

Jabil Inc. (JBL)

\$33.87 (As of 06/22/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/21/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

Jabil's third-quarter fiscal 2020 results were disappointing. Earnings declined on a year-over-year basis due to higher expenses as result of business interruptions caused by coronavirus outbreak. Slight revenue growth driven by DMS segment was partially offset by decline in EMS segment. Supply-chain constraints are expected to hurt Jabil's operations resulting in lower top-line growth. Moreover, soft demand due to the coronavirus-led economic crisis is likely to hurt top-line growth. Also, higher variable expenses related to business-interruption costs are anticipated to negatively impact the bottom line. However, Jabil's top line is expected to benefit from contract wins in healthcare, automotive, cloud and 5G. Strategic health care collaborations are key catalysts. Shares of Jabil have outperformed the industry year to date.

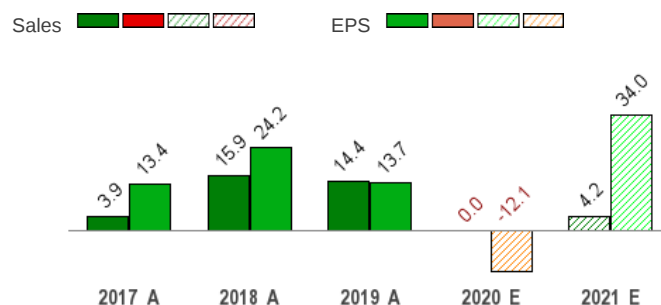
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.20 - \$17.63
20 Day Average Volume (sh)	1,555,458
Market Cap	\$5.1 B
YTD Price Change	-18.1%
Beta	1.26
Dividend / Div Yld	\$0.32 / 0.9%
Industry	Electronics - Manufacturing Services
Zacks Industry Rank	Bottom 14% (218 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.8%
Last Sales Surprise	13.7%
EPS F1 Est- 4 week change	-18.4%
Expected Report Date	09/22/2020
Earnings ESP	-4.4%
P/E TTM	12.1
P/E F1	12.9
PEG F1	1.1
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,946 E	6,309 E	6,319 E	6,754 E	26,333 E
2020	7,506 A	6,125 A	6,336 A	6,182 E	25,277 E
2019	6,506 A	6,067 A	6,136 A	6,573 A	25,282 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.00 E	\$0.81 E	\$0.80 E	\$1.01 E	\$3.51 E
2020	\$1.05 A	\$0.50 A	\$0.37 A	\$0.69 E	\$2.62 E
2019	\$0.90 A	\$0.64 A	\$0.57 A	\$0.88 A	\$2.98 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 06/22/2020. The reports text is as of 06/23/2020.

Overview

Headquartered in St. Petersburg, FL, Jabil, Inc., is one of the largest global suppliers of electronic manufacturing services (EMS). The company offers electronics design, production, product management and after-market services to customers catering to aerospace, automotive, computing, consumer, defense, industrial, instrumentation, medical, networking, peripherals, storage and telecommunications industries.

Jabil reported revenues of \$25.28 billion in fiscal 2019.

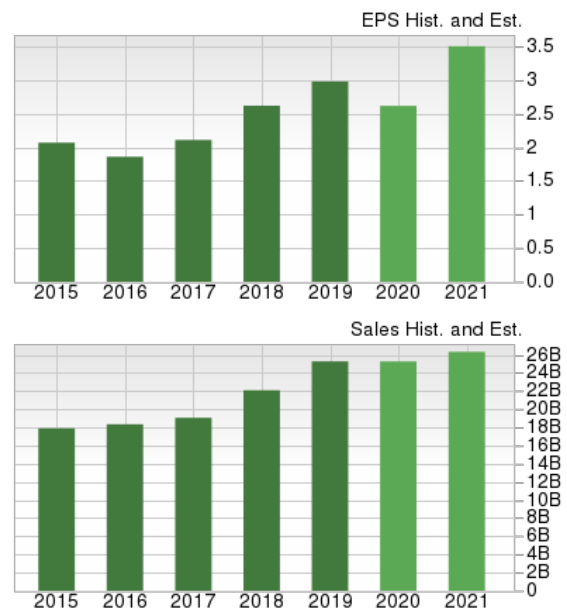
Beginning fiscal 2015, Jabil has two reporting segments: Electronics Manufacturing Services (EMS) segment and Diversified Manufacturing Services (DMS). The EMS segment includes enterprise and infrastructure, high velocity, and industrial energy businesses whereas the DMS segment will include Jabil's Nypro and Green Point brands.

