

CNH Industrial N.V.(CNHI)

\$9.47 (As of 02/03/20)

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)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: D

Momentum: A

Summary

Shares of CNH Industrial have underperformed the industry it belongs to over the past year. Investments for capacity expansion with high material and tariff costs are increasing the company's expenses and consequently, hampering the company's profits. The company expects rising investments to develop products and technologies in 2019. For full-year 2019, it projects roughly \$26.5-\$27 billion in Industrial Activities' net sales down from the prior guidance of \$27-\$27.5 billion. Extreme wet conditions in North America is softening agriculture production by leading to late planting. Uncertainty on trade tensions and after-effects of unfavorable weather in Australia and Northern Europe are further headwinds. Also, foreign exchange volatility is adding to the company's woes. As such, the stock is viewed as a risky bet.

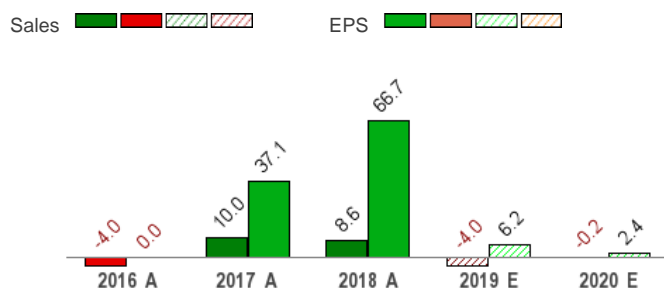
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$11.99 - \$8.53
20 Day Average Volume (sh)	1,423,950
Market Cap	\$12.8 B
YTD Price Change	-13.9%
Beta	1.38
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Foreign
Zacks Industry Rank	Bottom 18% (209 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-2.3%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/07/2020
Earnings ESP	0.0%
P/E TTM	11.0
P/E F1	10.9
PEG F1	NA
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					28,473 E
2019	6,457 A	7,567 A	6,360 A	8,173 E	28,529 E
2018	6,773 A	8,045 A	6,686 A	8,202 A	29,706 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.18 E	\$0.31 E	\$0.16 E	\$0.26 E	\$0.87 E
2019	\$0.18 A	\$0.31 A	\$0.16 A	\$0.20 E	\$0.85 E
2018	\$0.14 A	\$0.28 A	\$0.16 A	\$0.21 A	\$0.80 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 02/03/2020. The reports text is as of 02/04/2020.

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 five operating segments:

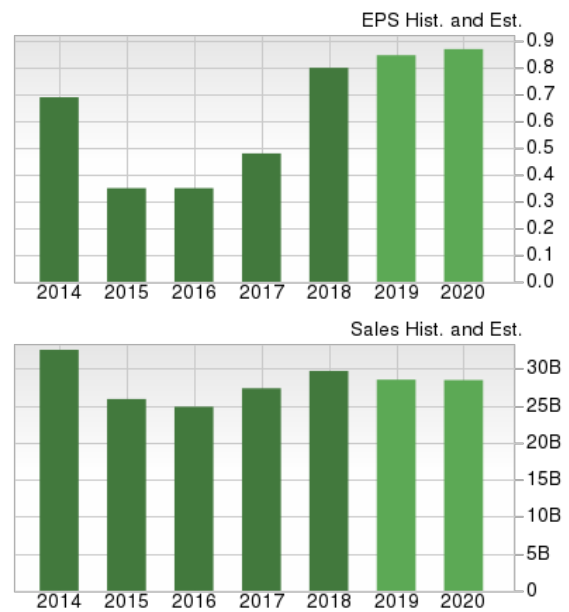
Agricultural Equipment (contributed 39% to net Industrial sales of 2018): The segment engages in designing, manufacturing and distribution of farm machinery. Its products include two-wheel and four-wheel drive tractors, and crawler tractors, among others. The segment offers products under the brand names — New Holland, Case IH, with the STEYR brand in Europe and Miller brand majorly in North America. Adjusted EBITDA for the segment amounted to \$1339 million for the year ended Dec, 2018.

Construction Equipment (10%): 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 EBITDA for the segment amounted to \$152 million for the year ended Dec, 2018.

Commercial Vehicles (36%): 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 EBITDA for the segment amounted to \$890 million for the year ended Dec, 2018.

Powertrain (15%): Under FPT Industrial, the segment designs, manufactures and offers engines, transmission systems and axles for on- and off-road applications. Adjusted EBITDA for the segment amounted to \$536 million for the year ended Dec, 2018.

Financial Services: The segment offers retail financing to customers, enabling them to purchase or lease new and used industrial equipment or vehicles. Additionally, it also provides wholesale financing for dealers. Adjusted EBITDA for the segment amounted to \$767 million for the year ended Dec, 2018.



