

Delphi Technologies (DLPH)

\$15.34 (As of 01/31/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: F

Summary

Delphi has a geographically diverse revenue base. Regional presence coupled with its diversified product portfolio with updated technologies makes the company a solid choice for original equipment manufacturers. Delphi's aftermarket business generates stable recurring revenues. The company has announced a fundamental transformation plan as a response to the ongoing industry and macro headwinds. It remains focussed improving cash flows. Despite these positives, Delphi's shares have declined over the past year. The decline partly reflects lower-than-expected revenue performance in the first three quarters of 2019 and reduced full year guidance. Lower volume, adverse currency exchange movements, lower sales in China and decline in passenger car diesel revenues in Europe have been also weighing on the stock's overall performance.

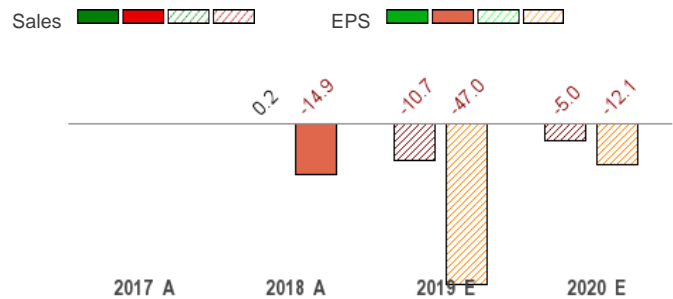
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.82 - \$9.52
20 Day Average Volume (sh)	3,009,529
Market Cap	\$1.3 B
YTD Price Change	19.6%
Beta	2.91
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Technology Services
Zacks Industry Rank	Top 31% (78 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	-9.9%
Expected Report Date	02/13/2020
Earnings ESP	0.0%
P/E TTM	5.3
P/E F1	7.5
PEG F1	0.5
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,061 E	1,059 E	1,018 E	1,027 E	4,122 E
2019	1,151 A	1,121 A	1,033 A	1,031 E	4,337 E
2018	1,296 A	1,232 A	1,159 A	1,171 A	4,858 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.43 E	\$0.53 E	\$0.55 E	\$0.54 E	\$2.04 E
2019	\$0.67 A	\$0.58 A	\$0.56 A	\$0.51 E	\$2.32 E
2018	\$1.30 A	\$1.29 A	\$0.72 A	\$1.06 A	\$4.38 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 01/31/2020. The reports text is as of 02/03/2020.

Overview

Headquartered in London, U.K., Delphi Technologies is a technology company specializing in the manufacturing, development and design of integrated powertrain technologies to increase vehicle efficiency, reduce emissions, improve driving and engine performance, and support increasing electrification of vehicles. It manages technical centers, manufacturing sites and customer support services in 24 countries.

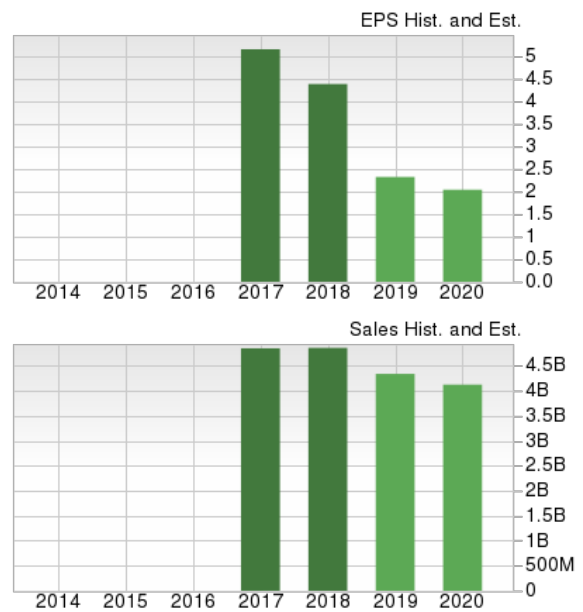
On Dec 4, 2017, Delphi Technologies became an independent, publicly-traded company. Prior to this, it operated as the Powertrain Systems segment of Delphi Automotive PLC (the "former parent"). The separation was completed in the form of a pro rata distribution to Delphi Automotive PLC shareholders of record on Nov 22, 2017 of 100% of the outstanding ordinary shares of Delphi Technologies PLC held by Delphi Automotive PLC (the "Separation"). Following the spin-off, Delphi Automotive PLC became operational as Aptiv PLC.

