among others. The segment offers products under the brand names — New Holland, Case IH, with the STEYR brand in Europe and Miller brand majorly in North America. Adjusted EBIT for the segment amounted to \$897 million for the year ended Dec, 2019.

Construction Equipment (9.7%): The segment designs, manufactures and distributes construction equipment, including excavators, graders wheel loaders, crawler dozers, backhoe loaders, compact track loaders and telehandlers. Its products are offered through Case Construction Equipment and New Holland Construction brand names, under New Holland. Adjusted EBIT for the segment amounted to \$51 million for the year ended Dec, 2019.

Commercial Vehicles (36.9%): The segment manufactures and distributes a full range of commercial vehicles under the IVECO brand, consisting of Iveco Bus and Heuliez Bus brands. Further, firefighting and special purpose vehicles are provided under the Magirus, Iveco Astra and Iveco Defense Vehicles brands. Adjusted EBIT for the segment amounted to \$224 million for the year ended Dec, 2018.

Powertrain (14.7%): Under FPT Industrial, the segment designs, manufactures and offers engines, transmission systems and axles for on- and off-road applications. Adjusted EBIT for the segment amounted to \$363 million for the year ended Dec, 2018.



Reasons To Sell:

- ▼ Headwinds surrounding agriculture and construction sectors are likely to take a toll on CNH Industrial in 2020. The company expects decline in its agriculture and construction segments, particularly in the first half of the year. The company expects adjusted EPS to decline 40-50% year over year in the first quarter of 2020.
- ▼ As agricultural equipment is the largest contributor to net Industrial sales, dismal business is a concern. After-effects of unfavorable weather and trade uncertainty will play spoilsports in this regard. Although Phase 1 of the trade deal between the United States and China has been signed, the details and pass-through adoption caused uncertainty among producers. Weak commodity prices and lower demand for soybeans are likely to hurt results from CNH industrial's agricultural end markets during this year.
- ▼ Unfavorable volume and mix in North America and Rest-of-World markets, along with high costs of raw materials are likely to dent the construction segment's results. Softening market demand in the Truck business, particularly in medium and heavy industries in Europe, is likely to mar the firm's results.
- ▼ For full-year 2020, CNH Industrial envisions industrial activities' net sales to remain flat to slightly down compared with 2019. The adjusted EPS guidance has been kept between 78 cents and 86 cents, indicating a 2% year-over-year fall from the midpoint of the guidance.
- ▼ CNH Industrial — through its four segments — has a global presence, making it vulnerable to foreign exchange volatility. Rising capital expenditure is also a concern for CNH Industrial. This is resulting from rising investments to develop products and technologies, which include funding for precision farming platform and the launch of Stage V emission requirement compliant engine applications. Further, investments for capacity expansion, high material costs, overhead expenses and tariff headwinds add to the company's expenses, which may hamper profits.

Bleak guidance for 2020 and elevated leverage are causes of concern for CNH Industrial.

Risks

- The firm's five-year 2020-2024 business plan Transform 2 Win strategic plan bodes well. Per the plan, the company aims at operational efficiency through targeted restructuring efforts in order to enhance profits and streamline business. It expects full implementation of the plan by the end of 2022. As part of its five-year plan, the company plans to spin-off its truckmaker Iveco as a separate business to double the profit margin. The strategic spin-off holds the promise of unlocking significant value by maximizing focus, optimizing costs and delivering synergies.
 - It is developing several products and technologies across all segments to remain on par with the latest technological advancements and emission-control procedures. Upgraded product offerings will aid the company in achieving new business contracts. CNH Industrial is working on a business plan to combat approaching megatrends that are affecting the industry, which includes digitalization, electrification and automation. CNH Industrial collaborated with NIKOLA to transform Class 8 heavy-duty trucks into emission-neutral ones in North America and Europe through the adoption of fuel-cell technology. The development of battery electric NIKOLA TRE will help CNH Industrial gain market share as a first mover in the electrification of heavy trucks.
 - The company regularly acquires and divests dealerships and franchises to expand business. Last year, CNH Industrial completed the acquisition of ATI Inc., which will provide access to factory-fit industry-leading track technology to customers of Case IH and New Holland Agriculture. It also acquired K-Line Ag to enhance the crop-production portfolios of Case IH and New Holland Agriculture. The firm sold the Truckline parts business to Bapcor this year, in order to ensure continuity of service for Australia's commercial vehicle customers. CNH Industrial aims at operational efficiency through targeted restructuring efforts in order to boost profit and streamline business.
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Last Earnings Report

CNH Industrial Q4 Earnings Meet Estimates

CNH Industrial's fourth-quarter 2019 adjusted earnings per share of 20 cents came in line with the Zacks Consensus Estimate, mainly owing to better-than-expected performance of the Financial Services segment. The segment posted revenues of \$531 million in the quarter, beating the Zacks Consensus Estimate of \$520 million. In the prior-year quarter, adjusted earnings were 21 cents per share.

