

Curtiss-Wright Corp. (CW)

\$97.71 (As of 04/08/20)

Price Target (6-12 Months): **\$104.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/21/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

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. Curtiss-Wright provides Reactor Coolant Pumps (RCPs) and control rod drive mechanisms to China's Westinghouse AP1000 reactor. Its shares have outperformed the industry in the past year. However, cheap natural gas price may hurt the near-term prospects of nuclear power industry, thereby affecting the company's growth. Further, expanded tariff on import of aluminum may hurt aerospace-defense equipment stocks like Curtiss-Wright. A comparative analysis of the company's forward EV/SALES ratio reflects a relatively gloomy picture.

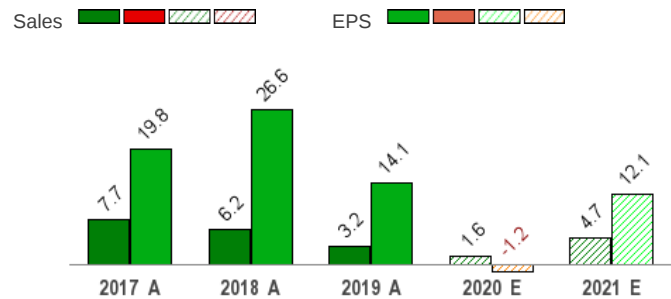
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$149.90 - \$70.56
20 Day Average Volume (sh)	445,899
Market Cap	\$4.2 B
YTD Price Change	-30.7%
Beta	1.35
Dividend / Div Yld	\$0.68 / 0.7%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Top 29% (73 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.4%
Last Sales Surprise	-4.5%
EPS F1 Est- 4 week change	-5.9%
Expected Report Date	05/13/2020
Earnings ESP	-1.0%
P/E TTM	13.4
P/E F1	13.6
PEG F1	1.9
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,646 E
2020	582 E	631 E	631 E	684 E	2,528 E
2019	578 A	639 A	615 A	656 A	2,488 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.65 E	\$1.96 E	\$2.22 E	\$2.41 E	\$8.05 E
2020	\$1.29 E	\$1.69 E	\$1.94 E	\$2.27 E	\$7.18 E
2019	\$1.30 A	\$1.90 A	\$1.95 A	\$2.12 A	\$7.27 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 04/08/2020. The reports text is as of 04/09/2020.

Overview

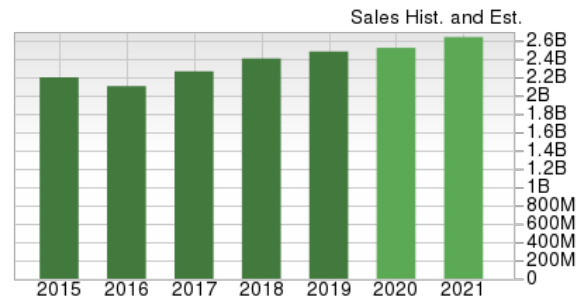
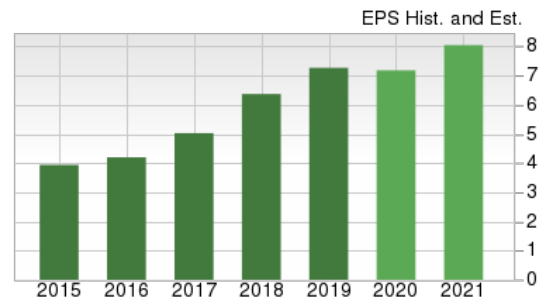
North Carolina-based Curtiss-Wright Corporation, incorporated in July 1929, is a diversified multinational company that designs and overhauls precision components. It provides highly engineered products and services for high-performance platforms, and critical applications in key areas such as commercial 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 \$1.24 billion in 2019, representing 49.8% 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 \$0.58 billion in 2019, representing 23.3% 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 \$0.67 billion in 2019, representing 26.9% 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 a latest report by the International Air Transport Association, total passenger numbers are expected to grow 4% annually in 2020. This would allow the global airline industry to produce a net profit of \$29.3 billion in 2020, after experiencing a challenging last year.

