

CNH Industrial N.V.(CNHI)

\$7.48 (As of 07/15/20)

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)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

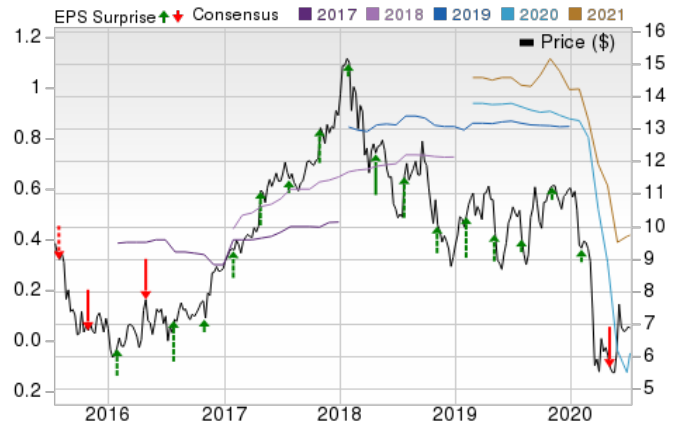
Growth: F

Momentum: D

Summary

Near-term sales and earnings of CNH Industrial are under pressure amid the COVID-19 outbreak. The company withdrew the fiscal 2020 guidance and tapped brakes on quarterly dividends in response to the uncertainties caused by the coronavirus. Headwinds surrounding all the segments are likely to take a toll on CNH Industrial in second-quarter 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. As such, the stock is viewed as a risky bet at the moment.

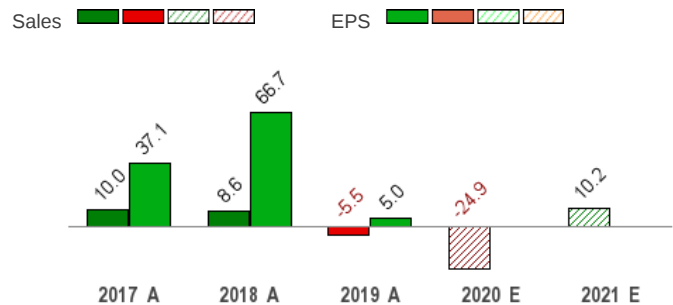
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$11.99 - \$5.06
20 Day Average Volume (sh)	1,566,996
Market Cap	\$10.1 B
YTD Price Change	-32.0%
Beta	1.50
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Foreign
Zacks Industry Rank	Bottom 16% (212 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-185.7%
Last Sales Surprise	-5.1%
EPS F1 Est- 4 week change	2.7%
Expected Report Date	07/30/2020
Earnings ESP	-13.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,908 E	5,053 E	4,954 E	6,442 E	23,258 E
2020	5,461 A	4,284 E	4,595 E	6,325 E	21,097 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	\$0.03 E	\$0.10 E	\$0.08 E	\$0.13 E	\$0.37 E
2020	-\$0.06 A	-\$0.12 E	-\$0.03 E	\$0.07 E	-\$0.12 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.

P/E TTM	12.3
P/E F1	NA
PEG F1	NA
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/15/2020. The reports text is as of 07/16/2020.

Overview

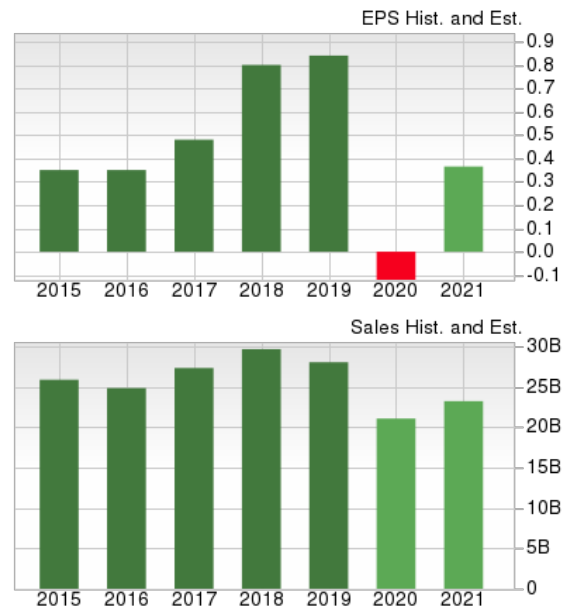
CNH Industrial N.V., with principal office in London, United Kingdom, offers vehicles for agricultural and industrial purposes. Its products range from tractors to trucks and buses, along with powertrain solutions for off and on-road, and marine vehicles. It has 12 brands that offer equipment, catering 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, 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, in line with the nationwide campaign addressing the crisis. Notably, the company withdrew the fiscal 2020 guidance and 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.
- ▼ Headwinds surrounding all the segments are likely to take a toll on CNH Industrial in second-quarter 2020. For the Agriculture Equipment segment, it expects the industry in North America, South America and Europe to be down in the second quarter by a minimum of 20%, with some regions and product lines reaching 40%. The company also expects decline in its construction segment by at least 50% across all regions and sub-segments in the upcoming quarter. The June-end quarter will also be difficult for Commercial Vehicles segments, with demand expected to be down almost 60% in Europe and around 70% in South America.
- ▼ 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 Mar 31, 2020, the company's debt amounted to \$23.52 billion compared with just \$3.85 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 1.94 is unfavorable to the industry ratio of 11.5.

