

Hexcel Corporation (HXL)

\$79.89 (As of 01/13/20)

Price Target (6-12 Months): **\$85.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/15/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Hexcel Corp.'s strong air traffic growth and robust order flows on a global scale have been fueling growth in the commercial aircraft market, which in turn should boost its business. It continues to invest in major innovations and prepare for future aircraft platforms along with other composite applications, which will drive Hexcel's long-term growth objective. However, ever since the grounding of 737 jets this March, Boeing announced a temporary reduction in the production rate to 42 planes per month, from 52 thereafter. Due to the reduction in production units, Hexcel Corp's sales to the suppliers of Boeing might get affected. Shares of the company have underperformed its industry in a year's time.

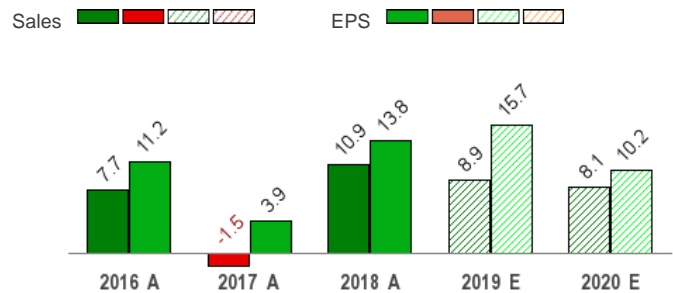
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.00 - \$59.66
20 Day Average Volume (sh)	858,310
Market Cap	\$6.7 B
YTD Price Change	9.0%
Beta	0.97
Dividend / Div Yld	\$0.68 / 0.9%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 27% (186 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	-5.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/22/2020
Earnings ESP	0.0%
P/E TTM	22.8
P/E F1	20.5
PEG F1	2.1
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					2,575 E
2019	610 A	609 A	573 A	591 E	2,383 E
2018	540 A	548 A	541 A	561 A	2,189 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$3.89 E
2019	\$0.84 A	\$0.94 A	\$0.90 A	\$0.86 E	\$3.53 E
2018	\$0.68 A	\$0.75 A	\$0.80 A	\$0.82 A	\$3.05 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 01/13/2020. The reports text is as of 01/14/2020.

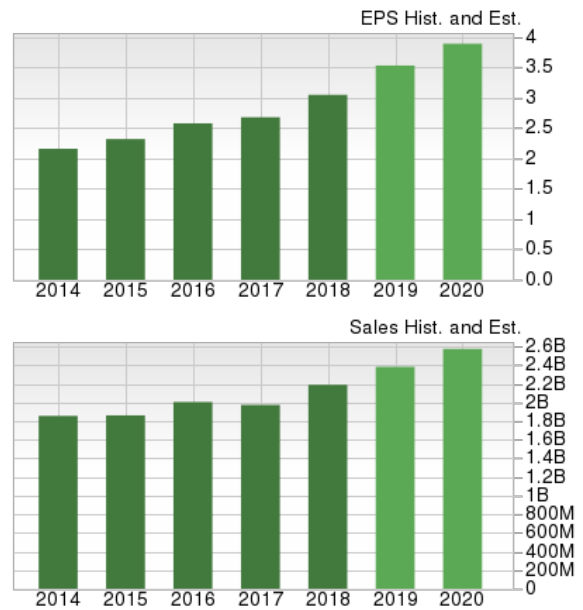
Overview

Delaware-based Hexcel Corporation develops, manufactures and distributes lightweight, high-performance structural materials for use in Commercial Aerospace, Space & Defense and Industrial markets. Hexcel Corporation, founded in 1946, was incorporated in California in 1948, and reincorporated in Delaware in 1983. The company's products are used in a wide variety of end applications, such as commercial and military aircraft, space launch vehicles and satellites, wind turbine blades, automotive and other complex industrial applications. The company serves international markets through manufacturing facilities located in the United States, Asia Pacific, Europe, Russia and Africa.

Hexcel Corporation operates in two segments namely the Composite Materials and Engineered Products.