Delphi Technologies has an extensive portfolio of advanced technologies, which are supplied to global OEMs of both light vehicles (passenger cars, trucks and vans and sport-utility vehicles) and commercial vehicles (light-duty, medium-duty and heavy-duty trucks, commercial vans, buses and off-highway vehicles). The company also provides a variety of aftermarket products and services related to fuel injection, electronics and engine management, maintenance and test equipment and vehicle diagnostics categories to leading aftermarket companies, including independent retailers and wholesale distributors.

The company operates through two business segments - Powertrain Systems and Delphi Technologies Aftermarket.

Powertrain Systems (88% of 2018 revenues): This segment offers high quality components and complete engine management systems to help optimize performance, emissions and fuel economy.

Aftermarket (18%): Through this segment, the company sells aftermarket products and services to independent aftermarket customers and original equipment service customers. Its aftermarket product portfolio includes a wide range of solutions covering the fuel injection, electronics and engine management, maintenance, and test equipment and vehicle diagnostics categories.



Reasons To Buy:

- ▲ Delphi Technologies' **global presence** coupled with its diversified product portfolio with updated technologies position boost its client base. The company operates in 24 countries, managing technical centers, manufacturing sites and customer support services. In 2018, it generated 72% of its net revenues from sales outside the United States. Region-wise, it derived 44% of its revenues from Europe, 28% from North America, 25% from the Asia Pacific and 3% from South America in 2018.
 - ▲ **OEMs are focused on choosing standardized suppliers.** Most of the OEMs are embracing global vehicle platforms, thereby trying to increase efficiency, profitability and reduce per unit costs. OEMs are also trying to expand their global manufacturing footprint by choosing suppliers with global scale and who can easily adapt to regional variations. Delphi Technologies' regional presence coupled with its diversified and innovative product portfolio with updated technologies should help it be a strong choice of OEMs. In 2018, within Powertrain Systems, 72% of net sales came from light vehicle OEM customers and 28% from commercial vehicle OEM customers. Meanwhile, global vehicle production is also expected to rise further in the OEM market, thereby creating more opportunities for Delphi Technologies.
 - ▲ Additionally, Delphi Technologies is also optimistic about the **opportunities from its aftermarket business.** Through its aftermarket product portfolio, it offers an extensive range of solutions, which includes fuel injection, electronics and engine management, maintenance, and test equipment and vehicle diagnostics categories, to leading aftermarket companies, including independent retailers and wholesale distributors. Demand for aftermarket products and services depends on the growing number of vehicles, their life-cycles and total miles covered by them. While replacement of many of its aftermarket products is non-discretionary in nature, the company generates stable recurring revenues from the aftermarket business.
 - ▲ As a response to the ongoing industry and macro headwinds, Delphi Technologies has announced a **fundamental transformation plan** during its third-quarter 2019 earnings release. Over the next three years, the company plans to reshape and realign its engineering footprint and reduce its overall cost structure by more than \$150 million, with a rough target of \$50 million aimed for 2020. The company plans to utilize these savings to improve its overall operating margin and continue investing in key technologies to support long-term growth. Through this cost reduction plan, the company is also hopeful of improving its free cash flow and return on invested capital. Meanwhile, it is suspending its existing \$200 million share repurchase program, as a result of these plans and its focus on improving cash flow performance.
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Reasons To Sell:

- ▼ Delphi Technologies operates in the global automotive component supply industry for both OEM and aftermarket components. This industry is subject to **stiff competition, rapid technological changes, short product life cycles** and cyclical and reduced consumer demand patterns. These factors can impact customers' choices, thereby affecting order volumes. Although OEMs prefer to maintain long-term relationships with suppliers, but they also continue to look out for other new suppliers with innovative products. All these factors can drive down the company's overall growth.
- ▼ Delphi Technologies' business is **moderately seasonal** in nature. Customers from North America and Europe generally reduce production during the months of July and August and almost for a week in December. Country-wise, the shut-down periods are different in other parts of the world. Additionally, automotive production generally is lower in the months of July, August and September due to the launch of parts production for new vehicle models. The seasonality causes considerable fluctuations in revenues and profits and makes forecasting difficult.
- ▼ Delphi Technologies' **balance sheet is highly leveraged**. As of Sep 30, 2019, long-term debt was \$1.47 billion while cash and cash equivalents were \$104 million. Such a cash position implies that Delphi Technologies needs to generate adequate amount of operating cash flow to service its debt. Also, high debt may limit the company's future expansion and worsen its risk profile.
- ▼ Delphi Technologies' shares have lost 17.2% over the past year. The **decline** partly reflects lower-than-expected revenue performance in the first three quarters of 2019 and reduced guidance for the full year 2019. Moreover, unfavorable product mix, lower volume, adverse currency exchange movements, lower sales in China and decline in passenger car diesel revenues in Europe are weighing on the stock's overall performance.

