

Delphi Technologies (DLPH)

\$12.95 (As of 03/05/20)

Price Target (6-12 Months): **\$14.00**

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:A

Value: A

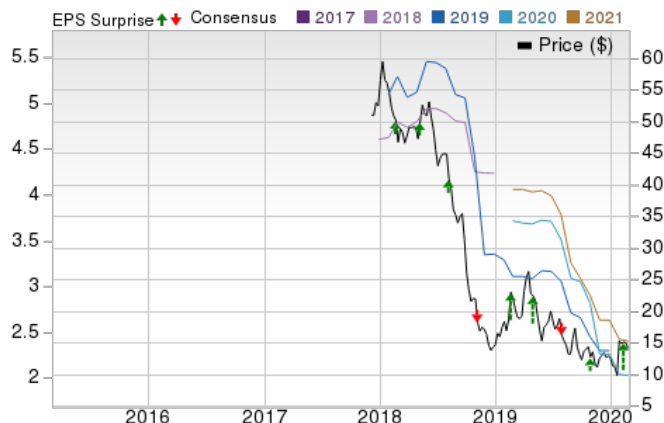
Growth: C

Momentum: D

Summary

Delphi and BorgWarner announced that they have inked a deal wherein Delphi will be acquired in an all-stock transaction by BorgWarner at an enterprise value of almost \$3.3 billion. The deal, expected to be completed in the second half of the year, was unanimously approved by Delphi's board of directors. 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. The company's aftermarket business generates stable recurring revenues. However, Delphi's shares have underperformed its industry over the past year, partly due to lower-than-expected revenue performance in the first three quarters of 2019. Stiff competition, seasonality and high debt are other concerns for the company.

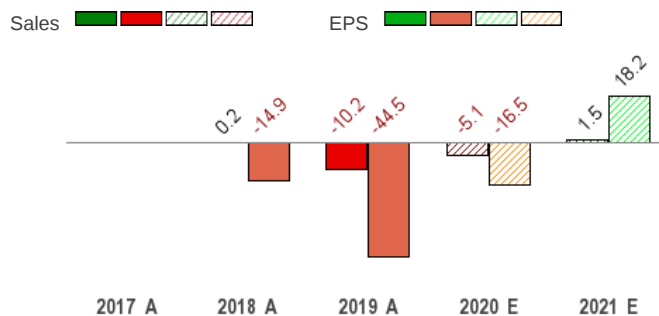
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$26.82 - \$9.52
20 Day Average Volume (sh)	2,619,341
Market Cap	\$1.1 B
YTD Price Change	0.9%
Beta	2.46
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Technology Services
Zacks Industry Rank	Top 28% (72 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.6%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	05/07/2020
Earnings ESP	2.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,202 E
2020	1,052 E	1,052 E	1,026 E	1,062 E	4,140 E
2019	1,151 A	1,121 A	1,033 A	1,056 A	4,361 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.52 E	\$0.57 E	\$0.61 E	\$0.65 E	\$2.40 E
2020	\$0.46 E	\$0.51 E	\$0.53 E	\$0.55 E	\$2.03 E
2019	\$0.67 A	\$0.58 A	\$0.56 A	\$0.62 A	\$2.43 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 03/05/2020. The reports text is as of 03/06/2020.

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.

