CNH Industrial N.V.(CNHI)

$7.52 (As of 08/07/20)

Price Target (6-12 Months): **$6.25**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Underperform**
	(Since: 07/14/20)	
	Prior Recommendation: Neutral	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: A	Growth: C	Momentum: C	

Summary

Near-term sales and earnings of CNH Industrial are under pressure amid the COVID-19 outbreak. Net sales of Industrial Activities are expected to decline 15%-20% year over year in 2020. Free cash flow for Industrial Activities is anticipated to remain in the negative in 2020. The firm expects double-digits decline in its construction segment across almost all regions in 2020. Softening market demand in the Truck business, particularly in medium and heavy industries in Europe, is a major concern. Rising capital expenditure to develop advanced products and technologies along with unfavorable forex translations will dent margins. Further, CNH Industrial's high debt-to capital ratio of more than 0.80 restricts its financial flexibility to tap onto growth opportunities. Hence, the stock warrants a bearish stance.
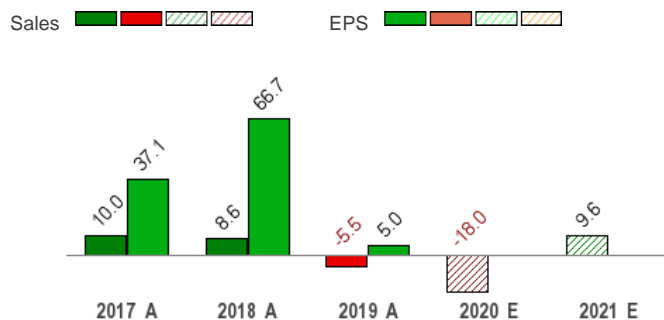
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$11.99 - $5.06**
20 Day Average Volume (sh)	**1,490,483**
Market Cap	**$10.0 B**
YTD Price Change	**-32.5%**
Beta	**1.46**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Automotive - Foreign**
Zacks Industry Rank	**Top 46% (117 out of 252)**
Last EPS Surprise	**41.7%**
Last Sales Surprise	**28.8%**
EPS F1 Est- 4 week change	**3.6%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**32.3**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.4**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	5,787 E	6,402 E	5,484 E	6,935 E	25,241 E
2020	5,461 A	5,578 A	5,244 E	6,762 E	23,031 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	$0.02 E	$0.19 E	$0.12 E	$0.13 E	$0.46 E
2020	-$0.06 A	-$0.07 A	$0.01 E	$0.08 E	-$0.05 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 08/07/2020. The reports text is as of 08/10/2020.

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.

EPS Hist. and Est.

Sales Hist. and Est.

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, 2019.

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, 2019.
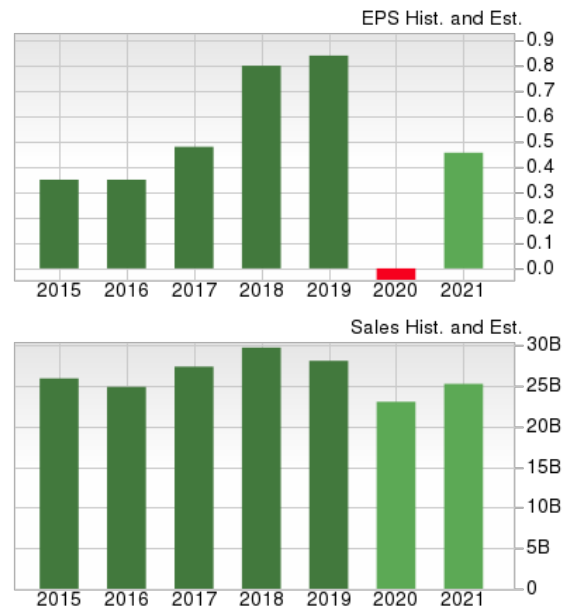
Reasons To Sell:

▼ The coronavirus pandemic has crippled the auto industry, and will lead to a decline in sales and production, hurting this automotive manufacturer. The pandemic has affected CNH Industrial's customers in the U.K. and abroad, resulting temporary plant closures, changes in processes and cut in production levels. The company has tapped brakes on quarterly dividends in response to the uncertainties caused by the coronavirus. Weak consumer sentiment amid the COVID-19 outbreak is likely to hurt the firm's sales and earnings in the near future.

> Elevated leverage and bleak 2020 guidance amid coronavirus-led uncertainity have dented consumers' confidence in the stock.

▼ Net sales of Industrial Activities are expected to decline 15%-20% year over year in 2020. Free cash flow for Industrial Activities is anticipated to remain in the negative in 2020. Notably, the company expects double-digits decline in its construction segment across almost all regions in 2020.

▼ CNH Industrial — through its four segments — has a global presence, making it vulnerable to foreign-exchange volatility. Softening market demand in the Truck business, particularly in medium and heavy industries in Europe, is a major concern. Rising capital expenditure to develop advanced products and technologies might mar the firm's near-term margins.

