Curtiss-Wright Corp. (CW)

$148.27 (As of 02/06/20)

Price Target (6-12 Months): **$157.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/21/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: B | Momentum: A	

Summary

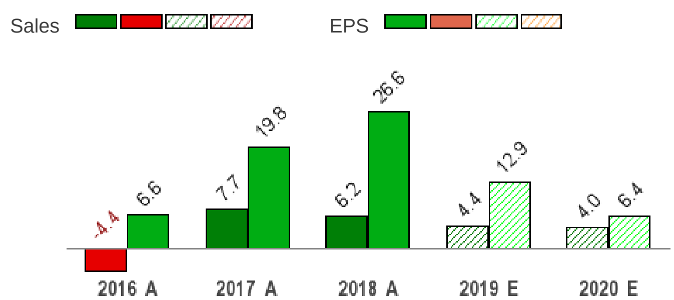
Curtiss-Wright expects to benefit from increasing trade activity and rising need for replacing aging fleet with new jets in the commercial aerospace market. Ample scope for increased nuclear power adoption worldwide should boost Curtiss-Wright's power segment. The company also expects to supply a variety of ancillary plant products and services to this plant, thereby reflecting solid demand for its power segment's products. Its shares outperformed the industry in the past six months. However, stringent regulations and rising competition from renewable sources pose a serious challenge for the company. Further, cost reduction remains a major challenge for the companies that operate in nuclear power market like Curtiss-Wright. Its poor valuation may hurt investors' confidence in this stock.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$149.90 - $108.96**
20 Day Average Volume (sh)	**164,568**
Market Cap	**$6.3 B**
YTD Price Change	**5.2%**
Beta	**1.15**
Dividend / Div Yld	**$0.68 / 0.5%**
Industry	**Aerospace - Defense Equipment**
Zacks Industry Rank	**Bottom 31% (175 out of 255)**
Last EPS Surprise	**6.6%**
Last Sales Surprise	**-0.9%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**02/26/2020**
Earnings ESP	**0.0%**
P/E TTM	**21.0**
P/E F1	**19.4**
PEG F1	**2.8**
P/S TTM	**2.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates **(millions of $)**

	Q1	Q2	Q3	Q4	Annual*
2020	605 E	671 E	642 E	719 E	2,618 E
2019	578 A	639 A	615 A	686 E	2,518 E
2018	548 A	620 A	595 A	649 A	2,412 A

EPS Estimates

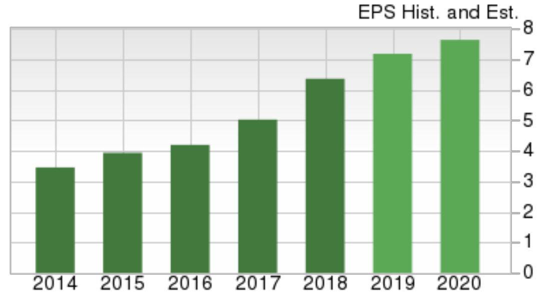
	Q1	Q2	Q3	Q4	Annual*
2020	$1.50 E	$1.94 E	$2.00 E	$2.28 E	$7.65 E
2019	$1.30 A	$1.90 A	$1.95 A	$2.04 E	$7.19 E
2018	$0.98 A	$1.80 A	$1.70 A	$1.90 A	$6.37 A

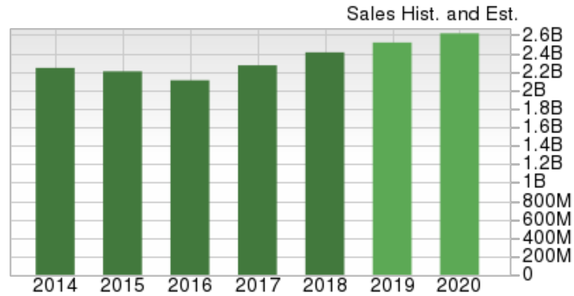
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

Overview

North Carolina-based Curtiss-Wright Corporation, incorporated in July 1929, is a diversified multinational company that designs and overhauls precision components. It provides highly engineered products and services for high-performance platforms, and critical applications in key areas such as commercial aerospace and defense electronics, reactor coolant pumps for next-generation nuclear reactors as well as advanced surface treatment technologies. The company's products and services are offered to the aerospace, defense, general industrial and power generation markets.





