

EnerSys(ENS)

\$74.85 (As of 01/30/20)

Price Target (6-12 Months): **\$79.00**

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:A

Value: A

Growth: B

Momentum: D

Summary

Solid demand for EnerSys' TPPL products along with strength in the transportation business in the Americas region will continue to drive its revenues in the quarters ahead. Also, the company intends to strengthen its competency on business acquisitions. It remains committed to rewarding shareholders handsomely through dividends and share buybacks. Over the past three months, EnerSys has outperformed the industry. However, we believe that high capital expenditures, if not checked, might put pressure on the company's profitability in the near term. Rising costs despite cost-reduction initiatives might hurt its profitability. 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.

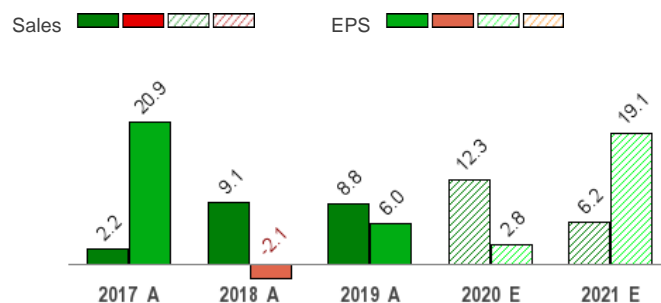
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$89.83 - \$53.56
20 Day Average Volume (sh)	185,636
Market Cap	\$3.2 B
YTD Price Change	0.0%
Beta	1.61
Dividend / Div Yld	\$0.70 / 0.9%
Industry	Manufacturing - Electronics
Zacks Industry Rank	Bottom 25% (191 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.5%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/05/2020
Earnings ESP	0.0%
P/E TTM	14.6
P/E F1	14.8
PEG F1	1.5
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,347 E
2020	780 A	762 A	784 E	827 E	3,153 E
2019	671 A	661 A	680 A	797 A	2,808 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$6.04 E
2020	\$1.30 A	\$1.23 A	\$1.13 E	\$1.41 E	\$5.07 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 01/30/2020. The reports text is as of 01/31/2020.

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).

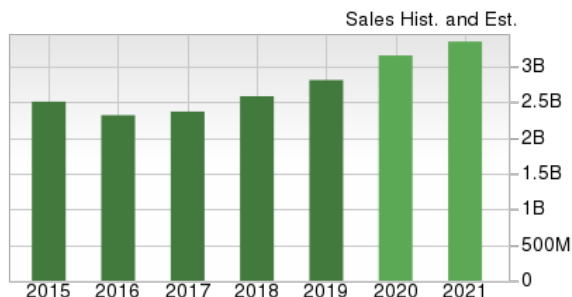
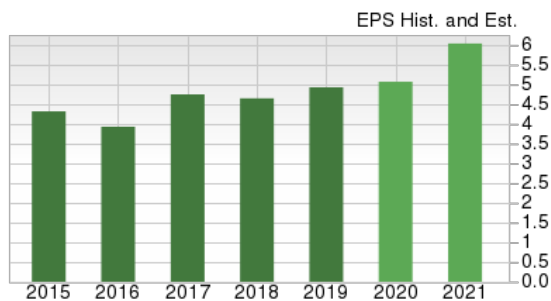
EnerSys has two product lines:

Reserve power products (56% of total revenues in second-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 (44%): 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 second quarter of fiscal 2020, EnerSys' top line surpassed the Zacks Consensus Estimate by 0.5%, and also increased 15.4% from the year-ago quarter. The year-over-year increase was driven by contribution from acquisitions and strong performance in the Americas segment. The company noted that strength in the transportation business owing to growing customer base for ODYSSEY brands, and solid demand for TPPL products in the long-haul trucking, premium automotive and agricultural spaces are benefiting the Americas segment. It believes that growth opportunities related to the global 5G infrastructure build out, growth in broadband along with its ongoing efforts to expand production and new product offerings, including NexSys and DC-power products are likely to continue driving its revenues in the quarters ahead. Over the past three months, EnerSys' shares have gained 6.7% compared with the industry's growth of 6.3%.
- ▲ EnerSys intends to strengthen its competency on business 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. Notably, this buyout had a positive impact of 22% on the company's net sales in the second quarter of fiscal 2020. By fiscal 2021 end, EnerSys expects the buyout to generate annual synergies of \$35 million, up \$10 million from the original guidance. Moreover, in October 2019, the company completed the acquisition of NorthStar, which will boost 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).
- ▲ EnerSys is actively engaged in rewarding shareholders through dividend payments and share buybacks. Notably, in the first six months of fiscal 2020, it used \$14.9 million for paying dividends to shareholders and \$34.6 million for purchasing treasury stocks. Such diligent capital deployment strategies boost shareholders' wealth.

