

Gentex Corporation(GNTX)

\$27.56 (As of 08/18/20)

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: C

Growth: C

Momentum: F

Summary

Gentex aims to attain long-term growth, driven by robust product launches, better mix and unique technology platforms. The company remains steadfast in its efforts to provide unique, value-added solutions for its customers. The firm pursues an aggressive capital-deployment strategy. Moreover, Gentex 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 amid coronavirus pandemic is likely to dent the company's near-term prospects. Given the dreary scenario, Gentex expects 2H20 sales in the band of \$865-\$915 million, down from \$921.6 million in the corresponding period of 2019. Rising SG&A and R&D costs are denting the profit levels of the firm. Thus, the stock warrants a cautious stance.

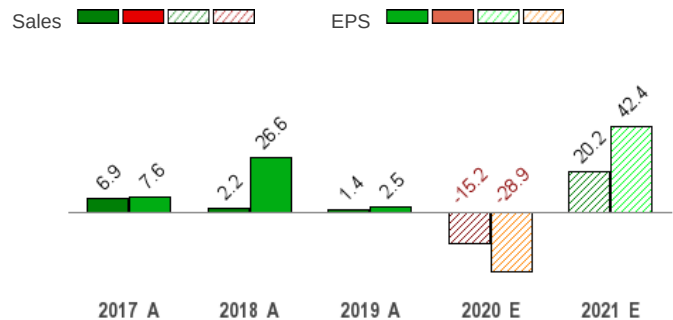
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.27 - \$19.48
20 Day Average Volume (sh)	1,781,685
Market Cap	\$6.8 B
YTD Price Change	-4.9%
Beta	1.14
Dividend / Div Yld	\$0.48 / 1.7%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Top 36% (91 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-83.3%
Last Sales Surprise	-12.3%
EPS F1 Est- 4 week change	-5.9%
Expected Report Date	10/16/2020
Earnings ESP	0.0%
P/E TTM	22.8
P/E F1	23.4
PEG F1	4.7
P/S TTM	4.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	499 E	492 E	501 E	485 E	1,896 E
2020	454 A	230 A	454 E	439 E	1,577 E
2019	469 A	469 A	478 A	444 A	1,859 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.46 E	\$0.44 E	\$0.46 E	\$0.44 E	\$1.68 E
2020	\$0.36 A	\$0.02 A	\$0.40 E	\$0.40 E	\$1.18 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 08/18/2020. The reports text is as of 08/19/2020.

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.

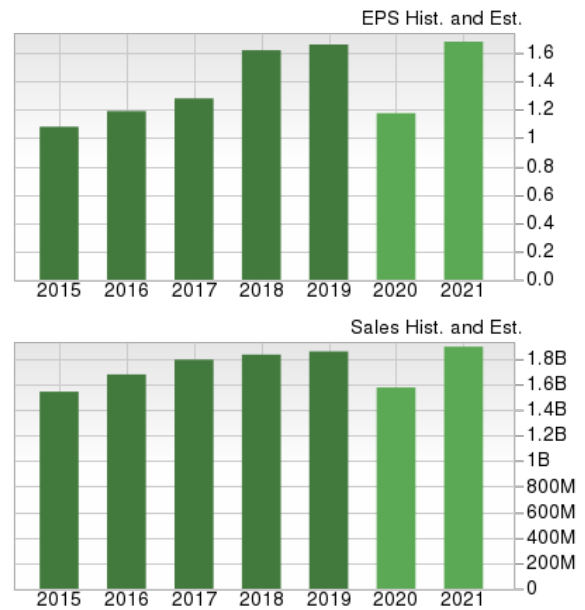
Gentex Corporation currently has the following reportable segments: Automotive Products which includes Automotive Rear-view Mirrors and Electronics and HomeLink Modules; and other segments which includes Dimmable Aircraft Windows and Fire Protection Products.

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 generating long-term growth driven by product launches, improved product mix and unique technology platforms. The company remains steadfast in its efforts to provide unique and value-added solutions to customers that provide scalable platforms focused on the consumer and engineered specifically to meet each OEM's requirements for the next several years. Its revenues have witnessed a CAGR of 7.8% during the 2017-2019 time frame.
- ▲ The firm's full display mirrors (FDM) is a key growth engine and is likely to maintain top-line growth trajectory. FDM has grown rapidly and is launching a range of vehicles in 2020. The key to growth and maintenance of its market share is innovation and penetration. Notably, penetration of auto-dimming interior mirrors has risen from 25% in 2014 to 31.3% in 2018, while auto-dimming exterior mirror penetration has increased from 7% to 12.6% in the same period. 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.
- ▲ Beyond mirrors, Gentex's Integrated Tool Module and HomeLink have significant growth opportunities, going forward. The firm's growth avenues in tech products diversify and enhance prospects. Penetration for HomeLink is likely to grow, as the demand for connectivity to homes increases. Gentex's HomeLink Connect app enables users to control their existing home automation devices.
- ▲ The firm's dividend per share has grown approximately 9% per year since 2015. While most of the companies are suspending dividends to conserve cash amid the pandemic-led financial crisis, Gentex remains committed to preserve shareholder value. Few months back, the firm announced a 4% payout hike, representing the 10th consecutive year of dividend increase. Gentex's low leverage of around 4% compared with the industry's 45% increases its financial flexibility to tap onto growth opportunities.

