

EnerSys(ENS)

\$74.24 (As of 02/19/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

EnerSys' third-quarter fiscal 2020 earnings missed the Zacks Consensus Estimate by 8%. Solid demand for its TPPL products along with strength in the transportation business will continue to drive its revenues in the quarters ahead. Also, the company intends to strengthen its competency on the back of acquisitions. It remains committed to rewarding shareholders handsomely through dividends and share buybacks. Over the past six months, EnerSys has outperformed the industry. However, rising costs and high capital expenditures might put pressure on the company's profitability in the near term. A highly leveraged balance sheet can be detrimental as it increases financial obligations. Moreover, unfavorable movements in foreign currencies have been hurting the company's performance.

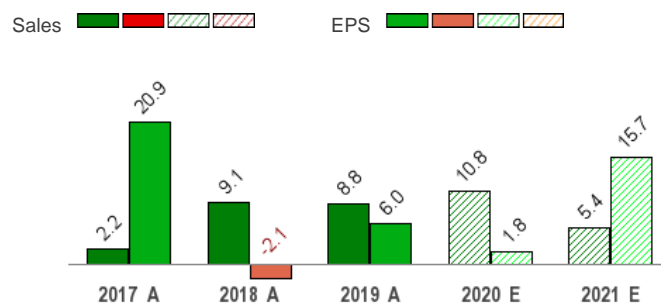
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.97 - \$53.56
20 Day Average Volume (sh)	235,174
Market Cap	\$3.1 B
YTD Price Change	-0.8%
Beta	1.62
Dividend / Div Yld	\$0.70 / 0.9%
Industry	Manufacturing - Electronics
Zacks Industry Rank	Bottom 42% (148 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.0%
Last Sales Surprise	-2.6%
EPS F1 Est- 4 week change	-1.1%
Expected Report Date	05/21/2020
Earnings ESP	0.0%
P/E TTM	14.9
P/E F1	14.8
PEG F1	1.5
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	815 E	805 E	811 E	859 E	3,280 E
2020	780 A	762 A	764 A	805 E	3,111 E
2019	671 A	661 A	680 A	797 A	2,808 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.31 E	\$1.39 E	\$1.50 E	\$1.74 E	\$5.81 E
2020	\$1.30 A	\$1.23 A	\$1.04 A	\$1.45 E	\$5.02 E
2019	\$1.17 A	\$1.17 A	\$1.17 A	\$1.43 A	\$4.93 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 02/19/2020. The reports text is as of 02/20/2020.

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).

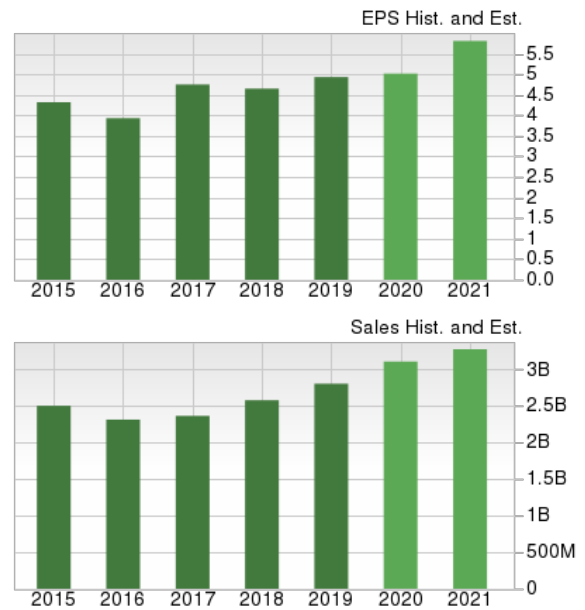
EnerSys has two product lines:

Reserve power products (58.7% of total revenues in third-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 (41.3%): 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:

- ▲ In the third quarter of fiscal 2020, EnerSys' top line recorded growth of 12.3% on a year-over-year basis. The improvement was driven by contribution from acquisitions and strong performance of the Americas segment. The company is benefiting from strength in the transportation business owing to growing popularity for ODYSSEY brands, and solid demand for NexSys TPPL products. The company expects growing order rates, its efforts to expand production capacity for TPPL products along with new business prospects in the long-haul trucking, premium automotive and agricultural spaces to benefit the Americas segment. Also, it believes that opportunities related to the global 5G infrastructure build out, continued growth in broadband as well as new product offerings, including NexSys and ODYSSEY branded products are likely to drive its revenues in the quarters ahead. Over the past six months, EnerSys' shares have gained 31.1% compared with the industry's growth of 24.4%.