▼ CNHI Industrial's high debt levels remain headwinds. As of Jun 30, 2020, the company's debt amounted to $24.45 billion compared with just $5.14 billion of cash and cash equivalents during the same period. Its total debt-to-capital ratio stands at 0.81, higher than its industry's 0.5. 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 1.65 is unfavorable to the industry ratio of 11.5.

Risks

- CNH Industrial's five-year 2020-2024 business plan Transform 2 Win strategic plan bodes well. Per the plan, the company is aimed at operational efficiency through targeted restructuring efforts in order to boost 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 and On-Highway activities as separate businesses 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. The firm's collaboration with NIKOLA to transform Class 8 heavy-duty trucks into emission-neutral ones through the adoption of fuel-cell technology is commendable.

- The company's strategic acquisitions bode well. CNH Industrial aims at operational efficiency through targeted restructuring efforts in order to boost profit and streamline business. In March 2020, CNH Industrial acquired Potenza Technology, which is expected to enhance its accelerating development of sustainable electric powertrains across a range of operating segments. ATI Inc and K-Line Ag buyouts have boosted the firm's long-term prospects.

Risks

CNH Industrial Q2 Loss-Narrower-Than-Expected

Quarter Ending	06/2020
Report Date	**Jul 30, 2020**
Sales Surprise	**28.83%**
EPS Surprise	**41.67%**
Quarterly EPS	**-0.07**
Annual EPS (TTM)	**0.23**

CNH Industrial posted second-quarter 2020 adjusted loss per share of 7 cents, narrower than the Zacks Consensus Estimate of loss of 12 cents per share. In the prior-year quarter, adjusted earnings were 31 cents per share. This year-over-year decline primarily resulted from lower revenues across all segments.

The company reported adjusted net loss of $85 million, as against the prior-year quarter's net income of $430million.

Consolidated revenues declined 26% from the year-ago quarter level to $5.6 billion, beating the Zacks Consensus Estimate of $4.3 billion. The company's net sales for Industrial Activities came in at $5.2 billion, down 27% year on year. Adjusted EBITDA (earnings before interest, tax, depreciation and amortization) was $160 million in the second quarter, marking a slump from the $768 million recorded in the prior-year quarter.

Segmental Performances

Net sales in the Agricultural Equipment segment declined 17.9% year over year to $2.54 billion in the quarter on lower industry volumes amid the coronavirus crisis, primarily in Europe. Moreover, the segment's adjusted EBIT came in at $203 million, down 40.5% from the year-ago quarter, thanks to unfavorable volume and mix and negative fixed cost absorption.

The Construction Equipment segment's sales plunged 44.5% year over year to $420 million in second-quarter 2020. This decline chiefly resulted from the dismal market conditions amid the pandemic, continued channel inventory destocking actions, mainly in North America, and negative price realization. Further, the segment incurred a pretax loss of $87 million, as against the income of $25 million recorded in the prior-year quarter, hurt by lower volumes and negative fixed cost absorption due to lower production levels.

During the June-end quarter, revenues in Commercial and Specialty vehicles fell 35.5% year over year to $1.74 billion, mainly affected by decreased volumes across all geographies amid the pandemic. The segment incurred pretax loss of $156 million, as against the income of $100 million recorded in the prior-year quarter. This downside primarily stemmed from lower volumes and the negative impact of plant shutdowns on product cost.

The Powertrain segment's quarterly revenues dipped 32.7% year over year to $763 milliondue to volume reduction, particularly for light and medium engines in Europe, amid the COVID-19 crisis. The segment's adjusted EBIT was $32 million, down from the year-ago quarter's $102 million on lower volume.

The Financial Services segment revenues slipped 15% year over year to $441 million in the second quarter due to lower remarketing volume and lower average portfolios in North America and Europe. Adjusted EBIT was $73 million, down from the year-earlier period's $124 million.

Financial Details

CNH Industrial had cash and cash equivalents of $5.14 billion as of Jun 30, 2020, compared with $4.87 billion as of Dec 31, 2019. The company's debt was $24.45 billion as of Jun 30, 2020, compared with $24.85 billion as of Dec 31, 2019.

As of Jun 30, 2020, CNH Industrial's net cash provided by operating activities was $535 million compared with net cash used of $503 million in the prior-year quarter.

CNH Industrial suspended its quarterly cash dividend due to the pandemic-related uncertainties.

Valuation

CNH Industrial's shares are down 32.5% in the year-to-date period and down 16% in the trailing 12-month period. Stocks in the Zacks Automotive – Foreign industry and the Zacks Auto-Tires-Trucks sector are down 9.4% and up 19.3%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector is up 3.2% and 39.2%, respectively.

The S&P 500 index is up 3.8% in the year-to-date period and 16.3% in the past year.

The stock is currently trading at 28.56X forward 12-month earnings, which compares to 14.85X for the Zacks sub-industry, 23.94X for the Zacks sector and 22.81X for the 500 index.

