

## Gentex Corporation(GNTX)

**\$26.65** (As of 06/23/20)

Price Target (6-12 Months): **\$28.00**

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:B

Value: C

Growth: C

Momentum: B

## 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 Given the dreary scenario, Gentex has downwardly revised its guidance for 2020 and has withdrawn 2021 revenue forecasts. Rising SG&A and R&D costs are denting the profit levels of the firm. Hence, the investors are recommended to wait for a better entry point.

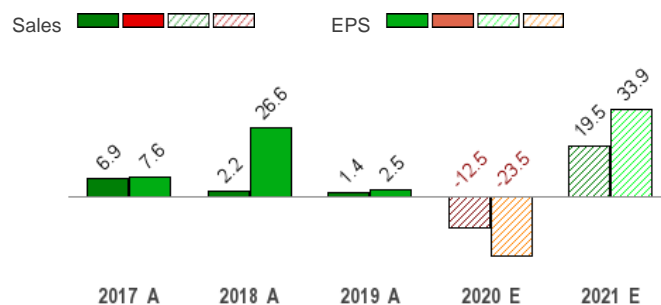
## Price, Consensus & Surprise



## Data Overview

|                            |   |
|----------------------------|---|
| 52 Week High-Low           | \$31.27 - \$19.48                               |
| 20 Day Average Volume (sh) | 2,196,818                                       |
| Market Cap                 | \$6.5 B   |
| YTD Price Change           | -8.0%   |
| Beta                       | 1.15  |
| Dividend / Div Yld         | \$0.48 / 1.8%                                   |
| Industry                   | <a href="#">Automotive - Original Equipment</a> |
| Zacks Industry Rank        | Top 38% (97 out of 253)                         |

## Sales and EPS Growth Rates (Y/Y %)



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | -2.7%      |
| Last Sales Surprise       | 1.4%       |
| EPS F1 Est- 4 week change | 0.5%       |
| Expected Report Date      | 07/17/2020 |
| Earnings ESP              | 0.0%       |
| P/E TTM                   | 16.6       |
| P/E F1                    | 21.0       |
| PEG F1                    | 4.2        |
| P/S TTM                   | 3.5        |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 525 E | 455 E | 484 E | 498 E | 1,945 E |
| 2020 | 454 A | 268 E | 438 E | 467 E | 1,627 E |
| 2019 | 469 A | 469 A | 478 A | 444 A | 1,859 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.46 E | \$0.42 E | \$0.45 E | \$0.46 E | \$1.70 E |
| 2020 | \$0.36 A | \$0.13 E | \$0.38 E | \$0.42 E | \$1.27 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 06/23/2020. The reports text is as of 06/24/2020.

## 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.

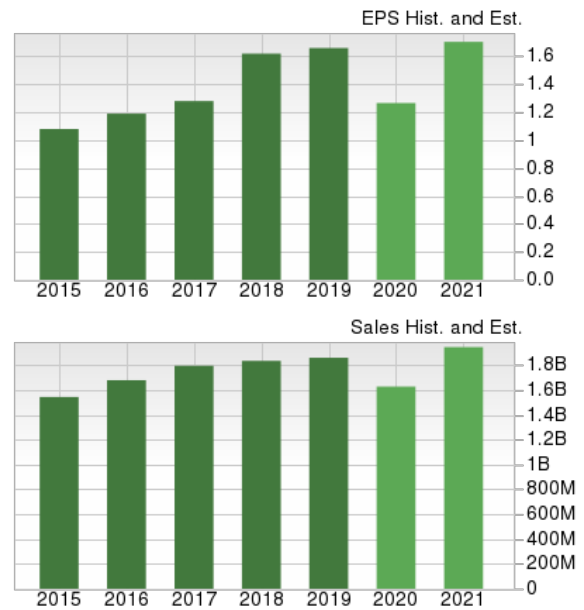
Gentex Corporation currently has the following reportable segments: Automotive Products which includes Automotive Rear-view Mirrors and Electronics and HomeLink Modules; and other segments which includes Dimmable Aircraft Windows and Fire Protection Products.