Solid product portfolio and synergistic gains from acquired assets are likely to drive EnerSys' profitability in the upcoming quarters.

Reasons To Sell:

- ▼ Rising cost of sales has been a major concern for EnerSys over the past several quarters. The metric rose 14.6% and 13.1% in the first quarter and the second quarter of fiscal 2020, respectively, despite cost-reduction initiatives. Escalating costs may continue hurting the company's margins 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 is progressing well with its transformation, wherein it 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 plans to spend \$40 million of capital for expanding the TPPL manufacturing capability for its NorthStar facilities in the next six months. In addition, over the next two years, the company is likely to incur an additional \$40 million of capital expenditure at its existing facilities to further expand their capacity. High capital expenditures, if not checked, might put pressure on the company's profitability in the near term. Operating earnings (excluding restructuring charges) of the Americas segment declined 120 basis points in the second quarter of fiscal 2020 on a year-over-year basis due to production inefficiencies incurred at the Richmond, KY-based facility. As a matter of fact, EnerSys believes that the fire at the facility that occurred late in the fiscal second quarter will have an adverse impact of \$20 million on its revenues in the fiscal third quarter.
- ▼ 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 \$1,117.8 million at the end of the second quarter of fiscal 2020 represented year-over-year rise of 86.4%. 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% on sales in both the first and second quarter of fiscal 2020.

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 Q2 Earnings & Revenues Top Estimates, Up Y/Y

EnerSys reported better-than-expected second-quarter fiscal 2020 (ended Sep 29, 2019) results, wherein both earnings and revenues surpassed estimates.

The company's adjusted earnings were \$1.23 per share, beating the Zacks Consensus Estimate of \$1.20. Also, the bottom line increased 5.1% from the year-ago figure of \$1.17.

Revenues

In the quarter, EnerSys' net sales were \$762.1 million, reflecting growth of 15.4% from the year-ago quarter. The improvement was driven by 22% positive impact of the Alpha acquisition, partially offset by 4% decrease in organic volumes, 1% decline in pricing and forex woes of 2%. Moreover, the top line beat the Zacks Consensus Estimate of \$758 million.

Sales generated from the reserve power product line totaled \$427 million, increasing 36.4% year over year while that from motive power declined 3.5% to \$335 million.

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

Revenues from the Americas (representing roughly 68.9% of the quarter's net sales) were \$524.9 million, increasing 35.1% year over year. The rise was driven by 38% increase from acquired assets, partially offset by 1% adverse impact of forex woes and 1% decline in organic volume.

Revenues from Europe, Middle East and Africa (24%) totaled \$183 million, declining 10.3% year over year. The decline was attributable to 4% fall in organic volumes, 5% adverse impact of forex woes and adverse impact of 1% from unfavorable pricing.

Revenues from Asia (7.1%) were \$54 million, down 20.1%. Decline in organic volume affected results by 17% and forex woes had an adverse 3% impact.

Margins Details

In the quarter, EnerSys' cost of goods sold was \$564.8 million. It represented 74.1% of net sales. Gross profit increased 22.6% year over year to \$197.3 million, with margin increasing 150 basis points to 25.9%.

Operating expenses were \$122.4 million, representing 16.1% of net sales. Total operating earnings decreased 7.2% to \$58.7 million.

Balance Sheet and Cash Flow

Exiting the second quarter of fiscal 2020, EnerSys had cash and cash equivalents of \$424.8 million compared with \$545.2 million at the end of the year-ago quarter. Long-term debt was \$1,117.8 million, up 86.4% year over year.

During the first six months of fiscal 2020, the company generated net cash of \$105.1 million from operating activities. Capital expenditure totaled \$43.4 million compared with \$35.5 million incurred in the year-earlier quarter.

Outlook

For the third quarter of fiscal 2020 (ending December 2019), EnerSys anticipates adjusted earnings of \$1.12-\$1.16 per share.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	0.49%
EPS Surprise	2.50%
Quarterly EPS	1.23
Annual EPS (TTM)	5.13

Recent News

Dividend

On **Dec 27, 2019**, EnerSys paid a quarterly cash dividend of 17.5 cents per share to shareholders on record as of Dec 13, 2019.

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 13.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Industrial Products sector are up 15% and 11.1%, respectively.

The S&P 500 Index has moved up 20.4% in the past year.

The stock is currently trading at 12.73x forward 12-month earnings per share, which compares to 19.88x for the Zacks sub-industry, 17.84x for the Zacks sector and 18.8x for the S&P 500 index.

