

Curtiss-Wright Corp. (CW)

\$106.91 (As of 08/13/20)

Price Target (6-12 Months): **\$113.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: F

Summary

Curtiss-Wright posted impressive second-quarter results, with both its earnings and sales surpassing the respective Zacks Consensus Estimate. However, results were unimpressive on a year-over-year basis. Ample scope for increased nuclear power adoption worldwide should boost Curtiss-Wright's power segment. A strong financial position enables the company to maintain a decent capital deployment strategy. Its shares have outperformed the industry in the past year. However, the impact of the COVID-19 pandemic on worldwide demand in the commercial aerospace and general industrial end markets has dragged down its operating results. Further, expanded tariff on import of aluminum and steel and their derivatives may hurt aerospace-defense equipment stocks like Curtiss-Wright. Adverse trends in the U.S. reactor market might weigh on this stock.

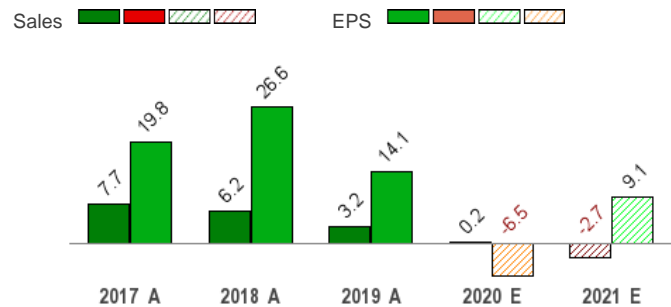
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$149.90 - \$70.56
20 Day Average Volume (sh)	310,638
Market Cap	\$4.4 B
YTD Price Change	-24.1%
Beta	1.24
Dividend / Div Yld	\$0.68 / 0.6%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 15% (215 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.6%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	5.8%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	15.9
P/E F1	15.7
PEG F1	2.3
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,425 E
2020	601 A	550 A	565 E	665 E	2,493 E
2019	578 A	639 A	615 A	656 A	2,488 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.56 E	\$1.57 E	\$1.95 E	\$2.26 E	\$7.42 E
2020	\$1.34 A	\$1.31 A	\$1.54 E	\$2.36 E	\$6.80 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 08/13/2020. The reports text is as of 08/14/2020.

Overview

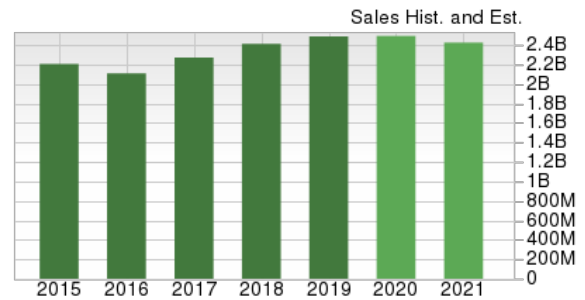
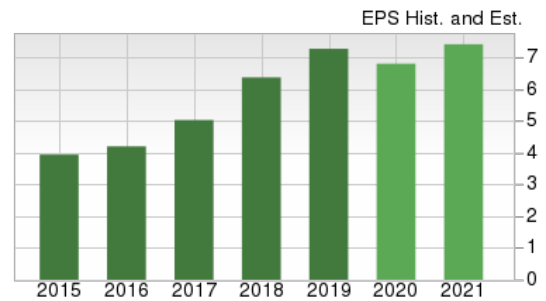
North Carolina-based Curtiss-Wright Corporation, incorporated in July 1929, is a diversified multinational company that designs and overhauls precision components. It provides highly engineered products and services for high-performance platforms, and critical applications in key areas such as commercial 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:

- ▲ 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 World Nuclear Association, as of the end of March 2020, nuclear energy provided about 10% of the world's electricity from about 440 power reactors. In the United States, about one-fifth of electricity comes from nuclear. Nuclear is the world's second largest source of low-carbon power. With continued growth in its global demand, especially in developing countries with limited power supply such as China and India, increased capacity of nuclear power will be needed. About 50 more reactors are under construction worldwide, equivalent to approximately 15% of existing capacity. This indicates 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 boosted investor confidence in the stock, which has lost 9.2% in the past year compared with the industry's 33.8% plunge.
- ▲ Currently, China plans to expand its nuclear power capabilities significantly through the construction of new nuclear power plants. The strong impetus for developing new nuclear power in China comes from the need to improve urban air quality and reduce greenhouse gas emissions. The nation's government has a long-term target, as outlined in its Energy Development Strategy Action Plan 2014-2020, to enhance its nuclear capacity to 58 gigawatt electrical (GWe) by 2020, with 30 GWe more under construction. 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 the United States, two new build reactors are under construction in Georgia utilizing the AP1000 design. The company expects to generate increased revenues from the AP1000 program in 2020 and beyond.
- ▲ Curtiss-Wright's cash and cash equivalents were \$155 million at the end of second- quarter 2020, compared with \$158 million as of Mar 31, 2020. Its long-term debt was \$972 million as of Jun 30, 2020, compared with \$1,047 million at the end of Mar 31, 2020. Although its long-term debt is higher than its cash reserve, its impressive financial ratios indicate that the company does not hold a weak solvency position. Evidently, the company's debt-to-capital ratio of 0.36 as of Jun 30, 2020 declined sequentially from 0.39. Moreover, its current ratio of 1.91 at the end of second-quarter 2020, being higher than 1, indicates that the company holds sufficient cash in hand to meet its obligations. Such solid financial ratios reflect that the company will be able to pay off its debt obligations, at least in the near term.

Increased adoption of nuclear power, especially in China, bodes well for the company. Its impressive financial ratios should have encouraged its investors

Such strong financial position also enables the company to maintain a decent capital deployment strategy. Notably, during the first six months of 2020, Curtiss-Wright spent \$125 million for share buyback compared with only \$25 million utilized in the prior-year period. On Dec 2, 2019, Curtiss-Wright adopted two written trading plans in connection with its previously authorized share repurchase program, which allow purchase of its outstanding common stock of up to \$200 million. Going ahead, Curtiss-Wright expects to maintain a very solid free cash flow level in 2020 with a targeted adjusted free cash flow conversion rate of at least 130%, despite any potential impacts from COVID-19 on its operations. The fact that this expected conversion rate is better than the company's earlier projection of 100%, amid the ongoing uncertainties, should boost investor confidence in this stock.

Reasons To Sell:

▼ 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.

Increased tariff imposition on import of aluminum and growing impact of the coronavirus pandemic may hurt this stock's growth

▼ 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.

▼ Starting from the second quarter, Curtiss-Wright begun to feel the heat of the COVID-19 pandemic and the consequent impacts. Evidently, sales from its Commercial/Industrial segment declined 27% year over year in the reported quarter, courtesy of the COVID-19 impact. Moreover, the company experienced operational interruptions as a result of COVID-19, including the temporary suspension of operations due to government imposed restrictions at its facilities in Mexico and India. Additionally, certain portions of its workforce might have not been able to work effectively due to quarantines, government orders and guidance, travel restrictions, and other precautionary measures and restrictions. This could have an adverse effect on the productivity and profitability of such manufacturing facilities, which could adversely impact its business and operations.

Curtiss-Wright experienced and expects to continue to experience unpredictable demand volatility for commercial aerospace and general industrial end markets. Approximately 17% of the company's net sales for 2019 were derived from sales to commercial aerospace customers. These sales will be impacted due to current travel restrictions, as well as changes in the propensity of the general public to travel by air as a result of the COVID-19 pandemic, which have caused reductions in demand for commercial aircraft. On the other hand, an overall reduction in business activity as a result of the disruption caused by COVID-19 has led to a decrease in global demand for oil, thereby contributing to a substantial decline in oil prices. Approximately 23% of the company's net sales in 2019 were derived from sales to the general industrial market, which includes oil and gas sales. Notably, a downward economic cycle in the oil and gas market affects Curtiss-Wright's customers, which could result in industrial valve sales to the downstream markets being negatively impacted.