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

Reasons To Sell:

- ▼ Things are not looking up for the auto sector amid the COVID-19 pandemic, as is evident from depressed demand for vehicles amid weak consumer confidence. IHS Markit expects total light vehicle production to decline 20% year over year in 2020 and 7% for the second half of the year. Resultantly, the car rearview mirror maker is likely to bear the brunt of declining demand of its products. The company has also tapped brakes on the share repurchase program amid coronavirus uncertainty.
- ▼ Amid the forecast of lower light-vehicle production in Europe, China, Japan and Korea, the company's bottom line are likely to get impacted. Amid coronavirus-led uncertainty, Gentex is withdrawing revenue forecast for 2021. The company envisions second-half 2020 net sales in the band of \$865-\$915 million, down from \$921.6 million in the corresponding period of 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 the first half of 2020 rose 5.8% year over year to \$102.2 million.
- ▼ Increasing competition along with tariff costs are other causes of concern. Tariff costs are weighing on Gentex's margins. In fact, if not for the incremental tariffs encountered in 2019, the gross margin would have been slightly better than 2018. While 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 are likely to hurt the company's margins in 2020 as well.

Amid the forecast of lower light-vehicle production in Europe, China, Japan and Korea, Gentex's bottom line are likely to get impacted in the near term.

Last Earnings Report

Gentex Delivers Dismal Q2 Show

Gentex reported second-quarter 2020 earnings per share of 2 cents, missing the Zacks Consensus Estimate of 12 cents. The bottom line also declined from the year-ago earnings of 42 cents per share. Coronavirus-induced shutdowns in various parts of Asia, Europe and North America dented revenues and earnings of the automatic-dimming rearview-mirror specialist in second-quarter 2020.

During the quarter under review, total revenues came in at \$229.93 million, which missed the Zacks Consensus Estimate of \$262 million. Moreover, the top line fell from the year-ago figure of \$468.7 million.

Key Takeaways

The company recorded adjusted gross margin of 20.8% in the quarter under review, down from the year-ago quarter's 37.7% due to lost revenues amid the coronavirus pandemic, manufacturing inefficiencies and annual customer price reductions.

In the quarter, auto-dimming mirror shipments in the North America market plunged 65% from the prior-year quarter to 1.24 million units. In the International market, the same fell 45% from the prior-year quarter to 4.02 million units. Total shipments declined 51% year over year to 5.26 million units, as global light vehicle production dwindled 45% in the second quarter of 2020.

Operating expenses increased 4.2% year over year to \$50.7 million in second-quarter 2020. SG&A expenses rose to \$21.7 million from \$20.2 million in the year-ago quarter. Engineering and R&D expenses increased to \$28.9 million in second-quarter 2020 from \$28.3 million recorded in the year-ago period.

During the quarter under review, the company tapped brakes on the share repurchase program in a bid to preserve cash. As of Jun 30, 2020, Gentex had around 13 million shares remaining under the buyback program. Nonetheless, it continues to pay dividends of 12 cents a share. Notably, the company had cash and cash equivalents of \$343.8 million as of Jun 30, 2020.

Forecasts

Things are not looking up for the auto sector amid the COVID-19 pandemic, as is evident from depressed demand for vehicles amid weak consumer confidence. IHS Markit expects total light vehicle production to decline 20% year over year in 2020 and 7% for the second half of the year.

Gentex has provided guidance for the second half of 2020. The company envisions net sales in the band of \$865-\$915 million. Gross margin is anticipated in the range of 36-37%. Capex and operating expenses are estimated within \$30-\$40 million and \$88-\$93 million, respectively. Amid coronavirus-led uncertainty, Gentex is withdrawing revenue forecast for 2021.

Quarter Ending **06/2020**

Report Date	Jul 24, 2020
Sales Surprise	-12.29%
EPS Surprise	-83.33%
Quarterly EPS	0.02
Annual EPS (TTM)	1.21

Valuation

Gentex's shares are down 4.9% in the year to date period and up 4% in the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are down 0.3% and up 33.2% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are up 14.2% and up 57.6%, respectively.

The S&P 500 index is up 4.9% in the year to date period and 16.7% in the past year.