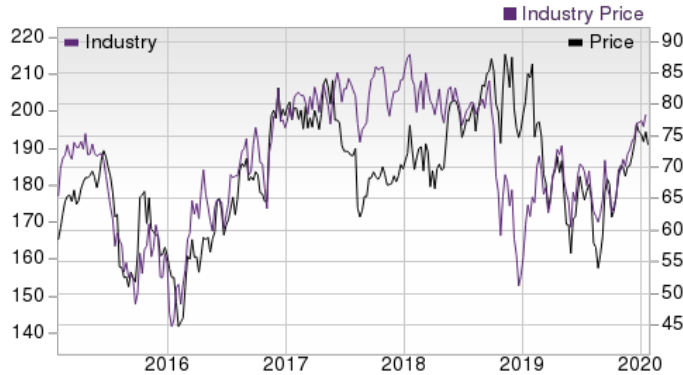
Over the past five years, the stock has traded as high as 17.17x and as low as 9.41x, with a 5-year median of 13.95x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$79 price target reflects 13.44x forward 12-month earnings per share.

The table below shows summary valuation data for ENS.

Valuation Multiples - ENS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.73	19.88	17.84	18.8
	5-Year High	17.17	20.3	19.91	19.34
	5-Year Low	9.41	13.14	12.6	15.18
	5-Year Median	13.95	17.03	16.54	17.45
EV/EBITDA F12M	Current	8.78	17.38	17.82	12.66
	5-Year High	10.51	25.03	18.22	12.66
	5-Year Low	5.89	9.9	10.69	9.08
	5-Year Median	8.55	13.43	14.03	10.78
EV/Sales F12M	Current	1.16	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 01/30/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (191 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
T-Mobile US, Inc. (TMUS)	Neutral
AZZ Inc. (AZZ)	Underperform
Sprint Corporation (S)	Underperform

Industry Comparison Industry: Manufacturing - Electronics				Industry Peers		
	ENS Neutral	X Industry	S&P 500	AVAV Neutral	AZZ Underperform	TMUS Neutral
VGM Score	A	-	-	D	A	B
Market Cap	3.17 B	2.24 B	23.94 B	1.61 B	1.13 B	69.25 B
# of Analysts	2	4	13	3	1	13
Dividend Yield	0.94%	0.00%	1.77%	0.00%	1.58%	0.00%
Value Score	A	-	-	D	C	B
Cash/Price	0.14	0.08	0.04	0.18	0.01	0.02
EV/EBITDA	13.96	11.64	14.14	22.70	10.96	9.08
PEG Ratio	1.45	1.85	2.01	1.64	NA	1.33
Price/Book (P/B)	2.41	2.13	3.25	3.27	1.73	2.49
Price/Cash Flow (P/CF)	11.70	12.71	13.56	36.97	10.99	7.33
P/E (F1)	14.48	17.77	18.90	41.06	15.98	16.77
Price/Sales (P/S)	1.05	2.01	2.64	4.81	1.11	1.55
Earnings Yield	6.77%	5.05%	5.28%	2.44%	6.26%	5.97%
Debt/Equity	0.85	0.26	0.72	0.01	0.46	1.41
Cash Flow (\$/share)	6.40	1.83	6.92	1.81	3.91	11.05
Growth Score	B	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	4.89%	5.47%	10.68%	96.15%	-11.75%	71.62%
Proj. EPS Growth (F1/F0)	2.84%	7.67%	7.59%	-6.32%	37.24%	19.66%
Curr. Cash Flow Growth	8.10%	10.84%	10.81%	37.03%	18.24%	17.42%
Hist. Cash Flow Growth (3-5 yrs)	1.43%	3.18%	8.78%	14.56%	0.36%	20.68%
Current Ratio	2.90	2.16	1.22	10.18	2.27	0.66
Debt/Capital	45.87%	24.28%	42.99%	1.38%	31.33%	58.56%
Net Margin	5.90%	6.86%	11.69%	11.60%	6.65%	7.53%
Return on Equity	16.96%	10.17%	17.33%	8.59%	10.79%	14.21%
Sales/Assets	0.94	0.88	0.55	0.64	0.90	0.55
Proj. Sales Growth (F1/F0)	12.28%	0.65%	4.12%	14.30%	11.99%	5.26%
Momentum Score	D	-	-	B	B	C
Daily Price Chg	0.36%	0.00%	0.36%	-0.01%	0.42%	0.85%
1 Week Price Chg	-2.73%	-3.46%	-1.09%	-4.11%	0.66%	-0.69%
4 Week Price Chg	-1.29%	-4.36%	-0.22%	6.27%	-4.79%	2.99%
12 Week Price Chg	7.31%	6.48%	4.08%	10.80%	10.40%	-1.12%
52 Week Price Chg	-12.21%	9.60%	16.06%	-13.83%	-3.96%	16.26%
20 Day Average Volume	185,636	181,999	1,808,632	212,151	202,629	2,327,806
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-3.58%	-1.03%
(F1) EPS Est 12 week change	-2.12%	-2.76%	-0.09%	-1.21%	-0.37%	-0.59%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-18.18%	0.98%

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	B
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.