**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.



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## 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. The company remains committed to shareholder value maximization. It actively engages in share buybacks and dividend payouts, which boosts investor's confidence. Its total debt-to-capital ratio stands at 0.04, lower than its industry's 0.45. This favorable reading indicates that the firm is not a very leveraged company.

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

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### Reasons To Sell:

- ▼ Things are worsening for the auto sector amid the COVID-19 pandemic, as is evident from factory closures and depressed demand for vehicles amid weak consumer confidence. IHS Markit expects total light vehicle production to decline 20% year over year in 2020. 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. Amid coronavirus-led uncertainty, Gentex is withdrawing revenue forecast for 2021.
  - ▼ Given the dreary scenario, Gentex has downwardly revised its guidance for 2020. The company now envisions net sales in the band of \$1.58-\$1.67 billion, down from its previous guidance range of \$1.91-\$2 billion. Gross margin is anticipated in the range of 34-35% compared with the prior guided range of 36-37%.
  - ▼ 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 quarter of 2020 rose to \$51 million, up from \$48 million recorded in the prior year quarter. Increasing competition along with tariff costs are other causes of concern. Meanwhile, the firm's cash balance also declined from \$296 million as of Dec 31, 2019 to \$278 million as of Mar 31, 2020.
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Given the dreary scenario amid coronavirus, Gentex has downwardly revised its guidance for 2020.

## Last Earnings Report

### Gentex Delivers Dismal Q1 Show

Gentex reported first-quarter 2020 earnings per share of 36 cents, missing the Zacks Consensus Estimate by a penny. Weaker-than-expected automotive net sales resulted in the underperformance. Precisely, first-quarter automotive net sales totaled \$439.9 million, lagging the consensus mark of \$463 million.

The bottom line also declined from the year-ago earnings of 40 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 first-quarter 2020.

During the quarter under review, total revenues came in at \$453.7 million, which missed the Zacks Consensus Estimate of \$467 million. Moreover, the top line fell from the year-ago figure of \$468.6 million.

### Key Takeaways

The company recorded gross margin of 34.5% in the quarter under review, down from the year-ago quarter's 36.2% due to lost revenues amid coronavirus and annual customer price reductions.

In the quarter, auto-dimming mirror shipments in the North America market dropped 6% from the prior-year quarter to 3.2 million units. In the International market, the same fell 1% from the prior-year quarter to 7.1 million units. Total shipments also declined 3% year over year to 10.4 million units, as global light vehicle production dwindled 24% in the first quarter of 2020.

Operating expenses increased 7% year over year to \$51.6 million in first-quarter 2020. Product launches and higher R&D costs drove total expenses. SG&A expenses rose to \$21.9 million from \$19.9 million in the year-ago quarter. Engineering and R&D expenses increased to \$29.6 million in first-quarter 2020 from \$28.1 million recorded in the year-ago period.

### Buyback & Dividend

During the quarter under review, the company repurchased approximately 7 million shares of its common stock at \$25.48 per share. As of Mar 31, 2020, Gentex had around 13 million shares remaining under the buyback program. During the quarter, it announced a 4% payout hike, representing the 10th consecutive year of dividend increase. While most of the companies are suspending dividends and share buybacks to conserve cash amid the pandemic-led financial crisis, Gentex remains committed to preserve shareholder values. Notably, the company had cash and cash equivalents of \$278.5 million as of Mar 31, 2020.

### 2020 Guidance Trimmed

Things are worsening for the auto sector amid the COVID-19 pandemic, as is evident from factory closures and depressed demand for vehicles amid weak consumer confidence. IHS Markit expects total light vehicle production to decline 20% year over year in 2020. Given the dreary scenario, Gentex has downwardly revised its guidance for 2020. The company now envisions net sales in the band of \$1.58-\$1.67 billion, down from its previous guidance range of \$1.91-\$2 billion. Gross margin is anticipated in the range of 34-35% compared with the prior guided range of 36-37%. Capex and operating expenses are estimated within \$60-\$70 million and \$195-\$205 million, respectively. Amid coronavirus-led uncertainty, Gentex is withdrawing revenue forecast for 2021.