Elevated leverage and 2020 guidance withdrawal amid coronavirus-led uncertainty have dented consumers' confidence in the stock.

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.
-

Last Earnings Report

CNH Industrial Q1 Earnings Miss Estimates, Down Y/Y

CNH Industrial posted first-quarter 2020 adjusted loss per share of 6 cents, as against the Zacks Consensus Estimate of earnings of 7 cents per share. In the prior-year quarter, adjusted earnings were 18 cents per share. This decline primarily resulted from lower revenues in the Agricultural Equipment, Construction Equipment, Commercial and Specialty vehicles, and Powertrain segments.

The company reported adjusted net loss of \$54 million, as against the prior-year quarter's net income of \$264 million.

Consolidated revenues declined 15% from the year-ago quarter level to \$5,461 million, missing the Zacks Consensus Estimate of \$5,751 million. The company's net sales for Industrial Activities came in at \$5 billion, down 17% year on year. Adjusted EBITDA (earnings before interest, tax, depreciation and amortization) was \$245 million in the first quarter, marking a slump of \$722 million, year on year.

Segmental Performances

Net sales in the Agricultural Equipment segment declined 9.9% year over year to \$2.24 billion in the quarter on industry volume deceleration. Moreover, the segment's adjusted EBIT came in at \$24 million, considerably down 85.7% from the year-ago quarter, thanks to unfavorable volume and mix, lower wholesale volume and inflated product costs.

The Construction Equipment segment's sales slid 34.1% year over year to \$422 million in first-quarter 2020. This decline chiefly resulted from deteriorating market conditions across all regions amid the coronavirus crisis. Further, the segment incurred a pretax loss of \$83 million, as against the income of \$13 million recorded in the prior-year quarter, hurt by elevated product costs due to plant shutdowns on the coronavirus scare.

During the March-end quarter, revenues in Commercial and Specialty vehicles fell 16.3% year over year to \$2.02 billion on market slowdown in Europe due to the coronavirus pandemic. The segment incurred pretax loss of \$56 million, as against the income of \$51 million recorded in the prior-year quarter. This downside primarily stemmed from unfavorable foreign-currency translation, lower volumes and higher product costs.

The Powertrain segment's quarterly revenues declined 27.3% year over year to \$753 million on lower sales volume across regions. The segment's adjusted EBIT was \$31 million, down from the year-ago quarter's \$96 million due to unfavorable volume and mix.

The Financial Services segment revenues climbed 3.2% year over year to \$489 million in the first quarter on higher used equipment sales in North America. Adjusted EBIT was \$110 million, down from the year-earlier period's \$131 million.

Financial Details

CNH Industrial had cash and cash equivalents of \$3.85 billion as of Mar 31, 2020, compared with \$4.87 billion as of Dec 31, 2019. The company's debt was \$23.52 billion as of Mar 31, 2020, compared with \$24.85 billion as of Dec 31, 2019.

As of Mar 31, 2020, CNH Industrial's net cash used in industrial activities was \$1,373 million compared with net cash used of \$814 million in the prior-year quarter.

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

2020 Outlook

CNH Industrial scrapped the 2020 guidance as it expects the coronavirus pandemic's impact to strain its operations in the days to come.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	-5.05%
EPS Surprise	-185.71%
Quarterly EPS	-0.06
Annual EPS (TTM)	0.61

Valuation

CNH Industrial's shares are down 32% in the year-to-date period and down 27.4% in the trailing 12-month period. Stocks in the Zacks Automotive – Foreign industry and the Zacks Auto-Tires-Trucks sector are down 10.2% and up 18.1%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector is down 1.9% and up 29.7%, respectively.

The S&P 500 index is down 0.5% in the year-to-date period and up 7.9% in the past year.