The EMS segment (61% of fiscal 2019 revenues) is focused on leveraging IT, supply chain design and engineering, technologies largely centered on core electronics, sharing of large scale manufacturing infrastructure and serving a broad range of end markets. EMS segment is typically a low margin but high-volume business that manufactures products at a quicker cycle time and in larger quantities. The EMS segment includes customers primarily in the automotive, computing, digital home, energy, industrial, networking, printing, storage and telecommunications industries.

The DMS segment (39% of fiscal 2019 revenues) is focused on providing engineering solutions, heavy participation in consumer markets, access to higher growth markets and a focus on material sciences and technologies. The DMS segment is a high-margin business and includes customers primarily from the consumer lifestyles, health care, mobility and packaging industries.

The company's largest customers included Apple, Cisco, Hewlett-Packard Company, Keysight Technologies, LM Ericsson, NetApp, Nokia Networks, SolarEdge Technologies, Valeo S.A. and Zebra Technologies.

The company faces significant competition from the likes of Benchmark Electronics, Celestica, Flex, Hon-Hai Precision Industry, Plexus and Sanmina.



Reasons To Sell:

- ▼ Jabil's 2020 results are expected to reflect the coronavirus impact. Apart from supply-chain constraints that resulted in lack of components, the company's variable cost is expected to remain elevated due to business-interruption costs in China and other parts of the world. Jabil spent \$53 million on direct costs in February due to disruptions related to the coronavirus. The company expects to spend \$10-\$20 million on business disruption and interruption costs each for the months of March and April.
- ▼ Moreover, Jabil is exposed to significant customer-concentration risk, with its top five customers accounting for a significant portion of revenues. Given the competitive nature of the industry, the uncertainty in demand from or loss of any of its key customers will severely impact the company's results.
- ▼ Slower industry growth means competition from peers has become more intense. Therefore, in order to grow, companies in the EMS business must compete with each other for market share, resulting in a more competitive environment. As a result, margins are low throughout the industry. Jabil operates in a highly competitive environment, facing competition from both domestic and international electronic manufacturing services and design providers. Moreover, commoditization and consolidation add to the risks.
- ▼ As a part of its growth strategy, Jabil has made numerous acquisitions and is likely to continue doing the same in the future. Integration risks are a constant concern for Jabil as the competitive nature of the market necessitates acquisitions to maintain growth.

Jabil is negatively impacted by mobility weakness and sluggish spending in semiconductor capital equipment business.

Risks

- Jabil's focus on end-market and product diversification is a key catalyst. The company's target that "no product or product family should be greater than 5% operating income or cash flows in any fiscal year" is commendable. This initiative should position the company well on the growth trajectory. The diversification will increase reliability of the company's earnings and revenues, thereby driving returns for investors in the long haul.
 - Jabil's top-line growth is expected to benefit from strength in healthcare, cloud, retail and industrial. The company is expected to gain from rapid adoption of 5G wireless and cloud computing in the long haul.
 - The Johnson & Johnson deal is a major growth driver for Jabil. During the second quarter, Jabil transitioned the first two sites from Johnson & Johnson Medical Devices Companies (JJMDC). The company is on track to complete the third-phase in the current quarter. For fiscal 2020, revenues associated with the J&J collaboration are expected between \$800 million and \$1 billion.
 - Jabil has ample liquidity to pursue further growth opportunities. As of May 31, 2020, cash and cash equivalents were \$763.3 million compared with \$696.7 million as of Feb 29, 2020. Jabil added \$625 million in liquidity, bringing available committed capacity under the global credit facilities to \$3.7 billion at the end of third-quarter fiscal 2020.
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Last Earnings Report

Jabil Q3 Earnings Beat, Coronavirus Dents Y/Y Growth

Jabil (JBL) reported third-quarter fiscal 2020 earnings of 37 cents per share, which beat the Zacks Consensus Estimate by 8.8%. However, the figure decreased 35.1% year over year due to disruptions caused by coronavirus outbreak.

