

Gentex Corporation(GNTX)

\$27.60 (As of 03/04/20)

Price Target (6-12 Months): **\$29.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: B

Summary

Gentex aims to attain long-term growth, driven by robust product launches, better mix and unique technology platforms. Further, Gentex's sales improved backed by rising auto-dimming mirror shipments in the North American market. It remains steadfast in its efforts to provide unique, value-added solutions for its customers. The company pursues an aggressive capital-deployment strategy. Moreover, the company is focused on developing dimmable devices that are enabled with new technologies to cater to the increasing demand for technically-advanced auto parts. However, decline in global light-vehicle production and adverse impacts of tariff on gross margin is pressurizing Gentex. Further, high operating expenses and pricing pressure from automotive customers and competitors are concerns for Gentex. Hence, the stock warrants a cautious stance.

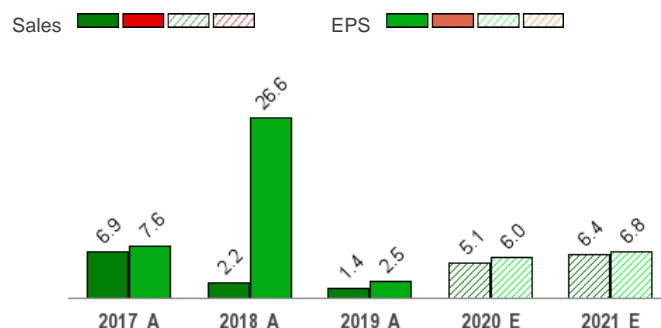
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.27 - \$19.82
20 Day Average Volume (sh)	1,381,735
Market Cap	\$6.9 B
YTD Price Change	-4.8%
Beta	1.14
Dividend / Div Yld	\$0.46 / 1.7%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 24% (194 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.6%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/22/2020
Earnings ESP	-2.7%

P/E TTM	16.7
P/E F1	15.7
PEG F1	3.1
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	519 E	522 E	530 E	512 E	2,080 E
2020	485 E	489 E	502 E	478 E	1,954 E
2019	469 A	469 A	478 A	444 A	1,859 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.48 E	\$0.50 E	\$0.51 E	\$0.50 E	\$1.88 E
2020	\$0.43 E	\$0.45 E	\$0.46 E	\$0.44 E	\$1.76 E
2019	\$0.40 A	\$0.42 A	\$0.44 A	\$0.39 A	\$1.66 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 03/04/2020. The reports text is as of 03/05/2020.

Overview

Zeeland, MI-based Gentex Corporation is engaged in supplying automatic-dimming rear-view mirrors and electronics to the automotive industry; fire protection products to the fire protection market; and dimmable aircraft windows for aviation markets.

In 2019, automotive net sales came in at \$1.81 billion and other net sales totaled \$48.4 million.

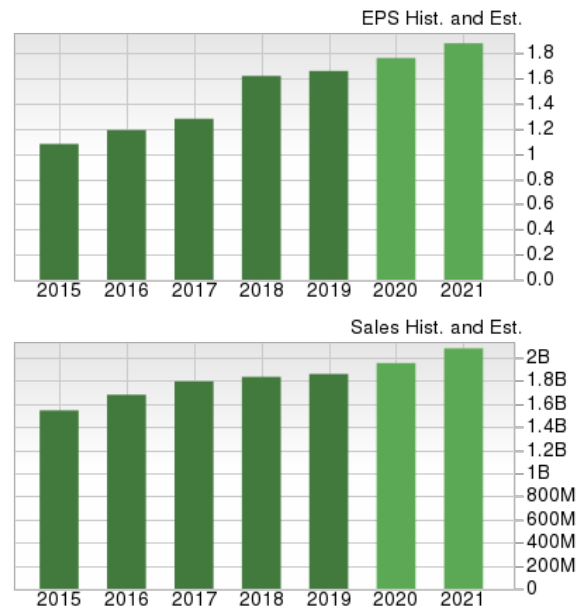
Gentex Corporation currently has the following reportable segments: Automotive Products which includes Automotive Rear-view Mirrors and Electronics and HomeLink Modules; and other segments which includes Dimmable Aircraft Windows and Fire Protection Products.

