

EnerSys(ENS)

\$65.27 (As of 06/17/20)

Price Target (6-12 Months): **\$69.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: B

Summary

Strong demand for its TPPL products along with solid backlog in the transportation business will continue to benefit EnerSys in the quarters ahead. The company intends to strengthen its competence on the back of acquisitions. Buyouts had a positive impact of 3% on the company's net sales in the fourth quarter of fiscal 2020. It remains committed to rewarding shareholders handsomely through dividends and share buybacks. In the past three months, EnerSys has outperformed the industry. However, it expects its top-line performance to be hurt by end-market challenges in the first half of fiscal 2021 owing to the coronavirus outbreak. In the wake of the pandemic, the company has not provided any guidance for fiscal 2021. Rise in debt levels can increase its financial obligations. Notably, it seems to be more leveraged than the industry.

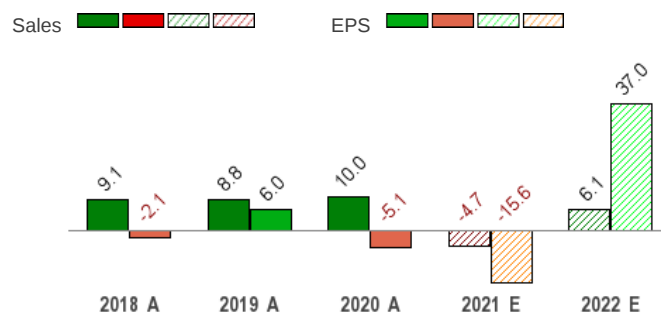
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.97 - \$35.21
20 Day Average Volume (sh)	268,595
Market Cap	\$2.8 B
YTD Price Change	-12.8%
Beta	1.58
Dividend / Div Yld	\$0.70 / 1.1%
Industry	Manufacturing - Electronics
Zacks Industry Rank	Top 21% (52 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.0%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	2.7%
Expected Report Date	08/05/2020
Earnings ESP	0.0%
P/E TTM	14.0
P/E F1	16.5
PEG F1	1.7
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					3,121 E
2021	697 E	723 E	744 E	779 E	2,942 E
2020	780 A	762 A	764 A	782 A	3,088 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$5.41 E
2021	\$0.68 E	\$0.88 E	\$1.12 E	\$1.29 E	\$3.95 E
2020	\$1.30 A	\$1.23 A	\$1.04 A	\$1.11 A	\$4.68 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 06/17/2020. The reports text is as of 06/18/2020.

Overview

Headquartered in Pennsylvania, EnerSys engages in manufacturing, marketing and distribution of various industrial batteries. Additionally, the company develops battery chargers and accessories, power equipment and outdoor cabinet enclosures. This apart, it provides support services for clients.

EnerSys' products are marketed to over 10,000 customers worldwide across more than 100 countries via a robust network of distributors, independent representatives and its own sales force. Geographically, the company operates across three regions segments, namely, Americas (including North and South America), Europe, the Middle East and Africa ("EMEA"), and Asia (Asia, Australia and Oceania).

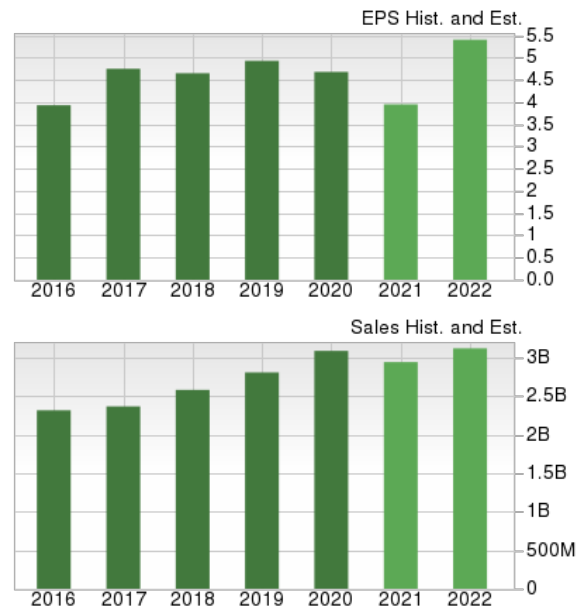
EnerSys has two product lines:

Reserve power products (54.8% of total revenues in fourth-quarter of fiscal 2020): These products are used to provide backup power for operation of critical applications deployed in telecommunications systems, "UPS" applications for computer and computer-controlled systems, large-scale energy storage, energy pipelines and commercial aircrafts, to name a few. Also, this product line includes thermally managed cabinets, and "enclosures" for various electronic equipment and batteries.

These products are sold to both global and regional customers.

Moreover, the company's aerospace and defense products are sold to governments of developed countries like the United States, Germany and the UK, and also to premium defense and aviation original equipment manufacturers ("OEMs") worldwide.

