

Delphi Technologies (DLPH)

\$13.10 (As of 06/11/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/14/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: F

Summary

Regional presence coupled with its diversified product portfolio with updated technologies makes Delphi a solid choice for original equipment manufacturers. On the flip side, operation in the global automotive component supply industry is a concern as the industry is subject to stiff competition, rapid technological changes and short product life cycles. High debt may limit the company's future expansion and worsen its risk profile. Seasonality is another concern. Delphi's shares have declined significantly over the past year, partly due to lower-than-expected revenue performance in the first three quarters of 2019. The company 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 approved by Delphi's board.

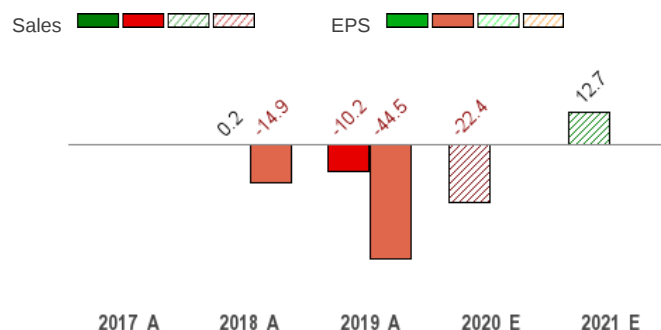
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$20.84 - \$5.39
20 Day Average Volume (sh)	3,011,746
Market Cap	\$1.1 B
YTD Price Change	2.1%
Beta	2.65
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Technology Services
Zacks Industry Rank	Top 26% (65 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	283.3%
Last Sales Surprise	9.5%
EPS F1 Est- 4 week change	-107.8%
Expected Report Date	08/06/2020
Earnings ESP	-0.2%
P/E TTM	6.6
P/E F1	NA
PEG F1	NA
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,042 E	982 E	985 E	1,044 E	3,815 E
2020	945 A	496 E	859 E	1,000 E	3,385 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	\$0.51 E	\$0.49 E	\$0.44 E	\$0.64 E	\$1.33 E
2020	\$0.22 A	-\$0.96 E	\$0.12 E	\$0.50 E	-\$0.01 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 06/11/2020. The reports text is as of 06/12/2020.

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.

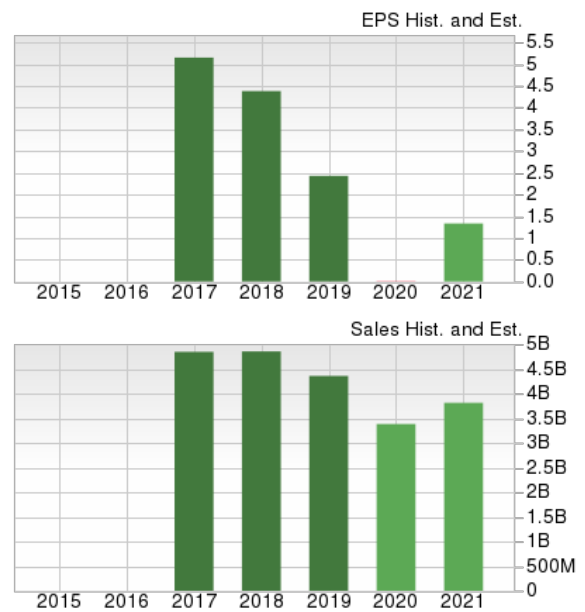
On Dec 4, 2017, Delphi Technologies became an independent, publicly-traded company. Prior to this, it operated as the Powertrain Systems segment of Delphi Automotive PLC (the "former parent"). The separation was completed in the form of a pro rata distribution to Delphi Automotive PLC shareholders of 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 has a **debt-laden balance sheet**. Total debt at the end of first-quarter 2020 was \$1.98 billion, compared with \$1.49 billion at the end of the prior quarter. The total debt to total capital ratio of 0.84 is higher than the industry's 0.46 and the previous quarter's 0.77. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$611 million at the end of the first quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$49 million.
 - ▼ Delphi Technologies' shares have declined 27.6% over the past year against 4.9% 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.
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Stiff competition, seasonality and high debt are concerns for Delphi Technologies.

Last Earnings Report

Delphi Technologies Beats Q1 Earnings Estimate

Delphi Technologies reported solid first-quarter 2020 results wherein both earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings per share of 22 cents outpaced the consensus mark by more than 100% but decreased 67% year over year.

Total revenues of \$945 million surpassed the consensus estimate by 9.5% but decreased 18% year over year on a reported basis and 16% on an adjusted basis (adjustments were made for currency exchange). The downside was mainly due to lower global production and the closure of customer production sites related to coronavirus outbreak and the downward trend in passenger car diesel fuel injection systems in Europe, partially offset by solid growth in advanced gasoline direct injection fuel systems.

Revenues in Detail

Segment-wise, Fuel Injection Systems revenues of \$393 million declined 13% year over year. Powertrain Systems revenues of \$261 million decreased 20% year over year. Electrification & Electronics revenues of \$178 million declined 27% year over year. Delphi Technologies Aftermarket revenues of \$174 million declined 10% year over year.

Region-wise, adjusted revenues declined 20% in Europe, 23% in North America and 15% in South America, partially offset by 6% growth in Asia Pacific, including an increase of 12% in China.

Operating Results

Adjusted operating income of \$40 million decreased 54% from the prior-year quarter. Adjusted operating income margin of 4.2% declined 340 basis points from the prior-year quarter.

Balance Sheet and Cash Flow

Delphi Technologies exited first-quarter 2020 with cash and cash equivalents of \$611 million compared with \$191 million at the end of the prior quarter. Long-term debt was \$1.94 billion compared with \$1.46 billion at the end of the prior quarter.