The company reported adjusted net income of \$279 million, reflecting a decline from the prior-year quarter's \$294 million.

Consolidated revenues declined 6.2% from the year-ago quarter level to \$7,695 million, missing the Zacks Consensus Estimate of \$8,173 million. This decline primarily resulted from lower revenues in the Agricultural Equipment, Construction Equipment, Commercial and Specialty vehicles, and Powertrain segments.

The company's net sales for Industrial Activities came in at \$7.2 billion, down 7% year on year. Adjusted EBITDA (earnings before interest, tax, depreciation and amortization) was \$541 million in the quarter, marking a decrease of \$149 million from the prior-year quarter.

Quarter Ending **12/2019**

Report Date	Feb 07, 2020
Sales Surprise	-5.85%
EPS Surprise	0.00%
Quarterly EPS	0.20
Annual EPS (TTM)	0.85

Segmental Performances

Net sales in the Agricultural Equipment segment declined 7.2% year over year to \$2.93 billion in the quarter, due to industry volume deceleration. Moreover, the segment's adjusted EBIT was \$236 million, down \$22 million from the year-ago quarter tally, thanks to unfavorable volume and mix.

The Construction Equipment segment's sales slid 13.1% year over year to \$707 million in fourth-quarter 2019. This decline chiefly resulted from unfavorable volume and mix in North America. Further, the adjusted EBIT was down to \$3 million from the \$32 million recorded in the year-ago quarter, impacted by unfavorable volume and mix due to weaker market conditions, and product costs.

In the December-end quarter, revenues in Commercial and Specialty vehicles fell 4.9% year over year to \$2.99 billion due to volume calendarization and unfavorable foreign-currency translation impact. The segment's adjusted EBIT came in at \$3 million, down from the prior-year quarter's \$90 million. This downside primarily stemmed from unfavorable impact of the remeasurement of certain provisions and foreign-currency translation.

The Powertrain segment's fourth-quarter revenues declined 15.2% year over year to \$1.01 billion. The segment's adjusted EBIT was \$84 million compared with \$121 million in the fourth quarter of 2018, due to unfavorable volume and mix.

The Financial Services segment revenues climbed 2.1% year over year to \$531 million in the final quarter of 2019. Adjusted EBIT was \$118 million, up from the year-earlier period's \$109 million.

Financial Details & Buyback Programs

CNH Industrial had cash and cash equivalents of \$4.87 billion as of Dec 31, 2019, compared with \$5.03 billion as of Dec 31, 2018. The company's debt was \$24.85 billion as of Dec 31, 2019, compared with \$24.44 billion as of Dec 31, 2018. The debt-to-capital ratio stands at 80.24%.

At the end of 2019, CNH Industrial's net cash inflow from industrial activities was \$1,341 million compared with cash inflow of \$1,783 million in the prior-year quarter.

In 2019, CNH Industrial returned a total of \$332 million to shareholders through cash dividends and its share buyback program. With the expiration of the previous buyback program, CNH Industrial recently announced a new share-repurchase program of up to \$700 million to optimize its capital structure.

2020 Outlook

For full-year 2020, the company projects industrial activities' net sales to remain flat to slightly down, compared with 2019. The adjusted earnings per share guidance has been kept between 78 cents and 86 cents. Net debt of industrial activities is projected in the range of \$400-\$600 million.

Valuation

CNH Industrial's shares are down 16% in the year-to-date period and down 15.5% in the trailing 12-month period. Stocks in the Zacks Automotive – Foreign industry and the Zacks Auto-Tires-Trucks sector are down 9.1% and 5.3%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 2% and up 2.7%, respectively.

The S&P 500 index is down 8.3% in the year-to-date period and up 4.8% in the past year.

The stock is currently trading at 11.42X forward 12-month earnings, which compares to 7.91X for the Zacks sub-industry, 10.32X for the Zacks sector and 16.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.54X and as low as 9.51X, with a 5-year median of 18.08X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$8 price target reflects 9.87X forward 12-month earnings per share.