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.

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 been suffering a lot lately. With both these jet giants 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 its end markets in the coming days.

- ▲ 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. Looking ahead, continued growth in global demand, especially in developing countries with limited power supply such as China and India, will require increased capacity. In this line, the U.S. Energy Information Administration (EIA) forecasts worldwide electricity generation to increase at an average annual rate of 1.8% through 2050. 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. This may have caused investors to gain confidence in this stock's growth prospects. Its shares have lost 11.3% in the past year compared to the industry's 26.5% decline.
- ▲ 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. Interestingly, Curtiss-Wright provides Reactor Coolant Pumps (RCPs) and control rod drive mechanisms that support the Westinghouse AP1000 reactor design. In this connection, the company expects to generate increased revenues from the AP1000 program in 2020.
- ▲ On Dec 2, 2019, Curtiss-Wright adopted two written trading plans in connection with its previously authorized share repurchase program, which allows for the purchase of its outstanding common stock up to \$200 million. Such capital deployment strategies reflect the company's strong financial position and ability to deliver solid earnings growth and free cash flows. In fact, during 2019, the company generated cash and cash equivalents worth \$391 million compared with \$276 million during 2018. Curtiss-Wright also produced solid growth in adjusted free cash flow, with a conversion rate of 121%, resulting primarily from its continued efforts to reduce working capital. This represented the company's seventh consecutive year of more than 100% free cash flow conversion. 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.
- ▼ 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.
- ▼ In January 2020, the Trump administration announced plans to expand its existing tariffs on imports of steel and aluminum, stating that from Feb 8, steel and aluminum derivatives will also come under the tariff mandate. This tariff expansion is expected to deal a heavy blow to the U.S. aerospace and defense industry, which relies heavily on imported aluminum. In 2018, when the initial tariff was imposed, the AIA had expressed concern by saying that such a tariff will raise cost and disrupt the supply chain. Now that tariffs are being imposed on derivatives as well, the growth prospects for aerospace and defense equipment stocks like Curtiss-Wright seem bleak.
- ▼ 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 1.88. The valuation is higher when compared with its industry's forward EV/SALES ratio of 1.26 in the same time period.

Cheap natural gas price may hurt the near-term prospects of nuclear power industry in the United States. Increased tariff imposition on import of aluminum may hurt this stock's growth

Last Earnings Report

Curtiss-Wright Q4 Earnings Top Estimates, Revenues Miss

Curtiss-Wright Corporation reported fourth-quarter 2019 adjusted earnings of \$2.12 per share, which surpassed the Zacks Consensus Estimate of \$2.07 by 2.4%. The bottom line also improved 11.6% from the prior-year quarter earnings of \$1.90.

Including one-time items, GAAP earnings came in at \$2.08 per share, up 10% from \$1.89 recorded in the year-ago quarter. This year-over-year upside can be attributed to continued strong sales growth in defense markets and the benefits of the company's ongoing margin improvement initiatives.

For 2019, the company reported adjusted earnings of \$7.27 per share, which surpassed the Zacks Consensus Estimate of \$7.22 by 0.7%. The full-year bottom line also improved 15% from the prior-year figure.

Operational Performance

In the quarter under review, the company's total sales of \$655.8 million inched up 1% year over year. The top line, however, missed the Zacks Consensus Estimate of \$686 million by 4.4%.

In 2019, the company's total sales of \$2.49 billion rose 3% from the year-ago figure. The top line, however, missed the Zacks Consensus Estimate of \$2.52 billion by 1.2%.

Gross profit rose 2% year over year to \$410 million in the reported quarter. Operating income of \$120.7 million improved 10% from \$110 million a year ago.

Curtiss-Wright's total backlog at the end of 2019 was \$2.2 billion, flat sequentially but up 7%. New orders rose 6% from 2018 to \$2.6 billion in 2019, courtesy of strong organic growth in naval defense and commercial aerospace orders.