Stiff competition, seasonality and high debt are concerns for Delphi Technologies.

Last Earnings Report

Delphi Technologies Meets Q3 Earnings Estimates, Cuts '19 View

Delphi Technologies' third-quarter 2019 adjusted third-quarter earnings of 56 cents per share were in line with the Zacks Consensus Estimate. However, the bottom line declined 22.2% year over year. Total revenues of \$1.03 billion missed the consensus estimate by \$13.8 million and decreased 11% year over year on a reported basis and 8% on an adjusted basis (adjustments were made for currency exchange).

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-1.32%
EPS Surprise	0.00%
Quarterly EPS	0.56
Annual EPS (TTM)	2.87

Revenues in Detail

Segment-wise, **Powertrain Systems** revenues of \$888 million decreased 13% year over year on a reported basis and 10% on an adjusted basis. In the reported quarter, lower revenues in passenger car diesel in Europe and India, OEM decisions to exit certain segments in North America, lower Power Electronics revenues and effect of the General Motors strike partially offset growth in GDI.

Delphi Technologies Aftermarket revenues of \$214 million declined 1% year over year on a reported basis but improved 2% on an adjusted basis. Higher sales to independent aftermarket customers more than offset planned lower OES revenues and market softness in Europe.

Region-wise, adjusted revenues declined 12% in Asia Pacific, 6% in Europe, 7% in North America and 7% in South America.

Operating Results

Adjusted operating income of \$71 million decreased 34.3% from the prior-year quarter. The downside came on the back of unfavorable product mix, especially between higher margin passenger car diesel fuel injection systems, and lower margin advanced gasoline direct injection fuel systems.

Adjusted operating income margin of 6.9% declined 240 basis points from the prior-year quarter, reflecting negative impacts of lower volumes, incremental foreign currency headwinds, internal operating issues and strike at General Motors.

Segment-wise, adjusted operating income of Powertrain Systems and Delphi Technologies Aftermarket came in at \$49 million (down 47% year over year) and \$22 million (up 38% year over year), respectively.

Balance Sheet and Cash Flow

Delphi Technologies exited third-quarter 2019 with cash and cash equivalents of \$104 million compared with \$162 million at the end of the prior quarter. Long-term debt came in at \$1.47 billion compared with \$1.48 billion at the end of the prior quarter.

The company generated \$59 million of cash from operating activities in the reported quarter. Capital expenditures totaled \$88 million.

The company repurchased shares worth \$15 million in the reported quarter.

2019 Guidance

Delphi Technologies has lowered its full-year 2019 guidance. It now expects revenues in the range of \$4.30-\$4.33 billion compared with the previously guided range of \$4.43-\$4.48 billion. Adjusted earnings are now expected in the range of \$2.25-\$2.35 per share compared with the previously guided range of \$2.65-\$2.85. Adjusted operating income margin is expected to lie between 7% and 7.2% compared with the prior guidance of 8%. Cash flow from operations is anticipated in the range of \$235-\$250 million compared with the prior guidance of \$280-\$310 million. Capital expenditure is projected in the range of \$350-\$360 million compared with the prior guidance of \$315-\$325 million. Adjusted effective tax rate is expected around 19% compared with the prior guidance of 18%.

Valuation

Delphi shares are down 17.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 7.1% in the past year. The Zacks Business Services sector and S&P 500 index are up 22.8% and 20%, respectively, over the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 3.76X, which compares to 17.64X for the Zacks sub-industry, 12.19X for the Zacks sector and 11.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 8.16X and as low as 3.03X, with a 5-year median of 4.35X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17.00 price target reflects 15.32X forward 12-month earnings.

The table below shows summary valuation data for DLPH.