The company generated \$31 million of cash from operating activities in the reported quarter. Capital expenditure totaled \$85 million.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	9.46%
EPS Surprise	283.33%
Quarterly EPS	0.22
Annual EPS (TTM)	1.98

Valuation

Delphi shares are up 2.1% in the year-to-date period but down 27.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 8.1% while those in the Zacks Business Services sector are down 0.8% in the year-to-date period. Over the past year, the Zacks sub-industry is down 4.9% but the sector is up 1.8%.

The S&P 500 index is down 1% in the year-to-date period and up 10.3% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 5.06X, which compares to 27.77X for the Zacks sub-industry, 12.5X for the Zacks sector and 11.82X 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 4.74X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$14.00 price target reflects 23.7X 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	5.06	27.77	12.5	11.82
	5-Year High	6.04	28.18	13.34	12.85
	5-Year Low	3.17	7.32	8.53	8.25
	5-Year Median	4.74	12.32	10.51	10.81
P/E F 12M	Current	22.13	84.92	30.26	23.03
	5-Year High	41.26	84.92	30.26	23.03
	5-Year Low	3.13	13.61	18.68	15.23
	5-Year Median	6.15	28.65	20.77	17.49
P/S F 12M	Current	0.32	2.29	4.14	3.58
	5-Year High	1.07	2.29	4.14	3.58
	5-Year Low	0.13	1.39	3.05	2.53
	5-Year Median	0.34	1.86	3.57	3.02

As of 06/11/2020

Industry Analysis Zacks Industry Rank: Top 26% (65 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Tesla, Inc. (TSLA)	Outperform	1
Adient PLC (ADNT)	Neutral	2
Aptiv PLC (APTIV)	Neutral	3
General Motors Company (GM)	Neutral	3
Gentex Corporation (GNTX)	Neutral	3
Lear Corporation (LEA)	Neutral	3
Meritor, Inc. (MTOR)	Neutral	3
BorgWarner Inc. (BWA)	Underperform	3

Industry Comparison Industry: Technology Services				Industry Peers		
	DLPH	X Industry	S&P 500	APTIV	BWA	LEA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	A	C
Market Cap	1.13 B	177.74 M	21.32 B	18.59 B	6.77 B	6.43 B
# of Analysts	6	2.5	14	11	9	7
Dividend Yield	0.00%	0.00%	1.99%	0.00%	2.08%	2.87%
Value Score	B	-	-	D	A	B
Cash/Price	0.47	0.11	0.06	0.10	0.12	0.33
EV/EBITDA	6.73	-0.93	12.31	11.32	4.28	4.01
PEG Ratio	NA	3.67	2.88	7.21	1.98	6.08
Price/Book (P/B)	3.08	2.79	2.92	3.61	1.39	1.53
Price/Cash Flow (P/CF)	2.67	11.16	11.24	9.51	5.22	4.67
P/E (F1)	NA	36.33	20.84	78.90	18.09	41.77
Price/Sales (P/S)	0.27	1.79	2.24	1.33	0.69	0.34
Earnings Yield	-0.08%	0.18%	4.64%	1.26%	5.54%	2.39%
Debt/Equity	5.29	0.05	0.76	1.22	0.34	0.55
Cash Flow (\$/share)	4.91	-0.07	7.01	7.67	6.26	23.00
Growth Score	D	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	NA%	10.23%	10.87%	-2.94%	9.34%	9.09%
Proj. EPS Growth (F1/F0)	-100.27%	-5.27%	-10.81%	-80.74%	-56.28%	-81.63%
Curr. Cash Flow Growth	-28.18%	7.44%	5.46%	-5.77%	-5.66%	-17.99%
Hist. Cash Flow Growth (3-5 yrs)	NA%	3.53%	8.55%	-1.25%	3.79%	7.32%
Current Ratio	1.67	1.30	1.29	1.69	1.76	1.29
Debt/Capital	84.09%	22.47%	44.75%	54.90%	25.49%	36.65%
Net Margin	-1.35%	-12.10%	10.54%	16.58%	7.24%	3.15%
Return on Equity	37.95%	-18.39%	16.08%	27.25%	17.15%	16.90%
Sales/Assets	1.07	0.67	0.55	1.01	1.00	1.49
Proj. Sales Growth (F1/F0)	-22.38%	0.00%	-2.60%	-16.52%	-22.43%	-20.33%
Momentum Score	F	-	-	B	F	F
Daily Price Chg	-9.59%	-5.56%	-6.44%	-11.50%	-8.18%	-8.96%
1 Week Price Chg	18.09%	6.11%	7.51%	13.93%	15.99%	16.71%
4 Week Price Chg	17.38%	12.82%	8.40%	15.52%	17.44%	13.04%
12 Week Price Chg	66.24%	29.75%	25.04%	79.77%	55.45%	41.14%
52 Week Price Chg	-27.66%	-26.20%	-6.33%	-4.13%	-20.56%	-21.02%
20 Day Average Volume	3,011,746	181,240	2,634,935	3,584,353	3,461,271	614,037
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.97%	0.00%	0.00%
(F1) EPS Est 4 week change	-107.84%	0.00%	0.00%	-25.77%	-9.27%	-26.96%
(F1) EPS Est 12 week change	-100.33%	-17.03%	-15.86%	-80.80%	-54.67%	-81.79%
(Q1) EPS Est Mthly Chg	-24.74%	0.00%	0.00%	-25.02%	-17.48%	-23.60%

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	B
Growth Score	D
Momentum Score	F
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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