Automotive Rear-view Mirrors and Electronics: The company manufactures interior electrochromic automatic-dimming rear-view mirrors that darken to reduce glare and improve visibility for the driver. These electronic interior mirrors can also include additional electronic features such as compass, microphones, lighting assist and driver assist forward safety camera systems, and a wide variety of displays.

HomeLink Modules: The company manufactures and sells HomeLink Modules individually, as well as in combination with the automotive mirrors and other advanced features, as described above. For the majority of automotive products, transfer of control and revenue recognition occurs when the company ships the product from the manufacturing facility to the customer.

Dimmable Aircraft Windows: The company supplies variable dimmable windows for the passenger compartment on the Boeing 787 Dreamliner Series of Aircraft. For dimmable aircraft windows, transfer of control and revenue recognition occurs when the company ships the product from the manufacturing facility to the customer.

Fire Protection Products: The company manufactures photoelectric smoke detectors and alarms, visual signaling alarms, electrochemical carbon monoxide detectors and alarms, audible and visual signaling alarms, and bells and speakers for use in fire detection systems in office buildings, hotels, and other commercial and residential buildings.



Reasons To Buy:

- ▲ Gentex aims at creating long-term growth, driven by product launches, improved product mix and unique technology platforms. The company remains steadfast in its efforts to provide unique, value-added solutions for its customers that provide scalable platforms focused on the consumer and engineered specifically to each OEM's requirements next several years. Shipments of domestic exterior mirrors along with full-display mirrors continue their impressive growth streak, aiding the revenues of Gentex. The company's net revenues have increased at a CAGR of 6.2% over the last six years (2014–2019).
- ▲ The company is likely to gain mostly from its advanced features products. Integrated Tool Module (ITM) and HomeLink have significant runaways for growth, going forward. Multiple avenues for revenues can be generated beyond toll paying. Also, penetration for HomeLink is likely to grow higher as the demand for connectivity to the home increases. Gentex's HomeLink Connect app enables users to control their existing home automation devices. The firm's growth avenues in tech products diversify and enhance its future prospects.
- ▲ Gentex products are not restricted to gas powered vehicles. The company is well positioned to cater to the emerging autonomous vehicle and connected vehicle space. The company is focused on developing dimmable devices that are enabled with new technologies to cater to the increasing demand for technically-advanced auto parts. While a bulk of the firm's revenues come from automotive industry, Gentex also caters to the aviation industry with its dimmable aircraft windows. Recently, the company announced that it would be offering, as optional content, its latest generation of variable dimmable windows on the Boeing 777X aircraft. This is likely to boost the growth prospects of the firm.
- ▲ Gentex's clean balance sheet and investor friendly moves bode well. Considering the company's high cash balance and almost no debt, it is highly committed to returning value to its shareholders. The company has continually repurchased shares and intends to continue to buying back additional shares of its common stock to support its capital allocation strategy. Further, it opts for regular quarterly dividend payments to reward shareholders, which boosts investor's confidence.

Strong product launches, unique technology platforms and aggressive capital-deployment strategy aid Gentex.

Reasons To Sell:

- ▼ Based on the HIS Markit forecasts, global light vehicle production is expected to decline 1% year over year in 2020 amid weakened economy. Resultantly, the car rearview mirror maker is likely to bear the brunt of declining demand of its products. Amid the forecast of lower light-vehicle production in Europe, China, Japan and Korea, the company's bottom line are likely to get impacted.
- ▼ The gross margin during 2019 was negatively impacted by approximately 70 basis points from tariffs versus 2018. decline in gross margin is expected to continue in 2020 as well. Gross margin is anticipated to be 36-37% for the current year compared with 37.1% in 2019.
- ▼ The company is bogged down by operational inefficiencies since the past several quarters. Rising SG&A and R&D costs are denting the profit levels of the firm. The trend is expected to continue amid new product launches, which remains a headwind. Notably, operating expenses for 2020 is expected in the band of \$205-\$215 million, up from \$199.5 million recorded in 2019.
- ▼ Increasing competition along with tariff costs are other causes of concern. The company's margins have been declining amid tariff costs. In fact, if not for the incremental tariffs encountered in 2019, the gross margin would have been slightly better than 2018. To escape the heat from the newly imposed tariffs, the company is exploring its options on diversifying its sourcing away from China but there is no quick fix in sight. Tariffs in China still remain a concern, in turn, escalating cost of raw materials, which may dent the company's margins.