Revenues increased 3.3% year over year to \$6.33 billion and beat the Zacks Consensus Estimate by 13.7%.

Quarter Ending 05/2020

Report Date	Jun 19, 2020
Sales Surprise	13.67%
EPS Surprise	8.82%
Quarterly EPS	0.37
Annual EPS (TTM)	2.80

Quarter Details

Electronics Manufacturing Services (EMS) revenues accounted for 62% of total revenues and decreased 2% year over year to \$3.9 billion. However, Diversified Manufacturing Services (DMS) revenues accounted for 38% of total revenues and improved 13% year over year to \$2.4 billion.

Gross margin, on a GAAP basis, remained flat year over year at 7.2%.

Core EBITDA margin contracted 40 bps on a year-over-year basis to 5.6%.

Operating expenses on a GAAP basis expanded 130 bps on a year-over-year basis to 6.3%. As a percentage of revenues, while selling, general and administrative (SG&A) expenses expanded 30 bps year over year to 4.8%, research & development (R&D) expenses remained unchanged on a year-over-year basis.

Jabil spent \$50 million for restructuring workforce in the third quarter, primarily related to severance costs and extended health care benefits to those impacted by coronavirus.

Non-GAAP core operating margin contracted 30 bps on a year-over-year basis to 2.7%.

Balance Sheet & Cash Flow

As of May 31, 2020, cash and cash equivalents were \$763.3 million compared with \$696.7 million as of Feb 29, 2020.

Jabil added \$625 million in liquidity, bringing available committed capacity under the global credit facilities to \$3.7 billion at the end of third-quarter fiscal 2020.

In third-quarter fiscal 2020, Jabil repurchased approximately 800,000 million shares for \$21 million bringing total year-to-date repurchases to \$190 million, as part of a two-year \$600 million authorization announced in September 2019.

Guidance

For fourth-quarter fiscal 2020, Jabil expects total revenues between \$5.8 billion and \$6.6 billion.

DMS revenues are forecast to be \$2.5 billion, up 1% year over year. EMS revenues are forecast to be \$3.8 billion, down nearly 8% year over year.

Core non-GAAP operating income is estimated to be \$145-\$245 million. The company's core earnings are expected between 46 cents and 86 cents per share on a non-GAAP basis.

For fiscal 2020, revenues are expected to be around \$26.2 billion. Core operating income is expected to be around \$850 million.

For DMS segment, revenues are expected to be \$10.3 billion with expected core margin of 3.8% for fiscal 2020.

Further, EMS segment revenues are expected to be \$15.9 billion with expected core margin of 2.6% for fiscal 2020.

The company's core earnings are expected to be \$2.6 per share on a non-GAAP basis. Adjusted free cash flow is expected to be more than \$400 million.

Recent News

On Apr 15, Jabil announced that its board of directors approved a quarterly dividend of 8 cents per share to be paid out to shareholders on Jun 3, 2020.

On Feb 3, Jabil announced the consolidation of its entire healthcare organization under Jabil Healthcare that combines Nypro with its Orthopedics, Spine, Trauma and associated medical instruments operations.

Valuation

Jabil shares are down 18.1% in the year-to-date period but up 11.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 21.5%, while the same in the Zacks Computer & Technology sector are up 10.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 3.9% and 23.4%, respectively.

The S&P 500 Index is down 3.8% in the year-to-date period but up 5.2% in the past year.

The stock is currently trading at 10.14X forward 12-month earnings, which compares to 14.01X for the Zacks sub-industry, 25.63X for the Zacks sector and 22.39X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.7X and as low as 6.95X, with a 5-year median of 11.78X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$29 price target reflects 8.62X forward 12-month earnings.