Motive power products (45.2%): These products are used for powering "electric industrial forklifts" that are extensively deployed in industrial applications like manufacturing, warehousing and other material handling activities. These products are also used in mining equipment and rail equipment. Other customers include OEMs and end-users like distributors, retailers, airports and mine operators.



Reasons To Buy:

- ▲ Strong backlog in the transportation business and growing popularity of the ODYSSEY brand as well as solid demand for NexSys TPPL products and cloud computing services are likely to support EnerSys' top-line performance in the quarters ahead. We believe that solid product portfolio (existing) and any new product offering might be beneficial for the company. Also, in response to the coronavirus crisis, it has been adjusting its cost structure to adapt to the current situation. In the quarters ahead, this will likely help the company to maintain a healthy margin performance amid the crisis.
- ▲ Over time, EnerSys has strengthened its competency through acquisitions. In December 2018, it completed the acquisition of Alpha Technologies Group of Companies, provider of state-of-the-art energy solutions for telecom, broadband, industrial, renewable and traffic customers across the globe. The buyout aided EnerSys' product portfolio across the telecom, broadband, industrial and renewable markets. Moreover, in October 2019, the company completed the acquisition of NorthStar, which helped in enhancing its production capacities for TPPL products. Notably, the buyouts had a positive impact of 20% and 3% on the company's net sales in the third and fourth quarters of fiscal 2020, respectively.
- ▲ EnerSys is actively engaged in rewarding shareholders through dividend payments and share buybacks. In fiscal 2020, it used \$29.7 million for paying dividends and \$34.6 million for purchasing treasury stocks. Such diligent capital-deployment strategies boost shareholders' wealth. In addition, EnerSys' shares have gained 55.7% compared with the industry's increase of 30.2% in the past three months.

Solid product portfolio, any new product offerings, acquired assets and shareholder-friendly policies are key strengths of EnerSys.

Reasons To Sell:

- ▼ EnerSys' net sales in fourth-quarter fiscal 2020 were 1.9% lower than the year-ago figure and declined 3% on an organic basis. Notably, the year-over-year fall was primarily attributable to the adverse impacts of the coronavirus outbreak on its operational performance, particularly in China, and supply-chain disruptions caused by the pandemic. The company communicated that the outbreak is posing challenges in many of its end-markets, including motive power, transportation and telecommunications systems. It expects its top-line performance to be hurt by end-market challenges in the first half of fiscal 2021, which is likely to hurt its gross profit as well. Notably, on uncertainties, regarding the impacts of the outbreak on financial and operating results, the company has not provided any guidance for fiscal 2021.
- ▼ EnerSys is currently dealing with rising costs and expenses. For instance, in the last five fiscal years (2016-2020), the company's cost of goods sold increased 4.3% (CAGR). Also, over the same time frame, its operating expenses grew 8.1% (CAGR). At the end of the fiscal fourth quarter, its cost of goods sold and operating expenses totaled \$582.9 million and \$133.8 million, respectively. We believe, if unchecked, higher costs and operating expenses will continue to impact its margins and profitability. Also, the company has been making multiple investments to boost growth over time. Although its investments hold good for long-term growth, high capital expenditure incurred will negatively impact its short-term liquidity. Notably, it has been making significant investments for expanding the TPPL manufacturing capability for its NorthStar facilities. High capital expenditure might put pressure on the company's profitability in the near term.
- ▼ A highly leveraged balance sheet can inflate EnerSys' financial obligations and subsequently hurt profitability. Notably, in the last five fiscal years (2016-2020), the company's long-term debt (net of unamortized debt issuance costs) rose 17.5% (CAGR). Also, its long-term debt (net of unamortized debt issuance costs) of \$1,104.7 million at the end of the fourth quarter of fiscal 2020 represented an increase of 13.7% from fiscal 2019 end. Moreover, the company presently seems to be more leveraged than the industry. The stock's long-term debt-to-capital is 45.9%, higher than the industry's 31.2%. In addition, the company's ability to meet its debt obligations based on its current income has declined over the past quarter. Notably, its times interest earned ratio at the end of the fiscal fourth quarter is 4.4, lower than 6.9 recorded at the end of the previous quarter. In addition, the company which operates across diverse geographies, is exposed to uncertainty in the global macroeconomic environment, especially related to politics, labor market and economic instability. Also, unfavorable movements in foreign currencies have been hurting its performance. For instance, forex woes had an adverse impact of 1% and 2% on net sales in the third and fourth quarters of fiscal 2020, respectively.

EnerSys is exposed to the adverse impacts of the coronavirus outbreak and has not provided any guidance for fiscal 2021. High costs and debts as well as international exposure can create difficulties.

