

LKQ Corporation (LKQ)

\$30.01 (As of 08/05/20)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

LKQ's strategic buyouts and divestments are streaming its portfolio and boosting long term prospects. The firm frequently acquires companies to expand geographic footprint, improve customer offering and adopt new technologies. Robust FCF generation is expected to continue amid cost cut initiatives. Low leverage and a solid liquidity profile bode well. However, amid coronavirus-led uncertainty and low demand, the firm expects sales from its North American and European segments to remain under pressure through end of 2020. Further, development of technically-enhanced components along with tariff charges on aluminum and steel are increasing the manufacturing costs of replacement parts. Restructuring and acquisition-related expenses are other headwinds. As such, LKQ Corp warrants a cautious stance at the moment.

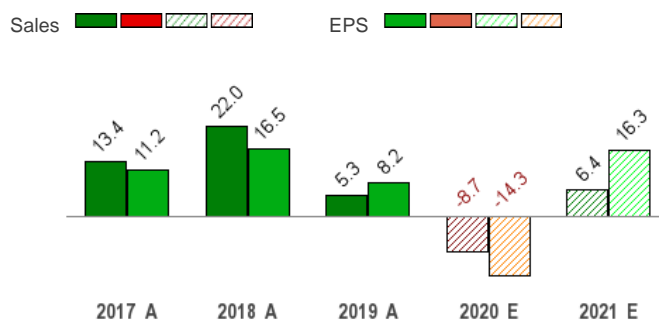
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.63 - \$13.31
20 Day Average Volume (sh)	2,573,862
Market Cap	\$9.1 B
YTD Price Change	-15.9%
Beta	1.67
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Replacement Parts
Zacks Industry Rank	Top 10% (25 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	278.6%
Last Sales Surprise	10.7%
EPS F1 Est- 4 week change	29.3%
Expected Report Date	10/29/2020
Earnings ESP	1.5%
P/E TTM	13.3
P/E F1	14.8
PEG F1	1.1
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,971 E	3,049 E	3,067 E	3,038 E	12,153 E
2020	3,001 A	2,626 A	2,864 E	2,863 E	11,419 E
2019	3,100 A	3,248 A	3,148 A	3,010 A	12,506 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.56 E	\$0.62 E	\$0.58 E	\$0.58 E	\$2.36 E
2020	\$0.57 A	\$0.53 A	\$0.47 E	\$0.48 E	\$2.03 E
2019	\$0.56 A	\$0.65 A	\$0.61 A	\$0.54 A	\$2.37 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 08/05/2020. The reports text is as of 08/06/2020.

Overview

LKQ Corporation is one of the leading providers of replacement parts, components, and systems that are required to repair and maintain vehicles. Using these parts improve the functionality and performance of vehicles. The company distributes aftermarket collision and mechanical products, recycled collision and mechanical products bumper covers and lights; as well as remanufactured engines and transmissions. LKQ Corp provides alternative vehicle collision replacement products and alternative vehicle mechanical replacement products in the United States and Canada. Further, the company provides alternative vehicle replacement and maintenance products in the U.K., Germany, the Benelux region (Belgium, Netherlands, and Luxembourg), Italy, Czech Republic, Poland, Slovakia, Austria and various other European countries. Besides wholesales, it also offers recycled automotive products at its self-service retail facilities across the United States.

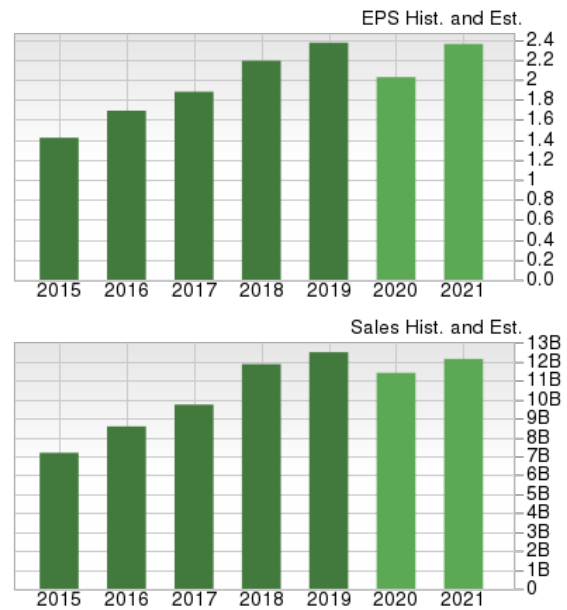
The company has four operating segments — Wholesale - North America, Europe, Specialty and Self Service. However, since Self Service unit is present only in the United States, the segment and Wholesale - North America have been aggregated into one.

