

Curtiss-Wright Corp. (CW)

\$89.33 (As of 07/20/20)

Price Target (6-12 Months): **\$95.00**

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:D

Value: C

Growth: F

Momentum: D

Summary

Ample scope for increased nuclear power adoption worldwide should boost Curtiss-Wright's power segment. Impressively, China's plans to expand its nuclear power capabilities is benefitting the company. Curtiss-Wright provides Reactor Coolant Pumps (RCPs) and control rod drive mechanisms to China's Westinghouse AP1000 reactor. 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 company fears that the impact of the COVID-19 pandemic on worldwide demand in the commercial aerospace and general industrial end markets might drag down its operating results in the upcoming quarters. Further, expanded tariff on import of aluminum and steel and their derivatives may hurt aerospace-defense equipment stocks like Curtiss-Wright.

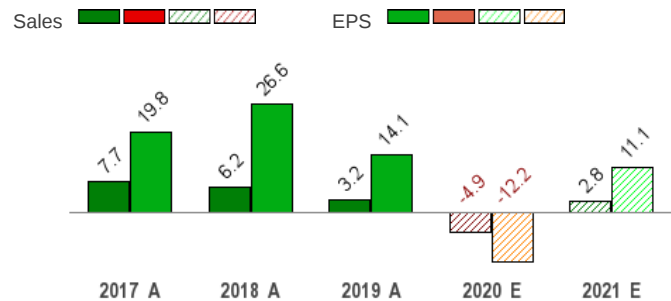
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$149.90 - \$70.56
20 Day Average Volume (sh)	349,539
Market Cap	\$3.7 B
YTD Price Change	-36.6%
Beta	1.26
Dividend / Div Yld	\$0.68 / 0.8%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 8% (231 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.9%
Last Sales Surprise	3.3%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	08/03/2020
Earnings ESP	13.6%
P/E TTM	12.2
P/E F1	14.0
PEG F1	2.0
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,434 E
2020	601 A	544 E	579 E	643 E	2,367 E
2019	578 A	639 A	615 A	656 A	2,488 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.47 E	\$1.55 E	\$1.85 E	\$2.12 E	\$7.09 E
2020	\$1.34 A	\$1.29 E	\$1.67 E	\$2.12 E	\$6.38 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 07/20/2020. The reports text is as of 07/21/2020.

Overview

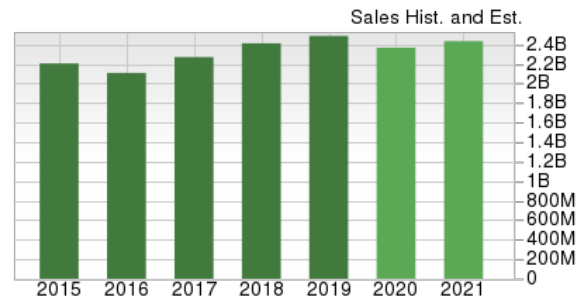
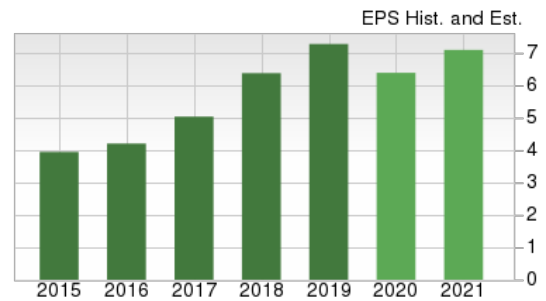
North Carolina-based Curtiss-Wright Corporation, incorporated in July 1929, is a diversified multinational company that designs and overhauls precision components. It provides highly engineered products and services for high-performance platforms, and critical applications in key areas such as commercial 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 lost 29.8% in the past year compared with the industry's 39.2% decline.
- ▲ 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 \$158 million at the end of first-quarter 2020, compared with \$391 million as of Dec 31, 2019. Its long-term debt was \$1,047 million as of Mar 31, 2020, compared with \$906 million at the end of 2019. 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 interest coverage of 13.6 as of Mar 31, 2020 remained the highest in the last four quarters. Moreover, its current ratio of 2.04 at the end of first-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 quarter, Curtiss-Wright spent \$112 million for share buyback compared with \$12 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 100%, despite any potential impacts from COVID-19 on its operations. This should boost investor confidence.