The **Composite Materials** segment manufactures and markets carbon fibers, fabrics and specialty reinforcements, prepregs and other fiber-reinforced matrix materials, structural adhesives, honeycomb, molding compounds, tooling materials, polyurethane systems and laminates that are incorporated into military and commercial aircrafts, wind turbine blades, recreational products, automobiles and other industrial applications. Net sales for this segment were \$1,770.5 million in 2018, representing 80.9% of the company's total sales.

The **Engineered Products** segment manufactures and markets composite structures and precision machined honeycomb parts primarily for use in the aerospace industry. Composite structures are manufactured from a variety of composite and other materials, including prepregs, honeycomb, and structural adhesives, using manufacturing processes like autoclave processing, multi-axis numerically controlled machining, heat forming, and other composite manufacturing techniques. Net sales for this segment were \$418.6 million in 2018, representing 19.1% of the company's total sales.



Reasons To Buy:

- ▲ The recent expansion observed in the global aerospace market has been instilling substantial growth opportunities for equipment manufacturers like Hexcel Corp. In particular, the company continues to grow in the commercial aerospace market, driven by increasing global demand for passenger airline travel. Notably, air traffic has expanded footprint in the past few years across emerging markets like Asia, as countries like India and Japan are strengthening their business rapidly. Evidently, per the latest report by the International Air Transport Association (IATA), global passenger traffic increased 6.3% in 2018, driven by demand growth of 7.3% in the Asia Pacific and Latin America regions. Such air traffic growth will encourage airlines to adopt more routes for attracting more customers, thereby boosting jet demands.

The recent expansion observed in the global aerospace market has been instilling substantial growth opportunities for Hexcel Corp.

- ▲ During the second quarter, Hexcel Corp announced its financial outlook through 2021 long with its other long-term targets. For the three-year period 2019 to 2021, the company expects total sales to witness a compounded annual growth rate (CAGR) of 6-9%. Strong commercial aerospace programs, continued growth in the F35 Joint Strike Fighter build rate and consistent growth in other fixed wing programs are expected to drive growth. Also, double-digit demand growth for its wind energy products are expected to contribute to the top line.

Hexcel Corp further anticipates adjusted diluted earnings per share to grow at a double-digit rate, supported by operational excellence and a total capital expenditure of \$500-\$550 million during the three-year period. The company also expects continued expansion of free cash flow generation, providing a total of \$1.8 billion between 2019 and 2023, which will be available for continued investment in organic growth, strategic acquisitions and to return to its shareholders.

- ▲ The company continues to invest in major innovations and prepare for future aircraft platforms along with other composite applications. Such investments will drive the development and adoption of advanced material technologies, thereby boosting Hexcel's long-term growth. Moreover, the company is benefiting from the successful integration of acquisitions from some of its newest assets at Roussillon and Morocco. In January, Hexcel completed the acquisition of ARC Technologies LLC, a leading supplier of custom RF / EMI and microwave absorbing composite materials for military, aerospace and industrial applications. Positive synergies from such acquisitions are expected to boost Hexcel's growth significantly.
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Reasons To Sell:

- ▼ Lower deliveries for Boeing's 737 jets continued during the third quarter of 2019, following the grounding of these jets since this March. Due to such unforeseen circumstances witnessed earlier, Boeing announced a temporary production rate decrease to 42 planes per month in April, from 52 thereafter. Due to the reduction in Boeing's production units, Hexcel's sales to the suppliers of Boeing is likely to get affected.
- ▼ For the sale of advanced composites, Hexcel Corporation competes in a fragmented marketplace with a number of U.S. and international companies on a worldwide basis. The company also competes with producers of substitute composites, in addition to competing directly with companies offering similar products. Broader markets for composites are highly competitive, which leads to intense competition within the marketplace from both existing and new competitors. This in turn may harm Hexcel Corp's. business operations.
- ▼ The company's shares have increased 33.5% compared with the industry's rally of 46% in the past one year. Moreover, a comparative analysis of its historical P/S ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/S ratio of 2.77. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 2.19. Therefore, the company's valuation from a P/S perspective looks stretched when compared with its own range in the time period.