The table below shows summary valuation data for CNHI:

Valuation Multiples - CNHI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.42	7.91	10.32	16.89
	5-Year High	29.54	11.12	11.75	19.34
	5-Year Low	9.51	6.97	8.23	15.18
	5-Year Median	18.08	8.56	9.91	17.44
EV/EBITDA TTM	Current	7.99	6.13	9.14	12
	5-Year High	9.47	7.71	11.33	12.87
	5-Year Low	6.52	5.43	7.05	8.48
	5-Year Median	7.98	6.72	9.27	10.78
P/S F12M	Current	0.45	0.44	0.63	3.12
	5-Year High	0.76	0.64	0.76	3.43
	5-Year Low	0.31	0.35	0.5	2.54
	5-Year Median	0.47	0.45	0.62	3.01

As of 02/28/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (214 out of 254)



Top Peers

Caterpillar Inc. (CAT)	Neutral
Daimler AG (DDAIF)	Neutral
Deere & Company (DE)	Neutral
Navistar International Corporation (NAV)	Neutral
Oshkosh Corporation (OSK)	Neutral
PACCAR Inc. (PCAR)	Neutral
AB Volvo (VLVLY)	Neutral
Volkswagen AG (VWAGY)	Neutral

Industry Comparison Industry: Automotive - Foreign				Industry Peers		
	CNHI Underperform	X Industry	S&P 500	DDAIF Neutral	DE Neutral	VLVLY Neutral
VGM Score	B	-	-	A	F	C
Market Cap	12.59 B	14.30 B	21.48 B	43.89 B	49.26 B	31.90 B
# of Analysts	6	1	13	3	10	3
Dividend Yield	0.00%	1.38%	2.07%	0.00%	1.94%	5.48%
Value Score	A	-	-	A	D	B
Cash/Price	0.45	0.42	0.04	0.65	0.08	0.14
EV/EBITDA	8.76	3.87	12.57	5.88	9.97	6.37
PEG Ratio	NA	1.31	1.84	2.23	3.63	NA
Price/Book (P/B)	2.06	0.80	2.88	0.63	4.13	2.22
Price/Cash Flow (P/CF)	6.90	3.34	11.58	2.68	9.47	5.74
P/E (F1)	11.35	8.53	16.87	7.30	16.25	12.65
Price/Sales (P/S)	0.45	0.35	2.34	0.23	1.27	0.70
Earnings Yield	8.60%	10.45%	5.91%	13.70%	6.15%	7.90%
Debt/Equity	4.06	0.38	0.70	1.58	2.55	0.78
Cash Flow (\$/share)	1.35	5.40	6.94	15.32	16.53	2.73
Growth Score	C	-	-	B	F	D
Hist. EPS Growth (3-5 yrs)	23.49%	-0.58%	10.85%	-1.19%	16.20%	38.53%
Proj. EPS Growth (F1/F0)	-4.37%	0.88%	6.79%	-34.31%	-3.12%	-33.69%
Curr. Cash Flow Growth	-24.64%	-6.18%	5.92%	-10.36%	4.09%	23.94%
Hist. Cash Flow Growth (3-5 yrs)	-2.59%	1.70%	8.38%	1.70%	3.09%	NA
Current Ratio	6.03	1.24	1.23	1.22	2.12	1.30
Debt/Capital	80.26%	27.57%	42.53%	61.31%	71.88%	43.90%
Net Margin	5.06%	2.83%	11.57%	1.38%	8.41%	8.32%
Return on Equity	19.87%	8.32%	16.80%	10.82%	26.92%	26.36%
Sales/Assets	0.60	0.87	0.54	0.58	0.53	0.83
Proj. Sales Growth (F1/F0)	-1.28%	0.00%	4.07%	-2.36%	-7.32%	-9.82%
Momentum Score	F	-	-	F	D	C
Daily Price Chg	1.64%	-0.31%	-1.44%	-2.12%	-2.19%	1.75%
1 Week Price Chg	-0.31%	-1.28%	-0.94%	-1.29%	5.57%	-1.69%
4 Week Price Chg	-5.58%	-7.74%	-10.98%	-13.75%	-2.87%	-8.35%
12 Week Price Chg	-11.93%	-12.42%	-7.84%	-25.24%	-4.92%	3.39%
52 Week Price Chg	-14.52%	-23.50%	1.20%	-31.67%	-4.61%	7.14%
20 Day Average Volume	2,845,134	97,626	2,169,477	68,090	1,778,520	37,053
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-6.59%	2.16%	0.00%
(F1) EPS Est 4 week change	-7.66%	-2.49%	-0.09%	-6.59%	1.98%	-0.53%
(F1) EPS Est 12 week change	-9.88%	-2.75%	-0.24%	-12.91%	-2.58%	-3.38%
(Q1) EPS Est Mthly Chg	-40.00%	-12.03%	-0.72%	NA	-9.77%	-2.86%

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	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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