Currently, the company's three reportable segments are:

North America (41.6% of revenues in 2019): The segment sells aftermarket, recycled, remanufactured, refurbished and OEM parts to professional collision and mechanical automobile repair businesses. The self-service operation works under the name "LKQ Pick Your Part" that enables consumers to pick parts off salvage vehicles.

Europe (46.6%): The segment is expanding its presence in Europe through acquisitions. The latest acquisition is of a leading European wholesale distributor of aftermarket spare parts, Stahlgruber in 2018. Prior to this, it acquired Rhiag in 2016, Sator in 2013 and ECP in 2011.

Specialty (11.8%): The segment was formed after the acquisition of Keystone Specialty in 2014. The business line specialty vehicle aftermarket equipment and accessories across major markets in the United States and Canada for six product segment include RV, truck and off-road, towing, speed and performance, wheels, tires and performance handling as well as miscellaneous accessories.



Reasons To Buy:

- ▲ LKQ fares well in the free cash flow parameter, which is a key metric to gauge the financial health of the firm. In 2019, LKQ generated FCF of nearly \$800 million, reflecting year-over-year increases 73%. Additionally, in the first six months of 2020, the company reported FCF of \$835.7 million, up around 56% year over year. The trend is expected to continue amid the company's cost containment measures.
- ▲ LKQ's strategic acquisitions and divestments has aided in streamlining its portfolio and boost long-term prospects. The firm frequently acquires companies to expand geographic footprint, improve customer offering and adopt new technologies. In 2019, LKQ entered the new-services market with the acquisition of Elite Electronics. In February 2020, LKQ sold its equity interests in two Czech wholesale automotive parts distributors to Swiss Automotive Group AG. Also, LKQ merged its subsidiary, Auto Kelly Bulgaria with ElitKar, creating one of Bulgaria's leading distributors of automotive spare parts. These buyouts and sell offs are streamlining the company's portfolio and aiding its future prospects.
- ▲ Low leverage and high liquidity are other positives. As of Jun 30, 2020, the company had long term debt of \$3.15 billion, lower than \$3.71 billion in Dec 31, 2019. Its long term debt-to-capital ratio stands at 0.45, lower than the industry's 0.46. The company's solid liquidity profile also bodes well. The current ratio of the company stands at 2.11, higher than 1.63. At the end of the second quarter, LKQ had \$2.5 billion in available liquidity, including \$2.05 billion under the credit revolver and \$476 million of cash and cash equivalents.

LKQ's strategic acquisitions and divestments bode well. The firm frequently acquires companies to expand geographic footprint, improve customer offering and adopt new technologies.

Reasons To Sell:

- ▼ While the growing demand for high-quality auto parts to comply with regulatory emission standards has created opportunity for auto part suppliers, it has also flared up costs. Development of technically-enhanced components, along with tariff charges on aluminum and steel sourced from outside the United States, has escalated the manufacturing costs of replacement parts and components. Restructuring and acquisition-related expenses are other headwinds.
- ▼ The coronavirus pandemic has done much damage to the auto industry, and will lead to decline in sales and production, hurting the leading provider of replacement parts, components, and systems that are required to repair and maintain vehicles. The company withdrew the 2020 guidance and suspended its existing share-repurchase program in response to the uncertainty caused by the pandemic. Weak consumer sentiment amid the COVID-19 pandemic is likely to hurt the firm's sales and earnings in the near future.
- ▼ Declining sales, particularly in Europe, amid softer economic environment remains a headwind. Though the company is working on continuing its growth plans in the region, including 1 LKQ Europe program, it expects the challenging sales environment in Europe to persist through the second-half of 2020. Notably, the firm does not anticipate generating 2019 revenue levels in its North American and European segments until sometime in 2021.

The firm does not anticipate generating 2019 revenue levels in its North American and European segments until sometime in 2021 amid the coronavirus-led uncertainty and low demand.

Last Earnings Report

LKQ Corp Q2 Earnings & Revenue Surpass Estimates

LKQ Corp reported adjusted earnings of 53 cents per share in second-quarter 2020, surpassing the Zacks Consensus Estimate of 14 cents. However, the bottom line decreased 18.5% year over year. Lower year-over-year revenues and EBITDA across all the segments led to this underperformance.