The stock is currently trading at 18.44X forward 12-month earnings, which compares to 22.21X for the Zacks sub-industry, 25.18X for the Zacks sector and 22.86X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.13X and as low as 10.36X, with a 5-year median of 13.95X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$29 price target reflects 19.5X 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	18.44	22.21	25.18	22.86
	5-Year High	19.13	25.97	25.62	22.86
	5-Year Low	10.36	8.37	8.2	15.25
	5-Year Median	13.95	11.43	9.9	17.58
EV/EBITDA TTM	Current	14.33	8.25	16.47	12.78
	5-Year High	14.45	8.34	16.47	12.85
	5-Year Low	6.58	3.92	6.94	8.25
	5-Year Median	8.79	6.3	9.34	10.91
P/S F12M	Current	3.81	0.7	0.96	3.71
	5-Year High	4.04	0.78	0.96	3.71
	5-Year Low	2.27	0.43	0.49	2.53
	5-Year Median	3	0.61	0.61	3.05

As of 08/18/2020

Industry Analysis Zacks Industry Rank: Top 36% (91 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
BRP Inc. (DOOO)	Outperform	1
LCI Industries (LCII)	Outperform	1
Wabash National Corporation (WNC)	Outperform	2
China Yuchai International Limited (CYD)	Neutral	3
Halfords Group Plc (HLFDY)	Neutral	4
Modine Manufacturing Company (MOD)	Neutral	3
Gentherm Inc (THRM)	Neutral	3
Veoneer, Inc. (VNE)	Neutral	3

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	GNTX	X Industry	S&P 500	DOOO	HLFDY	MOD
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	4	3
VGM Score	D	-	-	B	A	A
Market Cap	6.77 B	1.19 B	23.71 B	4.39 B	458.96 M	346.78 M
# of Analysts	5	3	14	5	1	2
Dividend Yield	1.74%	0.00%	1.63%	0.45%	3.08%	0.00%
Value Score	C	-	-	C	A	B
Cash/Price	0.06	0.18	0.07	0.14	0.34	0.22
EV/EBITDA	10.51	5.82	13.45	8.31	NA	6.51
PEG Ratio	4.63	2.61	3.01	NA	NA	2.61
Price/Book (P/B)	3.72	1.68	3.18	NA	0.99	0.70
Price/Cash Flow (P/CF)	13.17	5.00	12.70	9.93	2.18	2.64
P/E (F1)	23.22	28.48	21.98	28.48	32.93	26.08
Price/Sales (P/S)	4.22	0.50	2.46	0.98	NA	0.19
Earnings Yield	4.28%	1.77%	4.33%	3.52%	3.04%	3.83%
Debt/Equity	0.00	0.53	0.76	-2.45	1.40	0.91
Cash Flow (\$/share)	2.09	2.94	6.94	5.07	2.11	2.56
Growth Score	C	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	9.57%	4.10%	10.44%	15.50%	NA	17.36%
Proj. EPS Growth (F1/F0)	-29.16%	-60.25%	-5.97%	-38.68%	-76.27%	-75.24%
Curr. Cash Flow Growth	-1.98%	-4.87%	5.22%	19.75%	90.03%	-17.34%
Hist. Cash Flow Growth (3-5 yrs)	7.66%	6.79%	8.52%	NA	NA	9.73%
Current Ratio	3.95	1.69	1.33	0.92	1.15	1.73
Debt/Capital	0.00%	40.41%	44.50%	NA	58.32%	47.63%
Net Margin	18.60%	-0.81%	10.13%	2.09%	NA	-1.05%
Return on Equity	16.26%	0.62%	14.59%	-51.98%	NA	6.46%
Sales/Assets	0.75	1.10	0.51	1.57	NA	1.17
Proj. Sales Growth (F1/F0)	-15.18%	-14.69%	-1.54%	-14.19%	-7.97%	0.00%
Momentum Score	F	-	-	A	D	D
Daily Price Chg	-0.54%	-0.51%	-0.41%	4.49%	0.00%	-1.88%
1 Week Price Chg	1.40%	5.19%	1.09%	7.10%	12.52%	1.17%
4 Week Price Chg	5.59%	8.40%	3.41%	19.31%	17.00%	32.42%
12 Week Price Chg	4.87%	25.83%	9.80%	39.31%	-7.24%	35.33%
52 Week Price Chg	4.08%	8.16%	3.43%	70.01%	-0.65%	-31.79%
20 Day Average Volume	1,781,685	233,435	1,894,669	103,286	930	428,916
(F1) EPS Est 1 week change	-1.67%	0.00%	0.00%	27.79%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.92%	4.52%	1.86%	35.85%	0.00%	8.33%
(F1) EPS Est 12 week change	-6.67%	9.00%	2.86%	62.39%	-73.08%	-72.73%
(Q1) EPS Est Mthly Chg	11.89%	0.00%	0.80%	18.47%	NA	NA

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	C
Growth Score	C
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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