Solid product portfolio and synergistic gains from acquired assets are likely to drive EnerSys' profitability in the upcoming quarters.
 - ▲ EnerSys intends to strengthen 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 has been strengthening EnerSys' product portfolio across the telecom, broadband, industrial and renewable markets. By fiscal 2021 end, EnerSys expects the buyout to generate annual synergies of \$35 million. Moreover, in October 2019, the company completed the acquisition of NorthStar, which has been strengthening its production capacities for TPPL products. This buyout is likely to generate annual run-rate synergies of more than \$40 million and will also be accretive to its earnings (excluding one-time or acquisition related costs). Notably, these buyouts had a positive impact of 20% on the company's net sales in the third quarter of fiscal 2020.
 - ▲ EnerSys is actively engaged in rewarding shareholders through dividend payments and share buybacks. In the first nine months of fiscal 2020, it used \$22.3 million for paying dividends and \$34.6 million for purchasing treasury stocks. Such diligent capital deployment strategies boost shareholders' wealth.
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Reasons To Sell:

- ▼ Rising cost of sales has been a major concern for EnerSys over the past several quarters. The metric rose 13.1% and 12.3% in the second quarter and the third quarters of fiscal 2020, respectively. Of late, the company has been experiencing high costs related to tariff and freight costs. As a matter of fact, it expects escalating costs to continue hurting profitability in the upcoming quarters. Further, EnerSys is exposed to fluctuations in commodity prices, especially that of lead. Historically, the company's product selling price has shown massive fluctuations in an attempt to offset the volatility in cost of commodities.
- ▼ EnerSys has been making multiple investments to boost growth. Although the company's investments hold good for long-term growth, the 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. For fiscal 2020, the company plans to incur \$90-\$100 million of capital expenditure. High capital expenditures 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 (2015-2019), the company's long-term debt rose 14.5% (CAGR). Also, its long-term debt (net of unamortized debt issuance costs) of \$1,088.3 million at the end of the third quarter of fiscal 2020 represented an increase of 12% from fiscal 2019 end. Moreover, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 44.3%, higher than the industry's 31.3%. Also, 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 2% and 1% on revenues in the second and third quarters of fiscal 2020, respectively.

Rising cost of sales, high debt level and exposure to headwinds arising from international operations can create difficulties for EnerSys in the quarters ahead.

Last Earnings Report

EnerSys Lags Q3 Earnings Estimates, Declares Dividend

EnerSys reported weaker-than-expected third-quarter fiscal 2020 (ended Dec 29, 2019) results, wherein both earnings and revenues missed estimates.

The company's adjusted earnings were \$1.04 per share, lagging the Zacks Consensus Estimate of \$1.13. Also, the bottom line declined 11.1% from the year-ago figure of \$1.17.

Revenues

In the quarter, EnerSys' net sales were \$763.7 million, up 12.3% from the year-ago quarter. The improvement was driven by 20% positive impact of Alpha and NorthStar acquisitions, partially offset by 5% decrease in organic volumes, 2% decline in pricing and forex woes of 1%. However, the top line missed the Zacks Consensus Estimate of \$784 million.

Sales generated from the **reserve power** product line totaled \$448.2 million, increasing 36% year over year while that from **motive power** declined about 10% to \$315.5 million.

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

Revenues from the **Americas** (representing roughly 65.9% of the quarter's net sales) were \$503.1 million, increasing 25.1% year over year. The rise was driven by positive impact of 32% from the Alpha and NorthStar buyouts, partially offset by 4% decline in organic volume, 2% decrease in pricing and 1% adverse impact of forex woes.

Revenues from **Europe, Middle East and Africa** (26.5%) totaled \$202.3 million, declining 7.1% year over year. The decline was attributable to 9% fall in organic volumes, 2% adverse impact of forex woes, partially offset by a positive impact of 4% from the NorthStar buyout.

Revenues from **Asia** (7.6%) were \$58.3 million, down 3.2%. The decline was on account of 2% decrease in pricing and 1% adverse impact of forex woes.

Margins Details

In the quarter, EnerSys' cost of goods sold was \$574.6 million, up 12.3% year over year. It represented 75.2% of net sales. Gross profit increased 12.6% to \$185.2 million, with margin increasing 10 basis points to 24.3%.