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.

▼ Although the novel coronavirus outbreak did not have a material impact on Curtiss-Wright's operating results in the first quarter, the company expects the pandemic to negatively impact its second-quarter results and possibly beyond, considering the uncertainty that the world is still facing regarding the extent and severity of this virus spread. Particularly, the company fears that the impact of the pandemic on worldwide demand in the commercial aerospace and general industrial end markets might drag down its operating results in the upcoming quarters. To this end, it is imperative to mention that approximately 17% of Curtiss-Wright's net sales for 2019 were derived from sales to commercial aerospace customers. Current travel restrictions, as well as changes in the propensity of the general public to travel by air as a result of the pandemic, have caused reductions in demand for commercial aircraft, which might impact its net sales.

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 Beats on Q1 Earnings, Suspends 2020 View

Curtiss-Wright reported first-quarter 2020 adjusted earnings of \$1.34 per share, which surpassed the Zacks Consensus Estimate of \$1.29 by 3.9%. Moreover, the bottom line grew 3% from \$1.30 per share reported a year ago, led by strong sales growth in its defense markets.

Excluding one-time items, the company reported GAAP earnings of \$1.21 per share, down 6% from \$1.29 reported in the year-ago quarter.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	3.29%
EPS Surprise	3.88%
Quarterly EPS	1.34
Annual EPS (TTM)	7.31

Operational Performance

In the quarter under review, the company's total sales of \$601.2 million increased 4% year over year. The top line, moreover, exceeded the Zacks Consensus Estimate of \$582 million by 3.3%.

Gross profit increased 92% year over year to \$200.6 million. Operating income of \$72.4 million improved 1% from \$72 million a year ago.

Curtiss-Wright's total backlog at the end of the first quarter of 2020 was \$2.1 billion, down 2% from the figure reported at 2019-end. New orders also declined 24% to \$570 million, principally due to the timing of strong naval defense orders in the prior-year period.

Segmental Performance

Commercial/Industrial: Sales at this segment slipped 2% year over year to \$264.4 million. This is primarily attributable to lower general industrial market sales, which reflect reduced demand for industrial vehicle products and surface treatment services.

While adjusted operating income improved 2% to \$36 million, operating margin contracted 60 basis points (bps) to 13%. The improvement in the operating income was driven by a favorable mix for actuation products and the benefits of its cost-containment initiatives.

Defense: Sales at this segment grew 24% year over year to \$166.1 million. This uptick can be attributed to higher sales of embedded computing equipment on unmanned aerial vehicles (UAVs), helicopter platforms and various Intelligence, Surveillance and Reconnaissance (ISR) programs.

Meanwhile, adjusted operating income surged 49% to \$31.6 million and adjusted operating margin expanded 320 bps to 19%. The upside can be attributable to favorable overhead absorption on higher defense revenues and gains from the sale of a product line.

Power: Sales at this segment declined 2% year over year to \$170.8 million on account of reduced power generation market sales.

While operating income declined 4% to \$24.4 million, operating margin contracted 20 bps to 14.3%. Both downsides were driven by unfavorable overhead absorption on lower power generation revenues.

Financial Update

Curtiss-Wright ended the first quarter of 2020 with cash and cash equivalents of \$157.8 million, down 60% from \$391 million as of Dec 31, 2019. Long-term debt summed \$906.2 million compared with \$760.6 million, as of Dec 31, 2019.

Operating cash outflow from continuing operations totaled \$192.6 million at the end of first-quarter 2020 compared with \$51.9 million in the prior year quarter.

Adjusted free cash flow at the end of the reported quarter was \$52.9 million compared with the year-ago figure of \$63.8 million. During the first quarter of 2020, the company repurchased 1.1 million shares worth \$112 million.

Guidance

Due to the ongoing uncertainty concerning the COVID-19 situation and its potential impact on the company's operations and financial results, Curtiss-Wright's previously communicated guidance for 2020 has been suspended.

Valuation

Curtiss Wright's shares are down 36.6% in the year to date period and 29.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 42.5% and 30.7% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 39.2% and 32%, respectively.

The S&P 500 index is up 0.3% in the year to date period and 8.7% in the past year.