Over the past five years, the stock has traded as high as 59.4X and as low as 6.39X, with a 5-year median of 17.82X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $6.25 price target reflects 24.03X 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	28.56	14.85	23.94	22.81
	5-Year High	59.4	14.85	25.33	22.81
	5-Year Low	6.39	6.97	8.2	15.25
	5-Year Median	17.82	8.48	9.87	17.55
EV/EBITDA TTM	Current	16.42	6.86	11.61	12.99
	5-Year High	16.57	7.72	11.75	12.99
	5-Year Low	2.59	5.32	6.8	8.24
	5-Year Median	7.75	6.67	9.28	10.89
P/S F12M	Current	0.41	0.49	0.87	3.67
	5-Year High	0.76	0.59	0.87	3.67
	5-Year Low	0.25	0.35	0.49	2.53
	5-Year Median	0.47	0.45	0.61	3.04

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Top 46% (117 out of 252)

Chart legend: Industry Price, Industry, Price (2016–2020)

Top Peers

Company (Ticker)	Rec	Rank
DeereCompany (DE)	Outperform	2
Caterpillar Inc. (CAT)	Neutral	3
Daimler AG (DDAIF)	Neutral	3
Navistar International Corporation (NAV)	Neutral	4
Oshkosh Corporation (OSK)	Neutral	3
PACCAR Inc. (PCAR)	Neutral	3
AB Volvo (VLVLY)	Neutral	3
Volkswagen AG (VWAGY)	Neutral	3

Industry Comparison — Industry: Automotive - Foreign / Industry Peers

	CNHI	X Industry	S&P 500	CAT	DDAIF	DE
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	B	-	-	C	D	C
Market Cap	10.03 B	14.22 B	23.30 B	73.06 B	51.35 B	57.41 B
# of Analysts	6	1	14	9	3	9
Dividend Yield	0.00%	0.00%	1.76%	3.05%	0.00%	1.66%
Value Score	A	-	-	B	B	C
Cash/Price	0.64	0.58	0.07	0.12	0.70	0.17
EV/EBITDA	8.99	3.61	13.32	7.89	9.27	10.86
PEG Ratio	NA	4.47	2.94	2.17	NA	4.22
Price/Book (P/B)	1.69	0.74	3.19	5.30	0.73	4.84
Price/Cash Flow (P/CF)	4.20	3.58	12.51	8.38	2.88	11.10
P/E (F1)	NA	18.56	22.02	26.09	114.27	29.51
Price/Sales (P/S)	0.40	0.35	2.53	1.57	0.29	1.56
Earnings Yield	-0.67%	2.50%	4.37%	3.83%	0.88%	3.39%
Debt/Equity	4.13	0.29	0.77	1.95	1.58	2.89
Cash Flow ($/share)	1.77	3.70	6.94	16.10	16.67	16.53
Growth Score	C	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	18.18%	3.60%	10.46%	31.63%	-15.08%	17.88%
Proj. EPS Growth (F1/F0)	-101.88%	-56.75%	-6.80%	283.04%	-95.09%	4,882.92%
Curr. Cash Flow Growth	-1.24%	-11.48%	5.39%	-6.65%	8.72%	4.09%
Hist. Cash Flow Growth (3-5 yrs)	2.82%	2.48%	8.55%	4.31%	4.06%	3.09%
Current Ratio	6.74	1.21	1.33	1.50	1.21	2.20
Debt/Capital	80.52%	27.03%	44.50%	66.14%	61.21%	74.31%
Net Margin	4.13%	1.75%	10.13%	8.90%	-0.18%	7.62%
Return on Equity	5.58%	5.09%	14.39%	30.52%	1.55%	23.01%
Sales/Assets	0.55	0.64	0.51	0.60	0.51	0.50
Proj. Sales Growth (F1/F0)	-17.98%	-13.75%	-1.51%	-23.33%	-12.05%	-18.39%
Momentum Score	C	-	-	F	D	D
Daily Price Chg	-1.20%	-0.86%	0.90%	0.39%	-0.99%	1.24%
1 Week Price Chg	-8.86%	-4.71%	0.14%	-3.42%	-5.10%	0.55%
4 Week Price Chg	10.90%	2.84%	8.95%	7.31%	18.74%	16.40%
12 Week Price Chg	35.09%	23.59%	18.90%	27.06%	58.40%	44.72%
52 Week Price Chg	-20.28%	-5.29%	1.18%	10.57%	-2.21%	18.34%
20 Day Average Volume	1,490,483	91,840	2,057,775	3,129,005	36,596	1,217,609
(F1) EPS Est 1 week change	50.91%	0.00%	0.00%	-0.34%	0.00%	0.00%
(F1) EPS Est 4 week change	3.57%	3.57%	1.36%	-2.65%	213.51%	2.32%
(F1) EPS Est 12 week change	-22.73%	-21.43%	1.57%	3.61%	-68.10%	1.91%
(Q1) EPS Est Mthly Chg	800.00%	0.00%	0.54%	-18.84%	NA	10.05%

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.

Value Score	A
Growth Score	C
Momentum Score	C
VGM Score	B

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.

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