Reasons To Sell:

- ▼ Increasing capital expenditure is a concern for CNH Industrial. This rise was due to rising investments to develop products and technologies, which includes funding for precision farming platform and launch of Stage V emission requirement compliant engine applications. Further, investments for capacity expansion, high material costs, overhead expenses and tariff headwinds also added to the company's expenses, which are hampering profits. For 2019, it expects R&D and capital spending to increase to 4% and 2% of sales, respectively.
- ▼ CNH Industrial's bleak full year 2019 guidance is a dampener. For full-year 2019, it projects roughly \$26.5-\$27 billion in Industrial Activities' net sales down from the prior guidance of \$27-\$27.5 billion. Net debt of Industrial Activities at the end of 2019 is expected between \$400 million and \$600 million, up from the prior view of \$200 million-400 million.
- ▼ Uncertainty on trade tensions, along with aftereffects of unfavorable weather in Australia and Northern Europe, and extreme wet conditions in North America leading to late planting are likely to hurt CNH industrial's agricultural end markets in 2019. As agricultural equipment is the largest sales contributor in net Industrial sales, a softening in the business is a serious concern.
- ▼ CNH Industrial has global presence through its four segments, making it vulnerable to foreign exchange volatility. Also, its strong presence in EMEA might experience disruption in case of a no-deal Brexit.

Rise in expenses, global weather uncertainties driven by climate changes, unfavorable agricultural end markets are concerns for CNH Industrial. Also, fluctuating foreign currency is a woe.

Risks

- The company is developing several products and technologies across all the segments to remain at par with the technological advancements and new emission-control procedures. In the first three months of 2019, it launched 24 products across the group. A few of the many launches include Iveco's new daily minibus — AFS Connect Magnum series tractors by agricultural equipment provider Case IH, and methane-powered wheel loader idea — Project TETRA by the construction equipment segment. Beside these, the company is working on electric version of city buses and advanced diesel engines that are likely to be launched in 2019. Upgraded product offerings will aid the company to achieve 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. The company has been working on a new organizational structure that aims to make it more customer-centric and agile. Apart from this, it looks after ways of productivity improvements while keeping a check on costs. CNH Industrial is also analyzing its global manufacturing footprint, capital allocation, R&D investments and other long-term initiatives.
 - CNH Industrial remains optimistic for the agricultural markets going into 2020, given that the U.S. farmers took advantage of recent improved commodity prices, lower commodity stock levels expected at the end of 2019, sustained U.S. pharma cash flows, use of CapEx, depreciation tax incentives, and finally the apparent needs to replace older equipment to improve yields, all of which will stimulate equipment demand in the latter part of 2019, and of course going into 2020.
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Last Earnings Report

CNH Industrial Meets Q3 Earnings Estimates, Flat Y/Y

CNH Industrial's third-quarter 2019 adjusted earnings per share of 16 cents met the Zacks Consensus Estimate. The figure was flat year over year.

Adjusted net income of \$221 million was flat year over year, mainly due to lower interest expenses and a drop in adjusted effective tax rate.

Consolidated revenues declined 4.9% from the year-ago quarter's level to \$6.36 billion and missed the Zacks Consensus Estimate of \$6.51 billion. The decline was mainly led by lower revenues in the Agricultural Equipment, Construction Equipment, Commercial and Specialty vehicles, and Powertrain segments.

The company's net sales for Industrial Activities were \$5.9 billion and adjusted EBITDA (earnings before interest, tax, depreciation and amortization) was \$523 million in the quarter due to lower sales volume and negative currency translation.

Segmental Performances

Net sales at the Agricultural Equipment segment declined 7.2% year over year to \$2.45 billion in the quarter, due to industry volume deceleration combined with an unfavorable product mix, primarily in North America. Moreover, the segment's adjusted EBIT was \$152 million, down by \$44 million from the year-ago quarter's tally, mainly owing to higher product costs as a result of increased raw material cost and tariffs.

Construction Equipment segment's sales declined 8.5% year over year to \$664 million in third-quarter 2019. The decrease was mainly because of lower production and sales volume in North America to rebalance channel inventory. Further, the adjusted EBIT was down to \$10 million from \$26 million recorded in the year-ago quarter, owing to higher raw material cost and tariffs.

In the third quarter, revenues in Commercial and Specialty vehicles fell 3% year over year to \$2.33 billion due to lower volumes of truck and bus in Europe and exceptionally-low industry demand in Argentina. The segment's adjusted EBIT was \$70 million, up from \$68 million recorded in the prior-year quarter on gains realized from the access granted to Nikola Corporation to Iveco technology.

The Powertrain segment's third-quarter revenues declined 3.3% year over year to \$940 million. The segment's adjusted EBIT was \$81 million compared with \$82 million in the third quarter of 2018, primarily aided by an unfavorable mix of engine sales and increased product development activity in order to support the segment's electrification and alternative propulsion strategy.

Revenues at the Financial Services segment rose 3.8% year over year to \$487 million in the third quarter of 2019. Adjusted EBIT was \$117 million, down \$6 million from the prior-year quarter's figure.

Financial Details & Buyback

CNH Industrial had cash and cash equivalents of \$3.4 billion as of Sep 30, 2019, compared with \$5 billion as of Dec 31, 2018. The company's debt was \$23.91 billion as of Sep 30, 2019, compared with \$24 billion as of Dec 31, 2018. The debt-to-capital ratio stands at 81.54%.

At the end of the third quarter, CNH Industrial's net cash outflow from operations was \$144 million compared with cash inflow of \$1.2 billion in the prior-year quarter.