Quarter Ending **03/2020**

| Report Date      | Apr 24, 2020 |
|------------------|--------------|
| Sales Surprise   | 1.40%        |
| EPS Surprise     | -2.70%       |
| Quarterly EPS    | 0.36         |
| Annual EPS (TTM) | 1.61         |

## Valuation

Gentex's shares are down 8.1% in the year to date period and up 9.4% in the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are down 11.9% and up 3.3% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.4% and up 15.5%, respectively.

The S&P 500 index is down 2.7% in the year to date period and up 7.4% in the past year.

The stock is currently trading at 18.08X forward 12-month earnings, which compares to 24.9X for the Zacks sub-industry, 24.61X for the Zacks sector and 22.37X 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 \$28 price target reflects 19.05X 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       | 18.08 | 24.9         | 24.61  | 22.37   |
|                            | 5-Year High   | 19.13 | 25.8         | 24.61  | 22.37   |
|                            | 5-Year Low    | 10.36 | 8.36         | 8.2    | 15.23   |
|                            | 5-Year Median | 13.95 | 11.41        | 9.9    | 17.49   |
| EV/EBITDA TTM              | Current       | 10.77 | 5.48         | 10.72  | 11.56   |
|                            | 5-Year High   | 12.55 | 8.44         | 11.31  | 12.85   |
|                            | 5-Year Low    | 6.58  | 3.94         | 6.94   | 8.25    |
|                            | 5-Year Median | 8.78  | 6.32         | 9.24   | 10.83   |
| P/S F12M                   | Current       | 3.68  | 0.66         | 0.76   | 3.49    |
|                            | 5-Year High   | 4.04  | 0.78         | 0.76   | 3.49    |
|                            | 5-Year Low    | 2.27  | 0.44         | 0.49   | 2.53    |
|                            | 5-Year Median | 2.97  | 0.61         | 0.61   | 3.02    |

As of 06/23/2020

## Industry Analysis Zacks Industry Rank: Top 38% (97 out of 253)



## Top Peers

| Company (Ticker)                         | Rec          | Rank |
|--|--------------|------|
| Halfords Group Plc (HLFDY)               | Outperform   | 2    |
| Veoneer, Inc. (VNE)                      | Outperform   | 2    |
| China Yuchai International Limited (CYD) | Neutral      | 3    |
| Unique Fabricating, Inc. (UFAB)          | Neutral      | 2    |
| Wabash National Corporation (WNC)        | Neutral      | 3    |
| LCI Industries (LCII)                    | Underperform | 5    |
| Modine Manufacturing Company (MOD)       | Underperform | 5    |
| Gentherm Inc (THRM)                      | Underperform | 5    |