737 Max issue and tough competition poses concern for Hexcel Corp.'s growth

Last Earnings Report

Hexcel Corporation Q3 Earnings Beat, Revenues Up Y/Y

Hexcel Corporation reported third-quarter 2019 earnings of 90 cents per share, which surpassed the Zacks Consensus Estimate of 89 cents by 1.1%. The bottom line also improved 12.5% from the prior-year quarter's 80 cents. The year-over-year upside can be attributed to robust sales and margin improvement.

The company reported GAAP earnings of 93 cents per share compared with the year-ago quarter's 91 cents.

Quarter Ending **09/2019**

Report Date	Oct 21, 2019
Sales Surprise	-5.22%
EPS Surprise	1.12%
Quarterly EPS	0.90
Annual EPS (TTM)	3.50

Total Sales

Net sales totaled \$572.5 million, which missed the Zacks Consensus Estimate of \$604 million by 5.2%. However, net sales improved 5.9% from the year-ago quarter's \$540.5 million. The year-over-year increase can be attributed to sales growth in the company's Commercial Aerospace, and Space and Defense segments.

Operational Update

Hexcel's gross margin was 27.6% in the third quarter, expanding 110 basis points year over year. The improvement reflects strong operational execution.

The company's operating expenses amounted to \$48 million in the third quarter compared with the year-ago quarter's \$46.5 million. Selling, general and administrative expenses grew 3.7%, while research and technology expenses rose 2.2%.

Segmental Performance

Commercial Aerospace: Net sales increased 3.4% year over year to \$385.9 million. The uptick can be attributed to the strong performance of the Airbus A320neo, Airbus A350 and Boeing 787 programs.

Space and Defense: Net sales grew 21.5% year over year to \$109.8 million, primarily owing to the growth in the F-35 Joint Strike Fighter program.

Industrial: Net sales declined 0.3% year over year to \$76.8 million on low automotive sales.

Financial Details

As of Sep 30, 2019, cash and cash equivalents were \$47 million compared with \$32.7 million as of Dec 31, 2018.

Long-term debt totaled \$1,115.2 million as of Sep 30, 2019, up from \$947.4 million as of Dec 31, 2018.

At the end of third-quarter 2019, cash generated from operating activities summed \$277.3 million compared with \$278.4 million generated at the end of third-quarter 2018.

The effective tax rate was 18.4% in the reported quarter compared with 9.1% in the third quarter of 2018. Free cash flow was \$114.6 million for the first nine months of 2019 compared with \$128.2 million for the same period last year.

2019 Guidance

For 2019, Hexcel lowered its sales guidance to \$2.34-\$2.40 billion from \$2.38-\$2.48 billion. The Zacks Consensus Estimate for full-year sales, pegged at \$2.43 billion, lies above the company's projected view.

Hexcel projects the adjusted earnings per share to be \$3.43-\$3.53 for the year. The Zacks Consensus Estimate for the company's 2019 earnings, pegged at \$3.52, toward the endpoint of the company's guided range.

Hexcel expects free cash flow to exceed \$250 million and accrual basis capital expenditures between \$170 million and \$190 million for 2019.

Recent News

On **Jan 12, 2020**, Hexcel Corporation and Woodward announced that they have entered into an all-stock merger of equals agreement for providing premier, technology-rich integrated systems and services to the aerospace and industrial sectors. Post the merger, the new company will be named Woodward Hexcel, with more than \$5 billion in revenues.

The combined company will be among the top independent aerospace and defense suppliers globally, in revenue terms.

Valuation

Hexcel Corp.'s shares slipped 0.7% in the past six months and went up 33.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 14.9% and 6.7% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 46% whereas the sector is up by 27.8%.

The S&P 500 index is up 10.8% in the past six months period and 27.8% in the past year.

The stock is currently trading at 20.44X of forward 12-month earnings, which compares to 20.32X for the Zacks sub-industry, 18.05X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.52X and as low as 14.58X, with a 5-year median of 19.18X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$85 price target reflects 21.74X forward 12-month earnings.