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.

Outlook

The company updated its projection for 2019. For the current year, it projects roughly \$26.5-\$27 billion in Industrial Activities' net sales as against the prior guidance of \$27-\$27.5 billion. The adjusted earnings per share guidance has been kept intact at 84-88 cents. Net debt of Industrial Activities at the end of 2019 is expected between \$400 million and \$600 million versus the prior view of \$200 million-400 million.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	-2.26%
EPS Surprise	0.00%
Quarterly EPS	0.16
Annual EPS (TTM)	0.86

Valuation

CNH Industrial's shares are down 13.9% in the year-to-date period and down 5.1% in the trailing 12-month period. Stocks in the Zacks Automotive – Foreign industry and the Zacks Auto-Tires-Trucks sector are down 4.4% and up 1%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.7% and 10.5%, respectively.

The S&P 500 index is up 0.2% in the year-to-date period and up 19.4% in the past year.

The stock is currently trading at 10.74X forward 12-month earnings, which compares to 8.46X for the Zacks sub-industry, 10.87X for the Zacks sector and 18.5X 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 18.1X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$8 price target reflects 9.1X 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	10.74	8.46	10.87	18.5
	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	18.1	8.61	9.91	17.46
EV/EBITDA TTM	Current	6.77	6.15	8.7	11.95
	5-Year High	9.47	7.72	11.34	12.85
	5-Year Low	6.52	5.43	7.05	8.49
	5-Year Median	7.99	6.75	9.27	10.66
P/S F12M	Current	0.45	0.46	0.67	3.43
	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	0.46	0.62	3

As of 02/03/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (209 out of 254)



Top Peers

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

Industry Comparison Industry: Automotive - Foreign				Industry Peers		
	CNHI Underperform	X Industry	S&P 500	DDAIF Underperform	DE Underperform	VLVLY Underperform
VGM Score	B	-	-	B	A	D
Market Cap	12.82 B	13.67 B	23.66 B	49.05 B	49.83 B	34.89 B
# of Analysts	7	1	13	3	10	3
Dividend Yield	0.00%	1.18%	1.82%	0.00%	1.92%	5.01%
Value Score	B	-	-	B	C	B
Cash/Price	0.33	0.36	0.04	0.64	0.09	0.14
EV/EBITDA	9.01	4.00	13.87	6.13	9.99	6.87
PEG Ratio	NA	1.36	1.97	2.33	3.74	NA
Price/Book (P/B)	2.09	0.92	3.24	0.70	4.37	2.42
Price/Cash Flow (P/CF)	5.33	3.68	13.40	2.99	9.58	6.28
P/E (F1)	11.31	9.30	18.48	7.62	16.76	13.77
Price/Sales (P/S)	0.45	0.37	2.60	0.25	1.27	0.76
Earnings Yield	9.19%	9.83%	5.40%	13.13%	5.96%	7.28%
Debt/Equity	3.90	0.38	0.72	1.58	2.65	0.78
Cash Flow (\$/share)	1.78	5.58	6.92	15.32	16.53	2.73
Growth Score	D	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	17.68%	0.25%	10.80%	0.39%	12.82%	38.53%
Proj. EPS Growth (F1/F0)	2.70%	0.88%	7.46%	39.78%	-5.00%	-33.33%
Curr. Cash Flow Growth	21.09%	-0.40%	10.59%	-10.36%	4.09%	23.94%
Hist. Cash Flow Growth (3-5 yrs)	2.13%	1.76%	8.55%	1.70%	3.09%	NA
Current Ratio	6.03	1.24	1.21	1.22	2.04	1.30
Debt/Capital	79.63%	27.57%	42.91%	61.31%	72.60%	43.90%
Net Margin	5.46%	2.91%	11.76%	2.40%	8.29%	8.32%
Return on Equity	21.02%	8.89%	17.24%	11.23%	27.11%	26.36%
Sales/Assets	0.62	0.90	0.55	0.58	0.54	0.83
Proj. Sales Growth (F1/F0)	-0.19%	0.22%	4.22%	0.34%	-7.50%	-10.73%
Momentum Score	A	-	-	D	A	F
Daily Price Chg	0.53%	0.00%	0.67%	-0.57%	-0.18%	0.70%
1 Week Price Chg	-10.20%	-4.10%	-2.60%	-4.33%	-6.78%	4.73%
4 Week Price Chg	-14.84%	-7.22%	-0.76%	-16.22%	-10.48%	3.13%
12 Week Price Chg	-15.67%	-9.24%	2.84%	-22.47%	-11.96%	9.86%
52 Week Price Chg	-6.05%	-10.99%	13.93%	-23.34%	-3.78%	19.17%
20 Day Average Volume	1,423,950	55,191	1,915,782	42,325	1,505,092	23,332
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-2.60%
(F1) EPS Est 4 week change	0.16%	0.00%	0.00%	-6.96%	-0.11%	-2.86%
(F1) EPS Est 12 week change	-4.09%	-3.17%	-0.13%	-10.82%	-15.48%	-11.43%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	0.05%	-2.78%

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	D
Momentum Score	A
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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