The stock is currently trading at 13.2X forward 12-month earnings, which compares to 23.7X for the Zacks sub-industry, 20.4X for the Zacks sector and 22.8X 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 \$95 price target reflects 14X 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	13.19	23.66	20.36	22.83
	5-Year High	25.89	23.66	20.94	22.83
	5-Year Low	9.96	12.99	14.17	15.25
	5-Year Median	18.79	17.18	17.19	17.52
P/S F12M	Current	1.55	0.88	1.15	3.58
	5-Year High	2.59	1.29	1.49	3.58
	5-Year Low	1.24	0.79	0.92	2.53
	5-Year Median	1.89	1.01	1.17	3.02
P/B TTM	Current	2.23	1.53	3.84	4.41
	5-Year High	4.04	2.8	6.77	4.56
	5-Year Low	1.84	1.2	3.03	2.83
	5-Year Median	3.13	2.26	5.13	3.71

As of 07/20/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (231 out of 252)



Top Peers

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

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	CW	X Industry	S&P 500	AJRD	LDOS	SPR
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	4
VGM Score	D	-	-	D	A	F
Market Cap	3.72 B	1.16 B	22.29 B	2.93 B	12.59 B	2.28 B
# of Analysts	4	4	14	2	9	6
Dividend Yield	0.76%	0.00%	1.85%	0.00%	1.53%	0.18%
Value Score	C	-	-	C	A	D
Cash/Price	0.04	0.15	0.06	0.30	0.04	0.77
EV/EBITDA	8.69	7.63	13.06	7.74	12.13	3.43
PEG Ratio	2.04	6.26	2.98	NA	1.58	NA
Price/Book (P/B)	2.27	1.82	3.12	4.75	3.75	1.57
Price/Cash Flow (P/CF)	9.19	6.91	12.03	13.71	12.61	2.72
P/E (F1)	14.30	28.00	22.15	21.13	16.90	NA
Price/Sales (P/S)	1.48	0.99	2.35	1.49	1.10	0.33
Earnings Yield	7.14%	3.03%	4.30%	4.72%	5.91%	-12.25%
Debt/Equity	0.63	0.35	0.75	0.63	0.88	2.07
Cash Flow (\$/share)	9.72	2.26	6.94	2.72	7.03	7.97
Growth Score	F	-	-	D	A	F
Hist. EPS Growth (3-5 yrs)	19.12%	10.59%	10.82%	37.62%	14.53%	8.47%
Proj. EPS Growth (F1/F0)	-12.24%	-31.76%	-9.08%	4.44%	1.44%	-147.74%
Curr. Cash Flow Growth	7.60%	13.75%	5.51%	-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	2.04	2.39	1.30	1.67	0.67	2.81
Debt/Capital	38.53%	35.25%	44.41%	38.69%	46.71%	67.46%
Net Margin	12.10%	5.34%	10.54%	6.80%	5.20%	2.92%
Return on Equity	18.48%	9.69%	15.74%	21.60%	22.56%	20.46%
Sales/Assets	0.70	0.74	0.54	0.74	1.17	1.01
Proj. Sales Growth (F1/F0)	-4.85%	0.00%	-2.36%	3.33%	14.23%	-52.51%
Momentum Score	D	-	-	D	D	F
Daily Price Chg	-3.03%	-0.31%	-0.77%	-2.15%	0.53%	-4.25%
1 Week Price Chg	7.55%	1.52%	3.82%	5.86%	0.30%	0.76%
4 Week Price Chg	-0.33%	-2.31%	2.71%	-9.03%	-8.51%	-20.47%
12 Week Price Chg	-9.10%	7.95%	9.79%	-10.23%	-13.77%	13.06%
52 Week Price Chg	-29.84%	-26.82%	-3.79%	-15.98%	11.39%	-72.65%
20 Day Average Volume	349,539	225,223	2,095,914	632,197	1,186,945	5,472,855
(F1) EPS Est 1 week change	-0.78%	-0.19%	0.00%	-0.40%	0.00%	-0.38%
(F1) EPS Est 4 week change	-0.78%	-1.83%	0.09%	-0.40%	0.85%	-5.17%
(F1) EPS Est 12 week change	-6.62%	-7.17%	-4.60%	-9.40%	-4.52%	-28.92%
(Q1) EPS Est Mthly Chg	0.90%	-1.92%	0.00%	0.00%	-0.50%	-18.66%

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	C
Growth Score	F
Momentum Score	D
VGM Score	D

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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