Last Earnings Report

EnerSys Earnings Miss Estimates in Q4, Decline Y/Y

EnerSys reported mixed fourth-quarter fiscal 2020 (ended Mar 31, 2020) results, wherein its earnings missed estimates but net sales surpassed the same.

The company's adjusted earnings were \$1.11 per share, lagging the Zacks Consensus Estimate of \$1.22. Also, the bottom line declined 22.4% from the year-ago figure of \$1.43.

For fiscal 2020, EnerSys reported adjusted earnings of \$4.68, down 5.1% from the year-ago figure of \$4.93.

Quarter Ending 03/2020

Report Date	Jun 01, 2020
Sales Surprise	0.05%
EPS Surprise	-9.02%
Quarterly EPS	1.11
Annual EPS (TTM)	4.68

Top-Line Details

In the quarter, EnerSys' net sales were \$781.8 million, down 1.9% from the year-ago quarter. The decline was primarily attributable to a 3% decrease in organic volumes and forex woes of 2%, partially offset by a 3% positive impact of the NorthStar acquisition. Notably, the top line beat the Zacks Consensus Estimate of \$778 million.

Sales generated from the reserve power product line totaled \$428.8 million, decreasing 4.6% year over year, while that from motive power increased 1.6% to \$353 million. The company noted that measures to contain the coronavirus outbreak adversely impacted its performances, especially in China, and also disrupted its supply chain.

For fiscal 2020, the company generated net sales of \$3,087.8 million, up 10% from the \$2,808 million reported in fiscal 2019.

The company reports net sales under three segments as discussed below:

Net sales from the **Americas** (representing 68.7% of the quarter's net sales) were \$537.2 million, increasing 5.8% year over year. The rise was driven by 4% growth in organic volume and a positive impact of 3% from buyouts, partially offset by a 1% adverse impact of forex woes.

Net sales from **Europe, Middle East and Africa** (25.5%) totaled \$199 million, declining 12.8% year over year. The decline was attributable to a 14% fall in organic volumes, 3% adverse impact of forex woes, partially offset by a positive impact of 4% from buyouts.

Net sales from **Asia** (5.8%) were \$45.6 million, down 24.6% year over year. The decline was on account of a 20% decline in organic volume, 4% adverse impact of forex woes and a 1% decrease in pricing.

Margins Details

In the quarter, EnerSys' cost of goods sold was \$582.9 million, down 0.9% year over year. It represented 74.6% of net sales. Gross profit decreased 0.7% to \$200.8 million, while margin increased 30 basis points to 25.7%.

Operating expenses were \$133.8 million, representing 17.1% of net sales. Total operating earnings decreased 42.5% to \$20.1 million.

Balance Sheet and Cash Flow

Exiting fiscal 2020, EnerSys had cash and cash equivalents of \$327 million compared with \$299.2 million at the end of the previous fiscal year. As of Mar 31, 2020, the company's long-term debt (net of unamortized debt issuance costs) was \$1,104.7 compared with \$971.8 million at the end of fiscal 2019.

During fiscal 2020, it generated net cash of \$253.4 million from operating activities. Capital expenditure totaled \$101.4 million compared with \$70.4 million incurred in the previous fiscal year.

Outlook

The company anticipates witnessing uncertainties related to the coronavirus pandemic in the near term. However, it expects to see opportunities from communications and defense customers.

Recent News

Dividend

On **May 21, 2020**, EnerSys' board of directors approved the payout of a quarterly cash dividend of 17.5 cents per share to shareholders of record as of Jun 12, 2020. Notably, the dividend will be paid out on Jun 26, 2020.

Valuation

EnerSys' shares declined 12.8% in the year-to-date period, while it increased 2.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 11.7% and 11.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry increased 3.9%, while the sector decreased 5.8%.

The S&P 500 Index has moved down 3% year to date and increased 6.7% in the past year.

The stock is currently trading at 15.3x forward 12-month earnings per share, which compares to 23.18x for the Zacks sub-industry, 22.05x for the Zacks sector and 22.5x for the S&P 500 index.

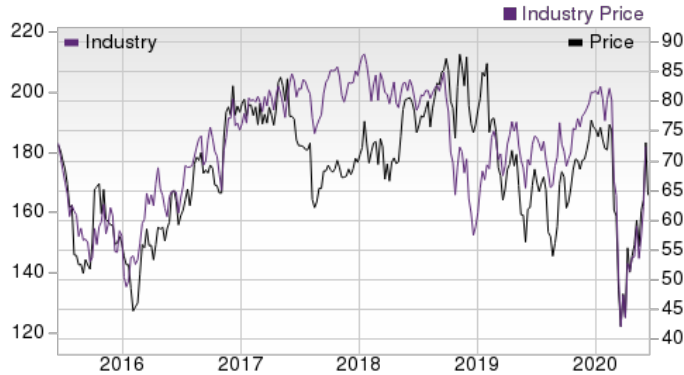
Over the past five years, the stock has traded as high as 17.4x and as low as 6.61x, with a 5-year median of 13.83x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$69 price target reflects 16.17x forward 12-month earnings per share.