Operating expenses were \$132.7 million, representing 17.4% of net sales. Total operating earnings decreased 13.8% to \$43.1 million.

Balance Sheet and Cash Flow

Exiting the third quarter of fiscal 2020, EnerSys had cash and cash equivalents of \$272.5 million compared with \$397.2 million at the end of the year-ago quarter.

During the first nine months of fiscal 2020, the company generated net cash of \$175.8 million from operating activities. Capital expenditure totaled \$60.9 million compared with \$52.7 million incurred in the year-ago period.

Concurrent with the earnings release, the company's board of directors approved a quarterly cash dividend of 17.5 cents per share to shareholders on record as of Mar 13, 2020. The payment will be made on Mar 27.

Outlook

For the fourth quarter of fiscal 2020 (ending March 2020), EnerSys anticipates adjusted earnings of \$1.43-\$1.47 per share.

Quarter Ending **12/2019**

Report Date	Feb 05, 2020
Sales Surprise	-2.62%
EPS Surprise	-7.96%
Quarterly EPS	1.04
Annual EPS (TTM)	5.00

Recent News

Dividend

On **Feb 5, 2020**, EnerSys' board of directors approved payment of a quarterly cash dividend of 17.5 cents per share to shareholders on record as of Mar 13, 2020. The payment will be made on Mar 27, 2020.

Senior Notes Offering

On **Dec 11, 2019**, EnerSys announced the completion of offering of senior notes worth \$300 million. The notes are due to mature on Dec 15, 2027. The proposal for this private offering of notes was announced by the company on Dec 5.

The senior notes offered, at 100% of the principal amount, are EnerSys' unsecured obligations and will be guaranteed by those subsidiaries (existing and future) of EnerSys which act as guarantors to the company's existing 5% senior notes due to expire in 2023 and senior secured credit facilities.

The notes carry 4.375% per annum interest rate, with two semi-annual payments to be made each year on Jun 15 and Dec 15. The first interest payment will be made on Jun 15, 2020.

As noted, the company will have the option to redeem the notes prior to Sep 15, 2027. In this case, price for each note will include 100% of the principal amount, interest (accrued and unpaid) and a "make whole" premium payment. Meanwhile, 100% of the principal amount and interest (accrued and unpaid) payment will be made for each note if redemption is done on or after Sep 15, 2027.

Valuation

EnerSys' shares are down 0.8% and 1.3% in the year-to-date and over the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are up 0.8% and 0.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 12.6% and 6.7%, respectively.

The S&P 500 index has moved up 4.6% year to date and 20.7% in the past year.

The stock is currently trading at 12.97x forward 12-month earnings per share, which compares to 20.07x for the Zacks sub-industry, 18.26x for the Zacks sector and 19.3x for the S&P 500 index.

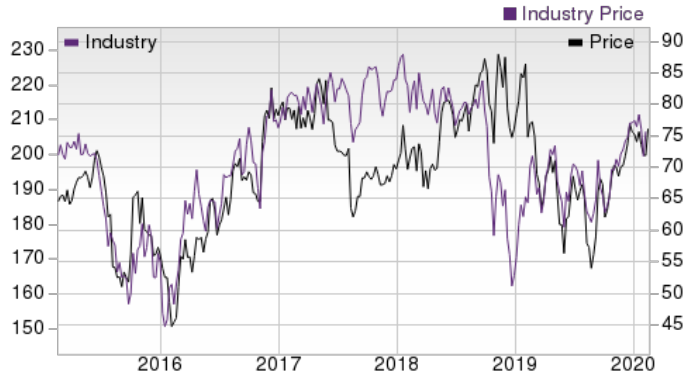
Over the past five years, the stock has traded as high as 17.17x and as low as 9.41x, with a 5-year median of 13.95x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$78 price target reflects 13.63x forward 12-month earnings per share.

The table below shows summary valuation data for ENS.