Curtiss-Wright operates through three business segments namely — Commercial/Industrial, Defense and Power.

Commercial/Industrial: This business segment offers industrial vehicle products such as electronic throttle control devices, joysticks and transmission shifters; sensors, controls and electro-mechanical actuation components and utility systems used on commercial aircraft; valves to both the industrial and naval defense markets; and surface technology services such as shot peening, laser peening, coatings and advanced analytical testing. It generated sales of $1.21billion in 2018, representing 50% of total sales.

Defense: This segment provides commercial off-the-shelf (COTS) embedded computing board level modules, integrated subsystems, flight test equipment, instrumentation and control systems, turret aiming and stabilization products, and weapons handling systems. The unit also offers avionics and electronics, flight test equipment, and aircraft data management solutions to the commercial aerospace market. It generated sales of $0.55 billion in 2018, representing 23% of total sales.

Power: This unit offers a wide range of hardware, pumps, valves, fastening systems, specialized containment doors, airlock hatches, spent fuel management products, and fluid sealing technologies. It provides Reactor Coolant Pump (RCP) technology, pump seals, and control rod drive mechanisms for commercial nuclear power plants, primarily to support the Westinghouse AP1000 reactor design. Sales from this division totaled $0.65 billion in 2018, representing 27% of total sales.

Reasons To Buy:

- ▲ Increasing trade activity globally has been fueling air traffic, which in turn, is boosting the demand for commercial airplanes. Moreover, rising need for replacing aging fleet with new airplanes continue to be a key growth driver in the commercial aerospace market. Further, a steady decline in oil prices lately has led to cheaper airfares for customers, thus boosting passenger growth. According to the International Air Transport Association, total passenger demand, measured in revenue passenger kilometers, is expected to grow by 5% in 2019.

  To reap the benefits of this expanding commercial jet market, aerospace giants — Boeing and Airbus — have expanded production plans for most of their legacy and new aircraft, except the Boeing 737 model, which has seen a decline in production volumes lately. With both these jet makers being Curtiss-Wright's primary customers, its growth prospects remain strong in the commercial aircraft market. This has led the company to expect sales growth in all of its end markets.

> Rising trade activity worldwide has been boosting Curtiss-Wright's prospect in commercial aerospace. Increased adoption of nuclear power should also bode well for the company.

- ▲ Worldwide, a historical shift toward adopting alternative energy sources is on the rise, to reduce emission of greenhouse gases. Hence, long-term growth prospects of nuclear power market seem constructive. According to the Nuclear Regulatory Commission (NRC), nuclear power comprises approximately 20% of all the electric power produced in the United States. This leaves ample scope for increased nuclear power adoption worldwide, which in turn, should boost Curtiss-Wright's power segment that serves the nuclear power market. As of December 2018, there were 57 new reactors under construction across 17 countries, with approximately 132 planned and 376 proposed for the next several decades. This should provide ample growth opportunities to Curtiss-Wright in the commercial nuclear market.This may have caused investors to gain confidence in this company's fate. Its shares have gained 20.5% in the past six months compared with the industry's growth of 11.2%.

- ▲ Currently, China plans to expand its nuclear power capabilities significantly through the construction of new nuclear power plants. To this end, the nation is constructing Westinghouse AP1000 reactor —the most advanced and economical commercially available nuclear power plant. Going ahead, Curtiss-Wright is expected to benefit a great deal from this initiative, as it is currently supplying the RCP's for China's Westinghouse AP1000 reactor design.