Segmental Performance

Commercial/Industrial: Sales at this segment rose 6% year over year to \$323.2 million. Higher sales of actuation systems on the F-35 program and valves on the Virginia class submarine program were the primary catalysts behind this unit's top-line growth in the reported quarter.

While operating income increased 12% to \$52.7 million, operating margin expanded 90 basis points (bps) to 16.3%. The improvement in operating income reflects favorable overhead absorption on higher defense revenues and a one-time gain on sale of a product line,

Defense: Sales at this segment grew 8% year over year to \$163.5 million. This can be attributed to higher sales of increased sales of embedded computing and avionics equipment on various unmanned aerial vehicles (UAVs) and helicopter platforms. Also, contributions from the TCG acquisition boosted this unit's sales.

Meanwhile, adjusted operating income improved 22% to \$44.6 million and adjusted operating margin expanded 300 bps to 27.2%. The upside in operating income can be attributed to favorable mix on higher defense revenues.

Power: Sales at this segment declined 12% year over year to \$169.1 million on account of lower domestic aftermarket revenues. The timing of production on the China Direct AP1000 program also hampered sales performance of this segment.

While adjusted operating income dropped 6% to \$3.3 million, operating margin expanded 140 bps to 20.3%.

Financial Update

Curtiss-Wright ended 2019 with cash and cash equivalents of 391 million, up 42% from \$276.1 million as of Dec 31, 2018. Long-term debt was \$760.6 million compared with \$687.3 million as of Dec 31, 2018.

Operating cash outflow from continuing operations totaled \$421.4 million at the end of 2019 compared with \$336.3 million at the end of 2018.

Adjusted free cash flow at the end of 2019 was \$370.9 million compared with the year-ago figure of \$332.9 million. During 2019, the company repurchased 0.4 million shares worth \$50 million.

Guidance

Curtiss-Wright issued its financial guidance for 2020. The company currently expects adjusted earnings in the range of \$7.50-\$7.70 per share.

The Zacks Consensus Estimate for the company's full-year earnings is pegged at \$7.66, higher than the mid-point of the company's guided range.

The company currently expects to generate sales in the range of \$2,590-\$2,630 million. The Zacks Consensus Estimate for the company's full-year sales is pegged at \$2.62 billion, above the mid-point of the company's guided range.

These apart, Curtiss-Wright currently expects its adjusted free cash flow in the range of \$370-\$390 million.

Quarter Ending 12/2019

Report Date	Feb 26, 2020
Sales Surprise	-4.45%
EPS Surprise	2.42%
Quarterly EPS	2.12
Annual EPS (TTM)	7.27

Recent News

On **Feb 27, 2020**, Curtiss-Wright Corporation announced that it has entered into an agreement to acquire the stock of Dyna-Flo Control Valve Services Ltd. (Dyna-Flo) for \$62 million in cash. Dyna-Flo is a leading designer and manufacturer of linear and rotary control valves, isolation valves, actuators, and level and pressure control systems for the chemical, petrochemical, and oil and gas markets.

The acquired business will operate within Curtiss-Wright's Commercial/Industrial segment and is expected to be accretive to Curtiss-Wright's 2020 adjusted diluted earnings per share, excluding first year purchase accounting costs, and produce a free cash flow conversion rate in excess of 100%.

Valuation

Curtiss Wright's shares are down 30.7% in the year to date period and down 11.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 35.7% and 34.5% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 26.5%, while sector is down 30.9%.

The S&P 500 index is down 14.6% in the year to date period and down 11.3% in the past year.