The stock is currently trading at 36.61X forward 12-month earnings, which compares to 15.77X for the Zacks sub-industry, 28.35X for the Zacks sector and 22.72X 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 31.25X 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	36.61	15.77	28.35	22.72
	5-Year High	59.4	15.77	28.35	22.72
	5-Year Low	6.39	6.97	8.2	15.25
	5-Year Median	17.82	8.52	9.9	17.52
EV/EBITDA TTM	Current	8.55	6.85	11.57	11.88
	5-Year High	9.64	7.72	11.57	12.86
	5-Year Low	6.57	5.32	6.94	8.25
	5-Year Median	7.75	6.65	9.27	10.87
P/S F12M	Current	0.45	0.49	0.87	3.55
	5-Year High	0.76	0.59	0.87	3.55
	5-Year Low	0.25	0.35	0.49	2.53
	5-Year Median	0.45	0.45	0.61	3.02

As of 07/15/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (212 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
AB Volvo (VLVLY)	Outperform	2
Caterpillar Inc. (CAT)	Neutral	3
Daimler AG (DDAIF)	Neutral	3
DeereCompany (DE)	Neutral	3
Navistar International Corporation (NAV)	Neutral	3
Oshkosh Corporation (OSK)	Neutral	3
PACCAR Inc. (PCAR)	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	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	F	-	-	B	D	A
Market Cap	10.10 B	14.37 B	22.66 B	74.89 B	45.92 B	53.93 B
# of Analysts	6	1	14	10	3	9
Dividend Yield	0.00%	0.00%	1.83%	2.98%	0.00%	1.76%
Value Score	D	-	-	B	B	B
Cash/Price	0.51	0.51	0.07	0.10	0.75	0.19
EV/EBITDA	9.08	3.68	12.99	7.97	8.88	10.40
PEG Ratio	NA	3.77	2.97	2.18	NA	3.98
Price/Book (P/B)	1.80	0.68	3.12	5.26	0.65	4.55
Price/Cash Flow (P/CF)	4.23	3.54	12.14	8.59	2.58	10.43
P/E (F1)	NA	24.16	22.04	26.19	NA	27.88
Price/Sales (P/S)	0.37	0.37	2.38	1.47	0.24	1.46
Earnings Yield	-1.60%	2.59%	4.32%	3.82%	-0.86%	3.58%
Debt/Equity	4.18	0.30	0.76	1.71	1.58	2.89
Cash Flow (\$/share)	1.77	3.70	6.94	16.10	16.67	16.53
Growth Score	F	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	25.61%	3.60%	10.85%	30.62%	-4.10%	17.88%
Proj. EPS Growth (F1/F0)	-114.29%	-69.05%	-9.64%	-52.24%	-104.32%	-37.78%
Curr. Cash Flow Growth	-1.24%	-10.67%	5.51%	-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	6.13	1.24	1.30	1.42	1.21	2.20
Debt/Capital	80.73%	25.04%	44.46%	63.12%	61.21%	74.31%
Net Margin	4.06%	1.75%	10.59%	10.41%	0.21%	7.62%
Return on Equity	14.23%	7.62%	15.75%	37.15%	7.91%	23.01%
Sales/Assets	0.59	0.98	0.54	0.65	0.56	0.50
Proj. Sales Growth (F1/F0)	-24.87%	-15.06%	-2.52%	-23.29%	-15.00%	-18.98%
Momentum Score	D	-	-	D	F	A
Daily Price Chg	2.61%	1.27%	1.91%	1.08%	0.92%	1.67%
1 Week Price Chg	-0.43%	0.00%	-0.41%	0.23%	-0.49%	0.75%
4 Week Price Chg	8.09%	3.54%	1.88%	7.90%	4.48%	10.85%
12 Week Price Chg	23.43%	31.05%	16.37%	25.05%	42.05%	26.56%
52 Week Price Chg	-27.38%	-12.68%	-4.22%	1.94%	-16.96%	5.71%
20 Day Average Volume	1,566,996	28,289	2,266,132	3,132,459	25,810	1,347,016
(F1) EPS Est 1 week change	-157.14%	0.00%	0.00%	-1.49%	0.00%	1.77%
(F1) EPS Est 4 week change	2.70%	-6.20%	0.00%	6.90%	-150.92%	2.50%
(F1) EPS Est 12 week change	-138.71%	-27.34%	-5.76%	-22.51%	-123.87%	-7.92%
(Q1) EPS Est Mthly Chg	-940.00%	-10.57%	0.00%	1.27%	NA	2.12%

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	D
Growth Score	F
Momentum Score	D
VGM Score	F

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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.