  The company also expects to supply a variety of ancillary plant products and services to this plant, thereby reflecting solid demand for its power segment's products. As nuclear power capacity is increasing steadily worldwide, and China being at the center of reactor construction, several new nuclear power plant constructions are on the horizon. In particular, China intends to expand its nuclear power capabilities significantly through the construction of new nuclear power plants over the next few decades. This should bode well for Curtiss-Wright.

- ▲ In May 2019, Curtiss-Wright announced the authorization of $200 million for future share repurchases. The company's board of directors also declared a 13% increase in the quarterly dividend to 17 cents per share. Both these capital deployment strategies reflect the company's strong financial position and ability to deliver solid earnings growth and free cash flows. In fact, during the third quarter, the company's adjusted earnings increased 14% year over year, reflecting strong operational performance and benefits of its ongoing share repurchase activity. Going ahead, the company remains committed to a disciplined capital allocation strategy that consists of reinvesting capital in its business, returning capital to shareholders through share repurchase and steady dividends, and supplementing organic growth with acquisitions to drive long-term shareholder value.

Reasons To Sell:

- Cheap natural gas price may hurt the near-term prospects of nuclear power industry in the United States. Consistent low natural gas prices are worrisome for nuclear power industry's growth. As per recent reports, cheap gas price has forced a number of nuclear plants to shut down in the United States. So, in the period when adoption of renewable energy is in vogue with solar and wind energy offering affordable electricity generation, cost reduction remains a major challenge for the companies that operate in nuclear power market like Curtiss-Wright.

> Cheap natural gas price may hurt the near-term prospects of nuclear power industry in the United States. The company operates in highly competitive markets.

- Moreover, U.S. reactor operators have been facing increased security and post-Fukushima regulatory requirements over the past few years. All of these factors led the plant operators to divert and defer their typical plant capital expenditure budgets significantly away from planned maintenance. A reversal of this situation is unlikely in the near term, as a result of which Curtiss-Wright's growth prospects seem to be gloomy in the United States.

- Curtiss-Wright operates in highly competitive markets. Its competitors often have higher sales volumes, and greater financial, technological, research and development, human, and marketing resources. Thus, these companies are better able to withstand the effects of periodic economic downturns. Furthermore, the company is facing increased international competition. These can pose as major headwinds for the company going forward, which in turn may have a material adverse impact on its financial condition and operations.

- A comparative analysis of the company's forward EV/SALES ratio reflects a relatively gloomy picture, which might be a cause for investors' concern. Evidently, the stock has a forward 12-month EV/SALES ratio of 2.7. The valuation is higher when compared with its industry's forward EV/SALES ratio of 1.71 in the same time period.

Last Earnings Report

Curtiss-Wright Tops Q3 Earnings Estimates, Ups EPS View

Quarter Ending	09/2019
Report Date	Oct 30, 2019
Sales Surprise	-0.85%
EPS Surprise	6.56%
Quarterly EPS	1.95
Annual EPS (TTM)	7.05

Curtiss-Wright reported third-quarter 2019 adjusted earnings of $1.95 per share, which surpassed the Zacks Consensus Estimate of $1.83 by 6.6%. The bottom line also improved 14% from the prior-year quarter earnings of $1.70.

Excluding one-time items, GAAP earnings came in at $1.92 per share, also up 14% from $1.68 recorded in the year-ago quarter. This year-over-year improvement can be attributed to higher segment operating income and lower corporate expenses.

Operational Performance

In the quarter under review, the company's total sales of $614.9 million rose 3% year over year. The top line, however, missed the Zacks Consensus Estimate of $620 million by 0.9%.

Gross profit rose 2% year over year to $226.1 million. Operating income of $105.6 million improved 9% from $97 million a year ago.

Curtiss-Wright's total backlog at the end of the third quarter was $2.2 billion, flat sequentially. New orders rose 10% year over year to $2 billion in the first nine months of 2019, courtesy of strong organic growth in naval defense and commercial aerospace orders.

Segmental Performance

Commercial/Industrial: Sales at this segment rose 3% year over year to $304.9 million. Higher sales of surface treatment services and sensors along with increased sales of actuation systems in relation to the F-35 program and higher sales of valves on account of the Virginia class submarine program were the primary catalysts behind this unit's top-line growth in the reported quarter.