Last Earnings Report

Curtiss-Wright Q2 Earnings and Sales Beat Estimates

Curtiss-Wright reported second-quarter 2020 adjusted earnings of \$1.31 per share, which surpassed the Zacks Consensus Estimate of \$1.29 by 1.6%. The bottom line, however, declined 31% from \$1.90 in the prior-year quarter.

Excluding one-time items, GAAP earnings came in at 74 cents per share, down 60% from \$1.86 registered in the year-ago quarter.

Quarter Ending 06/2020

Report Date	Aug 03, 2020
Sales Surprise	1.08%
EPS Surprise	1.55%
Quarterly EPS	1.31
Annual EPS (TTM)	6.72

Operational Performance

In the quarter under review, the company's total sales of \$550 million declined 14% year over year. The top line, however, surpassed the Zacks Consensus Estimate of \$544 million by 1.1%.

Gross profit declined 19% year over year to \$186 million. Operating income of \$55.3 million plunged 48% from \$105.7 million a year ago.

Curtiss-Wright's total backlog at the end of the second quarter was \$2.2 billion, increasing 1% from Dec 31, 2019. New orders of \$620 million were up 3%, led by strong growth in naval defense.

Segmental Performance

Commercial/Industrial: Sales in this segment decreased 27% year over year to \$213.6 million. The decline in sales was primarily due to reduced demand resulting from the impact of the COVID-19 pandemic, alongside lower commercial aerospace market revenues and reduced general industrial market sales.

While operating income plunged 72% to \$14.4 million, operating margin contracted 720 basis points (bps) to 10.3%.

Defense: Sales at this segment improved 7% year over year to \$170 million. This can be attributed to higher sales of embedded computing equipment on various Intelligence, Surveillance and Reconnaissance (ISR) programs, including fighter jets and Unmanned Aerial Vehicle (UAV) platforms.

Meanwhile, adjusted operating income declined 15% to \$27.9 million, whereas adjusted operating margin expanded 60 bps to 21.6%.

Power: Sales at this segment declined 11% year over year to \$166.4 million on account of lower naval defense market revenues and reduced power generation market sales.

While adjusted operating income fell 34% to \$21.3 million, operating margin contracted 100 bps to 16.7%.

Financial Update

Curtiss-Wright ended second-quarter 2020 with cash and cash equivalents of \$155.4 million, down 60% from \$391 million as of Dec 31, 2019. Long-term debt summed \$834.8 million compared with \$760.6 million as of Dec 31, 2019.

Net cash flow from operating activities amounted to \$140.4 million at the end of second-quarter 2020, up from \$92.2 million a year ago.

Adjusted free cash flow at the end of the quarter was \$130 million, up 71% compared to the prior-year period. During the second quarter, the company repurchased 132,443 shares of its common stock for approximately \$13 million.

2020 Guidance

Curtiss-Wright reiterated its financial guidance for 2020. The company continues to expect adjusted earnings of \$6.60-\$6.85 per share. The Zacks Consensus Estimate for the company's full-year earnings is pegged at \$6.38, below the company's guidance range.

Apart from this, Curtiss-Wright continues to expect adjusted free cash flow in the range of \$350-\$380 million for the current year.

Valuation

Curtiss Wright's shares are down 24.1% in the year to date period and 9.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 39.7% and 31.3% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 33.8% and 30.1%, respectively.

The S&P 500 index is up 4.8% in the year to date period and 18.8% in the past year.

The stock is currently trading at 14.9X forward 12-month earnings, which compares to 22.6X for the Zacks sub-industry, 21.6X for the Zacks sector and 22.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.9X and as low as 10X, with a 5-year median of 18.8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$113 price target reflects 15.7X 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	14.89	22.63	21.56	22.91
	5-Year High	25.89	23.54	21.56	22.91
	5-Year Low	9.96	12.99	14.17	15.25
	5-Year Median	18.79	17.26	17.29	17.58
P/S F12M	Current	1.81	1.46	1.73	3.7
	5-Year High	2.59	1.46	1.73	3.7
	5-Year Low	1.24	0.79	0.92	2.53
	5-Year Median	1.89	1.05	1.18	3.05
EV/EBITDA TTM	Current	10.67	9.59	16.67	12.55
	5-Year High	15.1	12.18	16.67	12.84
	5-Year Low	7.39	5.99	7.38	8.24
	5-Year Median	11.89	8.87	10.59	10.9