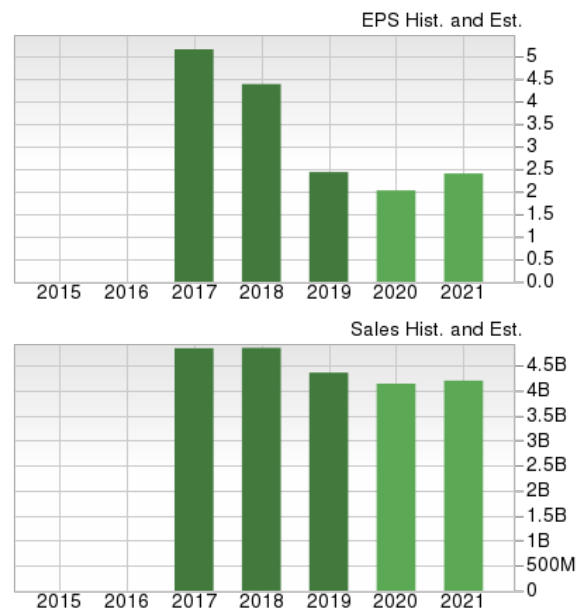
On Dec 4, 2017, Delphi Technologies became an independent, publicly-traded company. Prior to this, it operated as the Powertrain Systems segment of Delphi Automotive PLC (the "former parent"). The separation was completed in the form of a pro rata distribution to Delphi Automotive PLC shareholders of 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. The company has started implementing the cost transformation plan during the fourth quarter of 2019. Through this cost reduction plan, the company is also hopeful of improving its free cash flow and return on invested capital.
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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 Dec 31, 2019, long-term debt was \$1.46 billion while cash and cash equivalents were \$191 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 declined 40.6% over the past year against 11.5% loss of the industry it belongs to. The **decline** partly reflects lower-than-expected revenue performance in the first three quarters of 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 Q4 Earnings & Revenues Surpass Estimates

Delphi Technologies reported solid fourth-quarter 2019 results wherein both earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings per share of 62 cents outpaced the consensus mark by 21.6% but decreased 42% year over year.

Total revenues of \$1.03 billion surpassed the consensus estimate by 2.5% but decreased 10% year over year on a reported basis and 8% on an adjusted basis (adjustments were made for currency exchange). The downside was mainly due to lower global production, especially in North America and Europe, the downward trend in passenger car diesel fuel injection systems in Europe, and the closure of certain customer production sites in North America. These were, however, partially offset by an increase in sales of passenger car gasoline fuel injection systems in China.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	2.42%
EPS Surprise	21.57%
Quarterly EPS	0.62
Annual EPS (TTM)	2.43

Revenues in Detail

Segment-wise, **Fuel Injection Systems** revenues of \$430 million declined 4% year over year. **Powertrain Systems** revenues of \$288 million decreased 11% year over year. **Electrification & Electronics** revenues of \$199 million declined 21% year over year. **Delphi Technologies Aftermarket** revenues of \$220 million declined 2% year over year.

Region-wise, adjusted revenues declined 13% in Europe, 18% in North America and 17% in South America, partially offset by 14% growth in Asia Pacific.

Operating Results

Adjusted operating income of \$75 million decreased 40% from the prior-year quarter. The downside was due to unfavorable product mix, especially between higher margin passenger car diesel fuel injection systems and lower margin advanced gasoline direct injection fuel systems, and lower volumes, which were, partially offset by the benefits of announced restructuring initiatives. Adjusted operating income margin of 7.1% declined from 10.7% in the prior-year quarter.

Balance Sheet and Cash Flow

Delphi Technologies exited fourth-quarter 2019 with cash and cash equivalents of \$191 million compared with \$104 million at the end of the prior quarter. Long-term debt came in at \$1.46 billion compared with \$1.47 billion at the end of the prior quarter.

The company generated \$142 million of cash from operating activities in the reported quarter. Capital expenditures totaled \$49 million. The company repurchased shares worth \$45 million in 2019.

Recent News

On **Jan 28, 2020**, Delphi Technologies and BorgWarner announced that they have inked a deal wherein Delphi Technologies will be acquired in an all-stock transaction by BorgWarner at an enterprise value of almost \$3.3 billion.

Valuation

Delphi shares are down 40.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 11.5% in the past year. The Zacks Business Services sector and S&P 500 index are up 9.6% and 7.8%, respectively, over the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 4.71X, which compares to 17.25X for the Zacks sub-industry, 11.22X for the Zacks sector and 10.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 6.04X and as low as 3.17X, with a 5-year median of 4.75X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$14.00 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	4.71	17.25	11.22	10.93
	5-Year High	6.04	17.96	12.54	12.88
	5-Year Low	3.17	9.12	8.74	8.49
	5-Year Median	4.75	12.16	10.4	10.79
P/E F 12M	Current	6.19	56.75	23.54	17.3
	5-Year High	13.71	56.75	25.25	19.34
	5-Year Low	3.30	12.61	18.76	15.18
	5-Year Median	6.06	37	20.56	17.44
P/S F12M	Current	0.27	2.19	3.72	3.19
	5-Year High	1.07	2.55	4	3.43
	5-Year Low	0.21	1.53	3.08	2.54
	5-Year Median	0.36	2.01	3.63	3.01