While operating income increased 7% to $48.1 million, operating margin expanded 60 basis points (bps) to 15.8%. The improvement in operating margin was driven by favorable overhead absorption on higher naval defense revenues.

Defense: Sales at this segment grew 8% year over year to $149.9 million. This can be attributed to higher sales of embedded computing equipment on various programs, most notably the F-35 Joint Strike Fighter and the Apache and Seahawk helicopter programs. Also, higher sales of embedded computing equipment on submarine programs contributed to this segment's top-line growth.

Meanwhile, adjusted operating income improved 16% to $38.8 million and adjusted operating margin expanded 150 bps to 25.8%. The upside in operating income can be attributed to favorable mix on strong sales of the company's defense electronics products.

Power: Sales at this segment slipped 1% year over year to $160.1 million on account of higher Virginia class submarine and CVN-80 aircraft carrier revenues. Also, solid service center revenues contributed to this unit's top-line growth.

While adjusted operating income dropped 7% to $26.4 million, operating margin contracted 110 bps to 17.1%. Both the downsides were on account of lower China Direct AP1000 program revenues.

Financial Update

Curtiss-Wright ended the third quarter with cash and cash equivalents of $297.7 million, up 8% from $276.1 million as of Dec 31, 2018. Long-term debt was $761.4 million compared with $762.3 million as of Dec 31, 2018.

Operating cash outflow from continuing operations totaled $118.6 million at the end of the reported quarter compared with $72.3 million at the end of the prior-year quarter.

Adjusted free cash flow at the end of the quarter was $107 million compared with the year-ago figure of $61.9 million. During the third quarter, the company repurchased 0.10 million shares worth $13 million.

Guidance

Curtiss-Wright updated its financial guidance for 2019. The company currently expects adjusted earnings of $7.15-$7.25 per share compared with $7.00-$7.15 per share guided earlier. The Zacks Consensus Estimate for the company's full-year earnings is pegged at $7.10, lower than the company's guided range.

The company currently expects to generate sales in the range of $2,500-$2,535 million, down from the prior guided range of $2,510-$2,550 million. The Zacks Consensus Estimate for the company's full-year sales is pegged at $2.52 billion, in line with the mid-point of the company's guided range.

These apart, Curtiss-Wright currently expects its adjusted free cash flow in the range of $340-$350 million compared with the earlier guidance range of $330-$340 million for the current year.

Valuation

Curtiss Wright's shares are up 20.5% in the past six months period and up 28% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 11.2% and 7.6% in the past six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 31.3% and 14.9%, respectively.

The S&P 500 index is up 14.9% in the past six months period and 24.7% in the past year.

The stock is currently trading at 19.22X forward 12-month earnings, which compares to 21.14X for the Zacks sub-industry, 21.59X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.89X and as low as 14.26X, with a 5-year median of 18.79X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $157 price target reflects 20.36X earnings value.

The table below shows summary valuation data for CW

Valuation Multiples - CW

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.22	21.14	21.59	19.09
	5-Year High	25.89	21.14	21.59	19.34
	5-Year Low	14.26	14.51	14.26	15.18
	5-Year Median	18.79	17.96	16.85	17.46
P/S F12M	Current	2.41	1.94	1.39	3.54
	5-Year High	2.59	1.94	1.39	3.54
	5-Year Low	1.24	1.09	0.8	2.54
	5-Year Median	1.88	1.45	1.07	3
EV/EBITDA TTM	Current	13.59	13.26	12.73	11.95
	5-Year High	15.1	13.26	13.22	12.85
	5-Year Low	8.8	9.02	7.28	8.49
	5-Year Median	11.81	10.28	9.98	10.66

As of 02/06/2020

Industry Analysis **Zacks Industry Rank:** Bottom 31% (175 out of 255)