The table below shows summary valuation data for ENS.

Valuation Multiples - ENS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.3	23.18	22.05	22.5
	5-Year High	17.4	23.18	22.05	22.5
	5-Year Low	6.61	13.14	12.55	15.23
	5-Year Median	13.83	17.26	16.67	17.49
EV/EBITDA F12M	Current	6.23	17.05	16.44	12.28
	5-Year High	10.51	25.26	18.09	12.62
	5-Year Low	5.89	9.98	10.59	9.03
	5-Year Median	8.56	13.82	14.13	10.79
EV/Sales F12M	Current	1.19	2.95	3.15	3.21
	5-Year High	1.56	3.18	3.4	3.51
	5-Year Low	0.8	1.52	1.76	2.28
	5-Year Median	1.21	2.14	2.32	2.83

As of 06/17/2020

Industry Analysis Zacks Industry Rank: Top 21% (52 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
ABB Ltd (ABB)	Neutral	3
AeroVironment, Inc. (AVAV)	Neutral	3
AZZ Inc. (AZZ)	Neutral	3
CenturyLink, Inc. (CTL)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Luna Innovations Incorporated (LUNA)	Neutral	3
Rexnord Corporation (RXN)	Neutral	3
TMobile US, Inc. (TMUS)	Neutral	2

Industry Comparison Industry: Manufacturing - Electronics				Industry Peers		
	ENS	X Industry	S&P 500	AVAV	AZZ	TMUS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	A	-	-	D	A	C
Market Cap	2.77 B	2.14 B	21.90 B	1.67 B	852.00 M	126.83 B
# of Analysts	2	4	14	3	1	4
Dividend Yield	1.07%	0.39%	1.92%	0.00%	2.09%	0.00%
Value Score	A	-	-	C	A	B
Cash/Price	0.12	0.11	0.06	0.17	0.04	0.01
EV/EBITDA	11.17	10.69	12.65	23.96	6.61	13.16
PEG Ratio	1.67	3.24	2.98	1.43	NA	3.96
Price/Book (P/B)	2.12	2.43	3.05	3.39	1.35	3.05
Price/Cash Flow (P/CF)	8.43	12.76	11.68	38.35	7.01	8.72
P/E (F1)	16.68	24.47	21.53	35.72	11.51	75.05
Price/Sales (P/S)	0.90	1.71	2.31	5.21	0.80	2.82
Earnings Yield	6.05%	3.92%	4.36%	2.79%	8.69%	1.33%
Debt/Equity	0.85	0.19	0.77	0.02	0.06	1.27
Cash Flow (\$/share)	7.74	2.20	7.01	1.81	4.65	11.77
Growth Score	A	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	4.78%	6.15%	10.87%	78.84%	-9.52%	57.71%
Proj. EPS Growth (F1/F0)	-15.60%	-22.26%	-10.58%	9.79%	4.43%	-65.98%
Curr. Cash Flow Growth	18.95%	2.39%	5.46%	37.03%	19.59%	7.57%
Hist. Cash Flow Growth (3-5 yrs)	2.95%	2.76%	8.55%	14.56%	1.64%	16.70%
Current Ratio	2.60	2.12	1.29	7.56	1.26	0.64
Debt/Capital	45.87%	16.14%	45.14%	1.52%	5.67%	56.02%
Net Margin	4.44%	5.53%	10.53%	9.15%	4.54%	7.80%
Return on Equity	15.17%	9.49%	16.06%	6.62%	11.21%	13.96%
Sales/Assets	0.94	0.70	0.55	0.60	0.94	0.52
Proj. Sales Growth (F1/F0)	-4.72%	-3.02%	-2.64%	13.85%	-3.02%	53.78%
Momentum Score	B	-	-	B	A	F
Daily Price Chg	-2.90%	-1.36%	-0.67%	-2.55%	-4.01%	-0.25%
1 Week Price Chg	-12.14%	-7.06%	-7.25%	-8.95%	-13.91%	1.17%
4 Week Price Chg	6.42%	9.30%	5.95%	7.26%	7.14%	4.58%
12 Week Price Chg	33.97%	26.31%	23.90%	33.32%	23.14%	29.63%
52 Week Price Chg	2.00%	2.54%	-4.54%	12.15%	-25.62%	31.11%
20 Day Average Volume	268,595	195,201	2,597,851	211,153	195,201	4,790,671
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.73%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-32.01%	-26.50%	-14.52%	0.00%	0.00%	-67.26%
(Q1) EPS Est Mthly Chg	51.11%	0.00%	0.00%	5.95%	0.00%	52.10%

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	A
Momentum Score	B
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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