Valuation Multiples - ENS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.97	20.07	18.26	19.3
	5-Year High	17.17	20.28	19.89	19.34
	5-Year Low	9.41	13.14	12.6	15.18
	5-Year Median	13.95	17.05	16.62	17.47
EV/EBITDA F12M	Current	9.31	17.38	17.81	12.66
	5-Year High	10.43	25.03	18.2	12.66
	5-Year Low	6.82	9.9	10.68	9.08
	5-Year Median	8.73	13.46	14.04	10.79
EV/Sales F12M	Current	1.25	2.86	3.14	3.26
	5-Year High	1.56	2.86	3.14	3.37
	5-Year Low	0.92	1.52	1.76	2.3
	5-Year Median	1.23	2.07	2.28	2.79

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (148 out of 255)



Top Peers

AeroVironment, Inc. (AVAV)	Neutral
CenturyLink, Inc. (CTL)	Neutral
Eaton Corporation, PLC (ETN)	Neutral
Luna Innovations Incorporated (LUNA)	Neutral
Rexnord Corporation (RXN)	Neutral
Sprint Corporation (S)	Neutral
T-Mobile US, Inc. (TMUS)	Neutral
AZZ Inc. (AZZ)	Underperform

Industry Comparison Industry: Manufacturing - Electronics				Industry Peers		
	ENS Neutral	X Industry	S&P 500	AVAV Neutral	AZZ Underperform	TMUS Neutral
VGM Score	B	-	-	D	A	F
Market Cap	3.14 B	2.16 B	24.59 B	1.50 B	1.14 B	86.11 B
# of Analysts	2	4.5	13	3	1	13
Dividend Yield	0.94%	0.00%	1.78%	0.00%	1.57%	0.00%
Value Score	B	-	-	D	B	C
Cash/Price	0.08	0.08	0.04	0.19	0.01	0.02
EV/EBITDA	14.31	12.31	14.21	20.93	11.04	10.01
PEG Ratio	1.50	2.07	2.09	1.54	NA	1.97
Price/Book (P/B)	2.29	2.29	3.28	3.06	1.74	2.99
Price/Cash Flow (P/CF)	11.60	14.03	13.59	34.60	11.09	8.53
P/E (F1)	15.03	18.09	19.17	38.42	16.11	21.65
Price/Sales (P/S)	1.01	2.02	2.68	4.51	1.12	1.91
Earnings Yield	6.75%	4.78%	5.18%	2.60%	6.21%	4.62%
Debt/Equity	0.79	0.17	0.70	0.01	0.46	1.36
Cash Flow (\$/share)	6.40	1.79	6.93	1.81	3.91	11.79
Growth Score	B	-	-	F	A	D
Hist. EPS Growth (3-5 yrs)	5.11%	6.27%	10.84%	96.15%	-11.75%	64.27%
Proj. EPS Growth (F1/F0)	1.72%	5.80%	7.00%	-6.32%	37.24%	15.46%
Curr. Cash Flow Growth	8.10%	8.10%	7.81%	37.03%	18.24%	7.57%
Hist. Cash Flow Growth (3-5 yrs)	1.43%	1.91%	8.25%	14.56%	0.36%	16.70%
Current Ratio	2.56	2.16	1.24	10.18	2.27	0.74
Debt/Capital	44.28%	15.93%	42.37%	1.38%	31.33%	57.57%
Net Margin	5.06%	6.86%	11.69%	11.60%	6.65%	7.71%
Return on Equity	16.33%	9.67%	16.86%	8.59%	10.79%	14.09%
Sales/Assets	0.96	0.88	0.55	0.64	0.90	0.53
Proj. Sales Growth (F1/F0)	10.80%	0.40%	4.05%	14.17%	11.99%	5.22%
Momentum Score	D	-	-	A	A	F
Daily Price Chg	-1.30%	0.15%	0.38%	0.37%	1.10%	0.61%
1 Week Price Chg	5.94%	2.34%	1.65%	-5.87%	2.90%	12.92%
4 Week Price Chg	0.77%	-0.13%	0.86%	-8.64%	-2.03%	21.84%
12 Week Price Chg	4.40%	6.99%	4.56%	1.20%	13.24%	27.24%
52 Week Price Chg	-1.85%	6.47%	14.15%	-24.30%	-10.30%	38.13%
20 Day Average Volume	235,174	176,403	1,989,235	192,764	139,303	4,787,850
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.08%	0.11%	-0.03%	0.00%	0.00%	-3.81%
(F1) EPS Est 12 week change	-1.08%	-1.15%	-0.21%	-1.21%	-0.37%	-4.63%
(Q1) EPS Est Mthly Chg	2.85%	0.00%	-0.40%	3.60%	0.00%	-4.61%

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	B
Momentum Score	D
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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