Tariff-related costs and high operating expenses are major tailwinds for Gentex.

Last Earnings Report

Gentex Tops on Q4 Earnings, Down Y/Y

Gentex reported fourth-quarter 2019 earnings per share of 39 cents, surpassing the Zacks Consensus Estimate by a penny. Higher-than-expected automotive net sales lead to the outperformance. Precisely, fourth-quarter automotive net sales totaled \$433.8 million, topping the consensus mark of \$428 million.

The bottom line, however, declined from the year-ago earnings of 41 cents per share. Its net income was down to \$99.5 million from \$106.3 million reported in fourth-quarter 2018. This is mainly attributed to year-over-year decline in revenues amid 6-week long strike at General Motors (GM).

During the quarter under review, total revenues came in at \$443.8 million, which missed the Zacks Consensus Estimate of \$448 million. Moreover, the top line also fell from the year-ago figure of \$453.4 million.

Other Highlights

The company recorded gross margin of 36.5% in the quarter under review, down from the year-ago quarter's 37.9% amid tariff woes and the UAW-General Motors strike.

In the quarter, auto-dimming mirror shipments in the North America market fell 2% to 3.3 million units. In the International market, the same grew 5% from the prior-year quarter to 7.2 million units. Total shipments also rose 3% year over year to 10.5 million units.

Operating expenses increased 3% year over year to \$51 million in fourth-quarter 2019. Higher SG&A and R&D costs drove total costs. SG&A expenses rose to \$22.1 million from \$19.5 million in the year-ago quarter. Engineering and R&D expenses increased to \$28.8 million in fourth-quarter 2019 from 26.9 million recorded in the year-ago period.

Share Repurchase & Cash Position

During the quarter under review, the company repurchased approximately 2.4 million shares of its common stock at \$28.55 per share. As of Dec 31, 2019, Gentex had around 20.1 million shares remaining for repurchase. The company intends to continue to repurchase additional shares of its common stock to support the capital-allocation strategy.

Gentex had cash and cash equivalents of \$296.3 million as of Dec 31, 2019 compared with \$217 million in the corresponding period of 2018.

Guidance

Looking forward, the company expects fiscal 2020 revenues in the range of \$1.91-\$2 billion. Gross margin is forecasted within 36-37% for the current year. Operating expenses are projected in the band of \$205-\$215 million. Capex is anticipated in the range of \$85-\$95 million.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	-0.96%
EPS Surprise	2.63%
Quarterly EPS	0.39
Annual EPS (TTM)	1.65

Valuation

Gentex's shares are down 4.4% in the year to date period and up 37.3% in the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are down 13.1% and 3.5% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8% and up 7.7%, respectively.

The S&P 500 index is down 6.7% in the year to date period and up 9.2% in the past year.

The stock is currently trading at 15.41X forward 12-month earnings, which compares to 11.71X for the Zacks sub-industry, 10.52X for the Zacks sector and 17.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.96X and as low as 10.36X, with a 5-year median of 14X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$29 price target reflects 16.2X forward 12-month earnings per share.

The table below shows summary valuation data for GNTX:

Valuation Multiples - GNTX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.41	11.71	10.52	17.15
	5-Year High	17.96	13.46	11.75	19.34
	5-Year Low	10.36	8.52	8.23	15.18
	5-Year Median	14	11.6	9.91	17.44
EV/EBITDA TTM	Current	10.65	5.57	10.12	10.93
	5-Year High	12.47	8.63	11.33	12.88
	5-Year Low	6.59	4.64	7.05	8.49
	5-Year Median	8.81	6.61	9.35	10.79
P/S F12M	Current	3.51	0.57	0.64	3.16
	5-Year High	4.04	0.81	0.76	3.43
	5-Year Low	2.27	0.49	0.5	2.54
	5-Year Median	2.99	0.64	0.62	3.01