Valuation Multiples - DLPH					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	3.76	17.64	12.19	11.95
	5-Year High	8.16	18	12.55	12.85
	5-Year Low	3.03	6.78	8.75	8.49
	5-Year Median	4.35	12.12	10.42	10.66
P/E F 12M	Current	7.4	54.85	25.4	18.5
	5-Year High	13.71	54.85	25.4	19.34
	5-Year Low	3.3	12.61	18.77	15.18
	5-Year Median	5.95	34.3	20.57	17.46
P/S F12M	Current	0.32	2.65	4.03	3.43
	5-Year High	1.07	2.65	5.13	3.43
	5-Year Low	0.21	1.55	3.09	2.54
	5-Year Median	0.37	2.03	3.63	3

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 255)



Top Peers

Adient PLC (ADNT)	Neutral
Aptiv PLC (APTV)	Neutral
BorgWarner Inc. (BWA)	Neutral
General Motors Company (GM)	Neutral
Gentex Corporation (GNTX)	Neutral
Lear Corporation (LEA)	Neutral
Meritor, Inc. (MTOR)	Neutral
Tesla, Inc. (TSLA)	Neutral

Industry Comparison Industry: Technology Services				Industry Peers		
	DLPH Neutral	X Industry	S&P 500	APTV Neutral	BWA Neutral	LEA Neutral
VGM Score	B	-	-	B	A	B
Market Cap	1.32 B	179.05 M	23.55 B	21.65 B	7.08 B	7.45 B
# of Analysts	6	3	13	12	9	8
Dividend Yield	0.00%	0.00%	1.81%	1.04%	1.98%	2.44%
Value Score	A	-	-	B	A	A
Cash/Price	0.12	0.09	0.04	0.02	0.11	0.16
EV/EBITDA	4.16	-0.21	13.97	11.86	4.64	4.01
PEG Ratio	0.54	1.72	1.97	1.43	1.10	3.43
Price/Book (P/B)	2.68	2.88	3.21	5.40	1.55	1.65
Price/Cash Flow (P/CF)	2.30	13.62	13.36	11.08	5.21	8.02
P/E (F1)	7.63	22.62	18.42	15.91	8.54	8.58
Price/Sales (P/S)	0.29	1.60	2.60	1.51	0.70	0.38
Earnings Yield	13.30%	0.31%	5.43%	6.29%	11.69%	11.65%
Debt/Equity	2.98	0.04	0.72	1.07	0.36	0.51
Cash Flow (\$/share)	6.67	-0.04	6.92	7.65	6.58	15.36
Growth Score	D	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	NA%	2.09%	10.68%	0.23%	9.55%	17.37%
Proj. EPS Growth (F1/F0)	-12.21%	23.60%	7.59%	11.04%	0.53%	2.59%
Curr. Cash Flow Growth	-10.33%	2.60%	10.81%	-6.06%	11.56%	-45.04%
Hist. Cash Flow Growth (3-5 yrs)	NA%	8.85%	8.78%	2.02%	7.21%	16.26%
Current Ratio	1.35	1.35	1.22	1.31	1.58	1.37
Debt/Capital	74.86%	13.19%	42.99%	51.74%	26.56%	34.89%
Net Margin	4.29%	-12.77%	11.69%	6.90%	7.43%	3.80%
Return on Equity	52.54%	-21.83%	17.33%	32.61%	19.43%	19.61%
Sales/Assets	1.15	0.64	0.55	1.09	1.00	1.56
Proj. Sales Growth (F1/F0)	-4.94%	15.31%	4.12%	5.37%	0.28%	0.14%
Momentum Score	F	-	-	F	D	F
Daily Price Chg	-1.35%	-0.76%	-1.98%	-3.30%	-2.20%	-2.30%
1 Week Price Chg	-12.56%	-0.93%	-1.09%	0.01%	-5.51%	-4.91%
4 Week Price Chg	16.74%	0.00%	-2.11%	-11.96%	-21.98%	-12.07%
12 Week Price Chg	19.10%	0.00%	2.15%	-12.13%	-25.41%	-4.84%
52 Week Price Chg	-14.35%	-25.02%	14.15%	7.15%	-16.16%	-19.98%
20 Day Average Volume	3,009,529	75,510	1,808,632	1,574,938	2,302,419	542,898
(F1) EPS Est 1 week change	-1.75%	0.00%	0.00%	-7.59%	-1.41%	-2.44%
(F1) EPS Est 4 week change	-9.88%	0.00%	0.00%	-8.72%	-2.58%	-4.10%
(F1) EPS Est 12 week change	-21.76%	-0.61%	-0.09%	-10.20%	-1.48%	-4.68%
(Q1) EPS Est Mthly Chg	-23.98%	0.00%	0.00%	-27.90%	-5.23%	-12.43%

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	D
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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