The table below shows summary valuation data for JBL

Valuation Multiples - JBL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.14	14.01	25.63	22.39
	5-Year High	16.7	17.35	25.63	22.39
	5-Year Low	6.95	8.44	16.72	15.23
	5-Year Median	11.78	12.28	19.28	17.49
P/S F12M	Current	0.2	0.17	3.91	3.47
	5-Year High	0.3	0.32	3.91	3.47
	5-Year Low	0.11	0.15	2.32	2.53
	5-Year Median	0.22	0.23	3.12	3.02
P/B TTM	Current	3.1	1.89	5.76	4.26
	5-Year High	3.59	2.45	5.76	4.56
	5-Year Low	1.29	1.11	3.16	2.83
	5-Year Median	2.13	1.84	4.35	3.67

As of 06/22/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (218 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
SYNNEX Corporation (SNX)	Outperform	2
Arrow Electronics, Inc. (ARW)	Neutral	3
Plexus Corp. (PLXS)	Neutral	3
Synopsys, Inc. (SNPS)	Neutral	3
TTM Technologies, Inc. (TTMI)	Neutral	2
Avnet, Inc. (AVT)	Underperform	5
Flex Ltd. (FLEX)	Underperform	5
Sanmina Corporation (SANM)	Underperform	4

Industry Comparison Industry: Electronics - Manufacturing Services				Industry Peers		
	JBL	X Industry	S&P 500	CLS	PLXS	SANM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	2	3	4
VGM Score	A	-	-	A	B	A
Market Cap	5.10 B	1.72 B	21.83 B	832.38 M	1.90 B	1.72 B
# of Analysts	4	2.5	14	2	3	1
Dividend Yield	0.94%	0.00%	1.93%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.15	0.55	0.07	0.57	0.12	0.65
EV/EBITDA	4.78	4.78	12.63	3.22	9.96	2.40
PEG Ratio	1.08	1.08	2.90	0.78	NA	1.11
Price/Book (P/B)	3.10	1.06	3.01	0.62	2.14	1.06
Price/Cash Flow (P/CF)	4.89	5.22	11.47	4.01	12.02	5.22
P/E (F1)	12.93	13.11	21.30	10.49	19.76	13.28
Price/Sales (P/S)	0.19	0.23	2.29	0.14	0.59	0.23
Earnings Yield	7.74%	7.63%	4.42%	9.61%	5.06%	7.53%
Debt/Equity	1.46	0.30	0.77	0.42	0.25	0.21
Cash Flow (\$/share)	6.92	4.84	7.01	1.61	5.42	4.84
Growth Score	A	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	-8.16%	-2.94%	10.84%	-6.59%	8.52%	6.25%
Proj. EPS Growth (F1/F0)	-12.16%	-23.32%	-10.80%	13.89%	-3.79%	-44.12%
Curr. Cash Flow Growth	-8.27%	0.58%	5.46%	10.05%	0.58%	18.13%
Hist. Cash Flow Growth (3-5 yrs)	12.51%	3.24%	8.55%	-1.22%	3.24%	5.47%
Current Ratio	0.94	1.76	1.29	1.76	1.77	1.58
Debt/Capital	59.32%	23.19%	45.14%	29.35%	20.20%	17.29%
Net Margin	0.15%	0.62%	10.53%	-0.40%	3.27%	1.44%
Return on Equity	4.35%	4.50%	16.06%	2.31%	11.45%	10.40%
Sales/Assets	1.97	1.62	0.55	1.62	1.57	1.82
Proj. Sales Growth (F1/F0)	-0.02%	0.00%	-2.66%	-12.49%	2.61%	0.00%
Momentum Score	D	-	-	B	A	A
Daily Price Chg	1.07%	0.83%	0.09%	0.78%	0.42%	0.88%
1 Week Price Chg	8.80%	-1.00%	0.92%	-2.59%	4.47%	-2.00%
4 Week Price Chg	16.35%	3.20%	5.61%	2.22%	3.11%	-3.37%
12 Week Price Chg	37.68%	29.33%	16.49%	83.24%	20.98%	-5.29%
52 Week Price Chg	11.49%	4.09%	-6.63%	-3.30%	18.88%	-14.06%
20 Day Average Volume	1,555,458	359,568	2,841,862	532,890	200,034	472,854
(F1) EPS Est 1 week change	-18.43%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-18.43%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-31.13%	-20.07%	-13.25%	-9.02%	-2.65%	-44.56%
(Q1) EPS Est Mthly Chg	-24.19%	0.00%	0.00%	0.00%	0.00%	0.00%

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	A
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.

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