| Industry Comparison Industry: Automotive - Original Equipment |           |            |           | Industry Peers |              |         |
|---|-----------|------------|-----------|----------------|--------------|---------|
|   | GNTX      | X Industry | S&P 500   | HLFDY          | MOD          | UFAB    |
| Zacks Recommendation (Long Term)                              | Neutral   | -          | -         | Outperform     | Underperform | Neutral |
| Zacks Rank (Short Term)                                       | 3         | -          | -         | 2              | 5            | 2       |
| VGM Score   | B         | -          | -         | A              | B            | A       |
| Market Cap  | 6.53 B    | 727.13 M   | 21.86 B   | 410.02 M       | 277.49 M     | 35.21 M |
| # of Analysts   | 5         | 3          | 14        | 1              | 3            | 1       |
| Dividend Yield  | 1.80%     | 0.00%      | 1.92%     | 6.89%          | 0.00%        | 0.00%   |
| Value Score   | C         | -          | -         | A              | A            | A       |
| Cash/Price  | 0.06      | 0.19       | 0.07      | 0.08           | 0.27         | 0.02    |
| EV/EBITDA   | 10.11     | 5.01       | 12.65     | NA             | 5.98         | 8.74    |
| PEG Ratio   | 4.13      | 2.09       | 2.90      | NA             | 0.61         | NA      |
| Price/Book (P/B)  | 3.56      | 1.25       | 2.99      | 0.87           | 0.56         | 0.89    |
| Price/Cash Flow (P/CF)  | 12.73     | 4.18       | 11.61     | 3.70           | 2.13         | 2.87    |
| P/E (F1)  | 20.69     | 23.22      | 21.08     | 7.92           | 6.11         | 7.35    |
| Price/Sales (P/S)   | 3.54      | 0.37       | 2.25      | NA             | 0.14         | 0.23    |
| Earnings Yield  | 4.77%     | 2.21%      | 4.42%     | 12.62%         | 16.30%       | 13.61%  |
| Debt/Equity   | 0.00      | 0.49       | 0.77      | 0.99           | 0.92         | 1.13    |
| Cash Flow (\$/share)  | 2.09      | 3.19       | 7.01      | 1.11           | 2.56         | 1.25    |
| Growth Score  | C         | -          | -         | A              | C            | A       |
| Hist. EPS Growth (3-5 yrs)                                    | 12.22%    | 9.09%      | 10.84%    | NA             | 26.50%       | -25.78% |
| Proj. EPS Growth (F1/F0)                                      | -23.73%   | -57.28%    | -10.80%   | -7.14%         | -14.92%      | 152.69% |
| Curr. Cash Flow Growth  | -1.98%    | -5.66%     | 5.46%     | -10.56%        | -17.34%      | 1.21%   |
| Hist. Cash Flow Growth (3-5 yrs)                              | 7.66%     | 4.57%      | 8.55%     | NA             | 9.73%        | 6.79%   |
| Current Ratio   | 3.45      | 1.62       | 1.29      | 0.75           | 1.70         | 2.77    |
| Debt/Capital  | 0.00%     | 40.91%     | 45.14%    | 49.66%         | 47.80%       | 53.08%  |
| Net Margin  | 22.23%    | 1.92%      | 10.53%    | NA             | -0.11%       | -5.95%  |
| Return on Equity  | 21.58%    | 12.25%     | 16.06%    | NA             | 10.12%       | 1.71%   |
| Sales/Assets  | 0.85      | 1.26       | 0.55      | NA             | 1.27         | 1.38    |
| Proj. Sales Growth (F1/F0)                                    | -12.47%   | -14.79%    | -2.66%    | -7.27%         | 2.04%        | 0.00%   |
| Momentum Score  | B         | -          | -         | C              | B            | D       |
| Daily Price Chg   | -0.22%    | 0.31%      | 0.04%     | -2.18%         | 2.44%        | 7.46%   |
| 1 Week Price Chg  | 1.39%     | -0.11%     | 0.92%     | -8.87%         | -3.18%       | 2.88%   |
| 4 Week Price Chg  | 1.41%     | 4.86%      | 2.71%     | -17.14%        | 8.98%        | 20.00%  |
| 12 Week Price Chg   | 20.26%    | 38.34%     | 19.78%    | -4.22%         | 68.00%       | 53.85%  |
| 52 Week Price Chg   | 9.49%     | -13.82%    | -6.05%    | -37.41%        | -59.22%      | 27.66%  |
| 20 Day Average Volume   | 2,196,818 | 210,231    | 2,819,961 | 3,819          | 639,664      | 18,097  |
| (F1) EPS Est 1 week change                                    | 0.32%     | 0.00%      | 0.00%     | 0.00%          | 0.00%        | 0.00%   |
| (F1) EPS Est 4 week change                                    | 0.48%     | 0.00%      | 0.00%     | 0.00%          | -6.29%       | 0.00%   |
| (F1) EPS Est 12 week change                                   | -22.41%   | -53.96%    | -12.72%   | NA             | -24.72%      | 0.00%   |
| (Q1) EPS Est Mthly Chg  | -2.78%    | 0.00%      | 0.00%     | NA             | -94.95%      | 0.00%   |

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## 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.

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### 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 | B |
| 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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### Disclosures

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