The table below shows summary valuation data for HXL

Valuation Multiples - HXL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.44	20.32	18.05	19
	5-Year High	23.52	20.63	21.54	19.34
	5-Year Low	14.58	14.51	16.82	15.17
	5-Year Median	19.18	17.91	18.05	17.44
P/S F12M	Current	2.61	1.89	1.28	3.52
	5-Year High	2.91	1.89	1.39	3.52
	5-Year Low	1.7	1.09	0.8	2.54
	5-Year Median	2.33	1.42	1.06	3
EV/EBITDA TTM	Current	12.66	13.26	12.79	12.12
	5-Year High	16.66	13.26	13.54	12.86
	5-Year Low	10.21	8.95	7.28	8.48
	5-Year Median	13.2	10.26	9.93	10.67

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (186 out of 254)



Top Peers

Heico Corporation (HEI)	Outperform
Leidos Holdings, Inc. (LDOS)	Outperform
Teledyne Technologies Incorporated (TDY)	Outperform
AAR Corp. (AIR)	Neutral
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Neutral
Astronics Corporation (ATRO)	Neutral
Curtiss-Wright Corporation (CW)	Neutral
Spirit Aerosystems Holdings, Inc. (SPR)	Underperform

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	HXL Neutral	X Industry	S&P 500	AJRD Neutral	ATRO Neutral	TDY Outperform
VGM Score	C	-	-	C	D	C
Market Cap	6.74 B	1.65 B	24.31 B	4.21 B	867.50 M	13.49 B
# of Analysts	3	3	13	2	1	2
Dividend Yield	0.85%	0.00%	1.76%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	D	D
Cash/Price	0.01	0.03	0.04	0.20	0.03	0.01
EV/EBITDA	15.75	14.68	14.12	12.51	10.56	26.68
PEG Ratio	2.01	2.30	2.05	4.87	2.07	4.34
Price/Book (P/B)	4.75	3.40	3.34	7.42	2.16	5.25
Price/Cash Flow (P/CF)	17.38	14.91	13.66	17.99	11.19	30.19
P/E (F1)	20.02	20.63	18.82	26.80	20.74	32.52
Price/Sales (P/S)	2.87	1.91	2.64	2.22	1.12	4.38
Earnings Yield	4.87%	4.85%	5.29%	3.74%	4.84%	3.08%
Debt/Equity	0.79	0.37	0.72	0.71	0.42	0.33
Cash Flow (\$/share)	4.60	2.52	6.94	2.97	2.51	12.25
Growth Score	C	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	9.61%	12.34%	10.56%	41.45%	-19.77%	15.23%
Proj. EPS Growth (F1/F0)	10.19%	9.79%	7.49%	6.68%	42.63%	9.17%
Curr. Cash Flow Growth	12.60%	11.25%	14.83%	70.48%	28.11%	21.28%
Hist. Cash Flow Growth (3-5 yrs)	9.63%	4.09%	9.00%	4.56%	14.18%	11.35%
Current Ratio	2.22	2.24	1.23	1.54	2.96	1.48
Debt/Capital	44.03%	29.72%	42.99%	41.43%	29.72%	24.67%
Net Margin	12.73%	7.81%	11.08%	7.34%	12.68%	12.27%
Return on Equity	21.74%	9.39%	17.16%	27.14%	7.98%	15.52%
Sales/Assets	0.76	0.75	0.55	0.74	1.00	0.74
Proj. Sales Growth (F1/F0)	8.07%	3.48%	4.23%	4.69%	-3.43%	7.35%
Momentum Score	B	-	-	F	D	D
Daily Price Chg	9.57%	0.00%	0.73%	2.33%	0.11%	1.18%
1 Week Price Chg	-3.76%	0.22%	0.39%	7.09%	-1.65%	1.53%
4 Week Price Chg	4.12%	1.96%	1.84%	18.14%	-2.90%	6.53%
12 Week Price Chg	6.86%	11.52%	6.48%	16.75%	-3.14%	14.90%
52 Week Price Chg	32.14%	28.09%	23.15%	45.89%	-7.96%	71.22%
20 Day Average Volume	858,310	98,526	1,578,594	556,847	244,045	205,378
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.17%	-13.69%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.17%	-11.82%	0.00%
(F1) EPS Est 12 week change	-0.34%	-0.96%	-0.48%	-4.93%	-26.09%	3.17%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	0.00%	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	B
VGM Score	C

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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