As of 03/05/2020

Industry Analysis Zacks Industry Rank: Top 28% (72 out of 255)



Top Peers

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

Industry Comparison Industry: Technology Services				Industry Peers		
	DLPH Neutral	X Industry	S&P 500	APTIV Underperform	BWA Neutral	LEA Neutral
VGM Score	A	-	-	C	C	B
Market Cap	1.11 B	152.48 M	21.47 B	20.04 B	6.17 B	6.46 B
# of Analysts	6	2	13	12	9	8
Dividend Yield	0.00%	0.00%	2.04%	1.12%	2.27%	2.88%
Value Score	A	-	-	C	A	A
Cash/Price	0.16	0.10	0.05	0.02	0.13	0.22
EV/EBITDA	6.52	-0.31	12.81	11.88	3.99	4.63
PEG Ratio	0.45	1.67	1.88	1.49	1.07	NA
Price/Book (P/B)	2.45	2.55	2.95	5.00	1.27	1.43
Price/Cash Flow (P/CF)	2.64	13.85	11.75	10.23	4.78	4.64
P/E (F1)	6.28	22.24	17.19	16.34	7.49	7.57
Price/Sales (P/S)	0.26	1.62	2.32	1.40	0.61	0.33
Earnings Yield	15.68%	0.45%	5.81%	6.11%	13.34%	13.20%
Debt/Equity	3.20	0.05	0.70	1.07	0.35	0.51
Cash Flow (\$/share)	4.91	-0.05	7.01	7.67	6.26	23.00
Growth Score	C	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	NA%	2.09%	10.85%	-1.17%	9.76%	13.63%
Proj. EPS Growth (F1/F0)	-16.67%	17.66%	6.27%	0.10%	-3.28%	0.78%
Curr. Cash Flow Growth	-28.18%	3.36%	6.07%	-5.77%	-5.66%	-17.99%
Hist. Cash Flow Growth (3-5 yrs)	NA%	10.10%	8.52%	-1.25%	3.79%	7.32%
Current Ratio	1.35	1.28	1.23	1.31	1.65	1.37
Debt/Capital	76.18%	12.43%	42.57%	51.74%	25.68%	34.89%
Net Margin	0.39%	-13.12%	11.69%	6.90%	7.34%	3.80%
Return on Equity	43.64%	-11.80%	16.66%	32.61%	18.68%	19.61%
Sales/Assets	1.14	0.66	0.54	1.09	1.01	1.56
Proj. Sales Growth (F1/F0)	-5.06%	11.97%	3.90%	2.41%	-1.60%	0.63%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	-6.90%	-1.14%	-3.79%	-5.54%	-5.20%	-5.40%
1 Week Price Chg	-5.87%	-9.74%	-12.06%	-13.28%	-7.00%	-6.80%
4 Week Price Chg	-13.67%	-7.50%	-10.92%	-11.04%	-11.43%	-12.45%
12 Week Price Chg	-6.77%	-3.03%	-8.10%	-18.07%	-32.81%	-17.93%
52 Week Price Chg	-38.60%	-37.12%	4.09%	-4.43%	-22.58%	-26.86%
20 Day Average Volume	2,619,341	84,241	2,483,920	1,667,366	4,027,855	675,243
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.24%	-0.69%	-1.44%
(F1) EPS Est 4 week change	-0.65%	0.00%	-0.06%	-3.21%	-0.47%	-1.66%
(F1) EPS Est 12 week change	-6.41%	0.00%	-0.42%	-12.24%	-3.52%	-6.93%
(Q1) EPS Est Mthly Chg	6.73%	0.00%	-0.29%	-15.78%	-7.01%	-2.21%

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	C
Momentum Score	D
VGM Score	A

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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