The stock is currently trading at 12.5X forward 12-month earnings, which compares to 16.4X for the Zacks sub-industry, 16.8X for the Zacks sector and 17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.9X and as low as 10.4X, with a 5-year median of 18.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$104 price target reflects 13.3X 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	12.48	16.39	16.76	16.99
	5-Year High	25.89	24.91	21.46	19.34
	5-Year Low	10.38	14.08	14.34	15.19
	5-Year Median	18.92	19	17.07	17.44
P/S F12M	Current	1.58	0.71	1.01	2.94
	5-Year High	2.59	3.65	1.33	3.44
	5-Year Low	1.24	0.71	0.75	2.54
	5-Year Median	1.9	2.42	1.04	3
EV/EBITDA TTM	Current	9.13	15.11	11.6	9.75
	5-Year High	15.1	22.91	17.85	12.87
	5-Year Low	7.39	11.71	6.95	8.27
	5-Year Median	11.89	16.75	9.95	10.78

As of 04/08/2020

Industry Analysis Zacks Industry Rank: Top 29% (73 out of 253)



Top Peers

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

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	CW Neutral	X Industry	S&P 500	AJRD Neutral	LDOS Outperform	SPR Neutral
VGM Score	B	-	-	A	B	B
Market Cap	4.15 B	985.09 M	19.05 B	3.42 B	13.54 B	2.23 B
# of Analysts	4	3	13	2	8	6
Dividend Yield	0.70%	0.00%	2.23%	0.00%	1.42%	0.19%
Value Score	B	-	-	C	C	C
Cash/Price	0.11	0.12	0.06	0.29	0.05	1.22
EV/EBITDA	8.81	8.09	11.47	9.22	12.96	2.88
PEG Ratio	2.02	2.01	2.00	NA	1.72	65.37
Price/Book (P/B)	2.35	1.64	2.56	5.94	3.95	1.27
Price/Cash Flow (P/CF)	10.05	7.60	10.14	16.00	13.58	2.67
P/E (F1)	14.11	16.78	16.97	23.77	16.97	555.65
Price/Sales (P/S)	1.67	0.70	2.01	1.72	1.22	0.28
Earnings Yield	7.35%	5.72%	5.81%	4.21%	5.89%	0.19%
Debt/Equity	0.51	0.48	0.70	0.68	0.95	1.72
Cash Flow (\$/share)	9.72	2.37	7.01	2.72	7.03	7.97
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	18.69%	13.43%	10.92%	40.53%	14.53%	13.43%
Proj. EPS Growth (F1/F0)	-1.20%	-6.85%	-0.64%	8.28%	8.78%	-99.31%
Curr. Cash Flow Growth	7.60%	8.85%	5.93%	-8.04%	6.19%	-10.39%
Hist. Cash Flow Growth (3-5 yrs)	7.51%	4.66%	8.55%	70.16%	6.45%	3.45%
Current Ratio	2.05	2.34	1.24	1.63	1.21	2.64
Debt/Capital	33.79%	32.59%	42.36%	40.43%	48.76%	63.21%
Net Margin	12.36%	6.73%	11.64%	7.12%	6.01%	6.74%
Return on Equity	18.63%	8.64%	16.74%	24.42%	22.51%	37.69%
Sales/Assets	0.71	0.75	0.54	0.76	1.18	1.17
Proj. Sales Growth (F1/F0)	1.62%	0.00%	0.61%	5.20%	16.18%	-36.24%
Momentum Score	D	-	-	A	C	C
Daily Price Chg	3.88%	2.97%	4.33%	3.84%	3.07%	16.01%
1 Week Price Chg	-10.74%	-6.01%	-4.40%	-0.37%	-5.89%	-38.03%
4 Week Price Chg	-6.15%	-10.01%	-1.70%	0.53%	-2.58%	-45.61%
12 Week Price Chg	-33.72%	-33.55%	-20.64%	-18.17%	-6.56%	-68.15%
52 Week Price Chg	-11.30%	-33.03%	-12.97%	32.26%	47.69%	-74.88%
20 Day Average Volume	445,899	288,869	4,016,075	916,745	1,583,972	3,701,687
(F1) EPS Est 1 week change	0.00%	0.00%	-0.26%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.93%	-10.00%	-5.64%	0.00%	0.10%	-92.68%
(F1) EPS Est 12 week change	-6.04%	-15.88%	-7.49%	-4.33%	3.19%	-99.29%
(Q1) EPS Est Mthly Chg	-7.77%	-8.21%	-9.90%	0.00%	-0.40%	-185.71%

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	B
Momentum Score	D
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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