As of 03/04/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (194 out of 255)



Top Peers

LCI Industries (LCII)	Outperform
Modine Manufacturing Company (MOD)	Outperform
China Yuchai International Limited (CYD)	Neutral
Halfords Group Plc (HLFDY)	Neutral
Superior Industries International, Inc. (SUP)	Neutral
Gentherm Inc (THRM)	Neutral
Veoneer, Inc. (VNE)	Neutral
Wabash National Corporation (WNC)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	GNTX Neutral	X Industry	S&P 500	HLFDY Neutral	MOD Outperform	SUP Neutral
VGM Score	D	-	-	-	B	A
Market Cap	6.94 B	637.28 M	22.29 B	428.10 M	350.07 M	60.31 M
# of Analysts	6	3	13	1	3	2
Dividend Yield	1.67%	0.00%	1.97%	6.60%	0.00%	0.00%
Value Score	D	-	-	A	A	A
Cash/Price	0.07	0.13	0.05	0.08	0.10	0.75
EV/EBITDA	10.74	4.71	13.20	NA	3.53	13.16
PEG Ratio	3.08	1.05	1.94	NA	0.72	NA
Price/Book (P/B)	3.60	1.20	3.05	0.91	0.64	0.23
Price/Cash Flow (P/CF)	13.19	4.41	12.16	3.87	2.21	0.48
P/E (F1)	15.42	10.29	17.58	7.54	7.15	NA
Price/Sales (P/S)	3.73	0.41	2.45	NA	0.17	0.04
Earnings Yield	6.38%	9.49%	5.69%	13.26%	13.93%	-11.25%
Debt/Equity	0.00	0.51	0.70	0.99	0.61	2.37
Cash Flow (\$/share)	2.09	3.69	7.01	1.11	3.11	5.01
Growth Score	C	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	12.80%	8.01%	10.85%	NA	29.78%	-3.48%
Proj. EPS Growth (F1/F0)	6.22%	5.16%	6.26%	-10.94%	-38.64%	41.11%
Curr. Cash Flow Growth	-1.98%	-2.66%	6.03%	-10.56%	1.41%	8.11%
Hist. Cash Flow Growth (3-5 yrs)	7.66%	6.21%	8.52%	NA	10.94%	18.88%
Current Ratio	5.53	1.56	1.23	0.75	1.29	1.85
Debt/Capital	0.00%	38.59%	42.57%	49.66%	37.82%	59.31%
Net Margin	22.85%	3.15%	11.69%	NA	0.52%	-7.04%
Return on Equity	22.29%	13.35%	16.66%	NA	11.49%	6.00%
Sales/Assets	0.87	1.30	0.54	NA	1.32	0.97
Proj. Sales Growth (F1/F0)	5.10%	0.00%	3.94%	-1.64%	-9.96%	-2.85%
Momentum Score	B	-	-	-	B	F
Daily Price Chg	3.68%	1.08%	3.75%	0.00%	-0.43%	-1.23%
1 Week Price Chg	-12.72%	-11.07%	-12.06%	0.00%	-15.42%	-16.13%
4 Week Price Chg	-9.00%	-11.86%	-7.42%	0.00%	-24.29%	-25.00%
12 Week Price Chg	-2.70%	-14.44%	-4.61%	0.00%	-4.31%	-24.53%
52 Week Price Chg	34.77%	-18.38%	7.38%	-34.95%	-52.94%	-55.39%
20 Day Average Volume	1,381,735	172,562	2,456,671	0	375,615	175,103
(F1) EPS Est 1 week change	0.52%	0.00%	0.00%	0.00%	0.00%	-20.46%
(F1) EPS Est 4 week change	0.03%	0.00%	-0.06%	0.00%	16.53%	-20.46%
(F1) EPS Est 12 week change	1.42%	-2.66%	-0.41%	0.00%	18.44%	-52.89%
(Q1) EPS Est Mthly Chg	-1.69%	-1.78%	-0.27%	NA	-12.96%	-35.71%

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	D
Growth Score	C
Momentum Score	B
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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