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AAR Corp. (AIR)	Neutral	4
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Neutral	3
AeroVironment, Inc. (AVAV)	Neutral	3
Kratos DefenseSecurity Solutions, Inc. (KTOS)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	3
Teledyne Technologies Incorporated (TDY)	Neutral	2
Astronics Corporation (ATRO)	Underperform	4
Spirit Aerosystems Holdings, Inc. (SPR)	Underperform	5

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	CW	X Industry	S&P 500	AJRD	LDOS	SPR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	B	-	-	A	A	C
Market Cap	4.45 B	686.94 M	23.58 B	3.40 B	13.42 B	2.31 B
# of Analysts	4	4	14	2	9	6
Dividend Yield	0.64%	0.00%	1.68%	0.00%	1.44%	0.18%
Value Score	A	-	-	B	B	B
Cash/Price	0.04	0.15	0.07	0.30	0.04	0.89
EV/EBITDA	9.92	8.64	13.34	8.83	14.08	3.41
PEG Ratio	2.27	7.56	2.99	NA	1.63	NA
Price/Book (P/B)	2.60	2.42	3.20	5.07	3.78	1.82
Price/Cash Flow (P/CF)	11.00	7.87	12.83	15.91	13.43	2.74
P/E (F1)	15.86	27.15	21.99	24.11	17.44	NA
Price/Sales (P/S)	1.84	1.36	2.53	1.71	1.16	0.41
Earnings Yield	6.36%	2.78%	4.35%	4.14%	5.73%	-18.64%
Debt/Equity	0.57	0.39	0.77	0.57	1.32	2.43
Cash Flow (\$/share)	9.72	2.26	6.94	2.72	7.03	7.97
Growth Score	B	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	18.25%	10.59%	10.41%	35.20%	14.85%	8.10%
Proj. EPS Growth (F1/F0)	-6.43%	-17.58%	-6.32%	6.21%	4.68%	-173.53%
Curr. Cash Flow Growth	7.60%	12.73%	5.20%	-8.04%	6.19%	-10.39%
Hist. Cash Flow Growth (3-5 yrs)	7.51%	5.32%	8.55%	70.16%	6.45%	3.45%
Current Ratio	1.91	2.71	1.33	1.76	0.89	2.71
Debt/Capital	36.20%	33.12%	44.59%	36.13%	56.87%	70.89%
Net Margin	10.52%	4.46%	10.13%	6.46%	5.26%	-3.93%
Return on Equity	16.75%	8.92%	14.51%	19.79%	23.81%	-6.11%
Sales/Assets	0.67	0.73	0.51	0.73	1.11	0.79
Proj. Sales Growth (F1/F0)	0.22%	0.00%	-1.43%	4.26%	12.17%	-57.72%
Momentum Score	F	-	-	C	D	F
Daily Price Chg	-0.87%	-0.19%	-0.44%	-1.07%	-0.02%	-1.62%
1 Week Price Chg	15.61%	6.88%	2.30%	5.55%	-2.05%	6.39%
4 Week Price Chg	16.38%	4.84%	4.38%	13.24%	9.02%	-6.02%
12 Week Price Chg	14.59%	14.59%	13.59%	6.10%	-5.04%	5.92%
52 Week Price Chg	-9.18%	-19.96%	5.75%	-10.86%	13.85%	-69.57%
20 Day Average Volume	310,638	146,629	1,984,154	660,421	1,096,198	4,741,649
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.41%	0.00%
(F1) EPS Est 4 week change	5.79%	1.75%	2.08%	5.77%	3.20%	-54.59%
(F1) EPS Est 12 week change	5.59%	-0.34%	2.66%	5.77%	4.51%	-72.97%
(Q1) EPS Est Mthly Chg	-6.94%	0.00%	0.94%	7.69%	-4.11%	-91.51%

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	A
Growth Score	B
Momentum Score	F
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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