Top Peers

Leidos Holdings, Inc. **(LDOS)**	Outperform
AAR Corp. **(AIR)**	Neutral
Aerojet Rocketdyne Holdings, Inc. **(AJRD)**	Neutral
AeroVironment, Inc. **(AVAV)**	Neutral
Kratos Defense & Security Solutions, Inc. **(KTOS)**	Neutral
Teledyne Technologies Incorporated **(TDY)**	Neutral
Astronics Corporation **(ATRO)**	Underperform
Spirit Aerosystems Holdings, Inc. **(SPR)**	Underperform

Industry Comparison Industry: Aerospace - Defense Equipment

Industry Peers

	CW Neutral	X Industry	S&P 500	AJRD Neutral	LDOS Outperform	SPR Underperform
VGM Score	B	-	-	C	A	C
Market Cap	6.33 B	1.61 B	24.40 B	4.23 B	15.57 B	7.25 B
# of Analysts	5	3	13	2	6	6
Dividend Yield	0.46%	0.00%	1.75%	0.00%	1.24%	0.69%
Value Score	C	-	-	D	C	D
Cash/Price	0.05	0.04	0.04	0.20	0.04	0.22
EV/EBITDA	14.01	14.55	14.17	12.59	17.90	7.33
PEG Ratio	2.76	2.40	2.05	4.90	2.69	4.05
Price/Book (P/B)	3.72	3.48	3.31	7.47	4.79	4.55
Price/Cash Flow (P/CF)	16.83	15.64	13.63	18.09	17.58	7.93
P/E (F1)	19.31	24.02	19.08	26.95	20.18	31.40
Price/Sales (P/S)	2.55	1.87	2.67	2.23	1.44	0.94
Earnings Yield	5.16%	4.18%	5.24%	3.72%	4.96%	3.18%
Debt/Equity	0.52	0.33	0.71	0.71	1.00	1.35
Cash Flow ($/share)	8.81	2.52	6.89	2.97	6.26	8.84
Growth Score	B	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	17.93%	13.63%	10.80%	41.45%	14.25%	14.73%
Proj. EPS Growth (F1/F0)	6.37%	9.58%	7.23%	6.68%	9.04%	-64.78%
Curr. Cash Flow Growth	18.64%	9.45%	9.51%	70.48%	1.52%	9.90%
Hist. Cash Flow Growth (3-5 yrs)	8.01%	4.09%	8.55%	4.56%	37.15%	10.83%
Current Ratio	2.19	2.34	1.20	1.54	1.16	2.06
Debt/Capital	34.03%	29.72%	42.90%	41.43%	49.88%	57.37%
Net Margin	12.13%	7.81%	11.76%	7.34%	6.25%	8.27%
Return on Equity	18.83%	9.39%	16.98%	27.14%	21.12%	49.21%
Sales/Assets	0.74	0.74	0.54	0.74	1.17	1.24
Proj. Sales Growth (F1/F0)	3.95%	3.95%	4.15%	4.69%	6.47%	-29.02%
Momentum Score	A	-	-	B	D	F
Daily Price Chg	-0.66%	0.00%	-0.11%	0.11%	3.12%	4.43%
1 Week Price Chg	-1.40%	-0.65%	-2.60%	0.95%	-1.13%	-7.28%
4 Week Price Chg	1.51%	0.00%	1.51%	2.07%	8.79%	-3.74%
12 Week Price Chg	5.31%	4.49%	5.63%	22.34%	21.58%	-21.76%
52 Week Price Chg	28.14%	22.77%	17.01%	36.92%	75.32%	-24.70%
20 Day Average Volume	164,568	130,572	1,961,054	544,402	704,587	1,848,452
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.03%	0.00%	-0.00%	0.00%	0.00%	-58.85%
(F1) EPS Est 12 week change	0.03%	-1.19%	-0.16%	0.00%	1.18%	-69.97%
(Q1) EPS Est Mthly Chg	0.22%	0.00%	0.00%	0.00%	0.00%	-29.17%

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	C
Growth Score	B
Momentum Score	A
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.

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