Quarterly revenues came in at 2,626.3 million, topping the Zacks Consensus Estimate of \$2,373 million. However, the top line decreased from the year-ago level of \$3,248.2 million. Parts and services organic growth also fell 16.18% year over year.

Segment Highlights

Revenues from the North American unit totaled \$892.8 million, down from \$1,165.5 million recorded in the prior-year quarter. EBITDA from the segment came in at 149.5 million, down 21.3% year over year.

Revenues from the European segment totaled \$1,206.3 million, down from \$1,511 million recorded in the prior-year quarter. EBITDA from the segment came in at \$89.4 million, down 23.1% year over year.

Revenues and EBITDA from the Specialty segment came in at \$404 million and \$52.2 million, down from the year-ago respective figures of \$410.3 million and \$52.4 million.

Financial Position

LKQ Corp. had cash and cash equivalents of \$476.4 million as of Jun 30, 2020, down from \$523 million recorded as of Dec 31, 2019. Long-term debt amounted to \$3,157.7 million, down from \$3,715.4 million recorded as of Dec 31, 2019. During the quarter under review, the company generated net cash of \$718 million from operations, up 56% from the year-ago period. It generated free cash flow of \$686 million in the quarter, up 66% year over year.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	10.69%
EPS Surprise	278.57%
Quarterly EPS	0.53
Annual EPS (TTM)	2.25

Valuation

LKQ Corp's shares are down 16% year to date and up 17.4% over the trailing 12-month period. Stocks in the Automotive - Replacement Parts industry and the Zacks Auto sector are down 15.2% and up 18.5%, respectively. Over the past year, the Zacks sub-industry and sector are up 4% and 36.7%, respectively.

The S&P 500 index is up 2.6% in the year-to-date period and 15% in the past year.

The stock is currently trading at 15.14X forward 12-month earnings, which compares to 16.84X for the Zacks sub-industry, 24.51X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.25X and as low as 5.5X, with a 5-year median of 15.53X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$32 price target reflects 16.16X F12M.

The table below shows summary valuation data for LKQ :

Valuation Multiples - LKQ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.14	16.84	24.51	22.58
	5-Year High	22.25	19.45	25.33	22.58
	5-Year Low	5.5	10.69	8.2	15.25
	5-Year Median	15.53	16.97	9.87	17.55
EV/EBITDA TTM	Current	9.88	11.42	11.56	12.8
	5-Year High	15.26	15.38	11.75	12.85
	5-Year Low	6.51	7.61	6.8	8.24
	5-Year Median	11.76	12.9	9.27	10.89
P/S F12M	Current	0.8	0.82	0.87	3.61
	5-Year High	1.34	1.18	0.87	3.61
	5-Year Low	0.34	0.56	0.49	2.53
	5-Year Median	0.97	0.99	0.61	3.04

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Top 10% (25 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AutoNation, Inc. (AN)	Outperform	1
O'Reilly Automotive, Inc. (ORLY)	Outperform	2
Standard Motor Products, Inc. (SMP)	Outperform	1
Copart, Inc. (CPRT)	Neutral	3
Dorman Products, Inc. (DORM)	Neutral	2
Fastenal Company (FAST)	Neutral	3
Genuine Parts Company (GPC)	Neutral	3
SPX Corporation (SPXC)	Neutral	3

Industry Comparison Industry: Automotive - Replacement Parts				Industry Peers		
	LKQ	X Industry	S&P 500	CPRT	GPC	ORLY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	A	-	-	C	A	A
Market Cap	9.13 B	1.05 B	22.93 B	22.91 B	13.33 B	34.78 B
# of Analysts	9	2.5	14	7	5	10
Dividend Yield	0.00%	0.00%	1.76%	0.00%	3.42%	0.00%
Value Score	A	-	-	D	A	B
Cash/Price	0.06	0.07	0.07	0.01	0.08	0.02
EV/EBITDA	10.39	11.31	13.16	28.50	12.39	18.00
PEG Ratio	1.13	2.48	2.99	2.90	13.29	1.56
Price/Book (P/B)	1.77	3.41	3.20	10.04	4.64	59.03
Price/Cash Flow (P/CF)	8.76	11.79	12.45	35.99	11.33	21.28
P/E (F1)	14.74	19.11	21.78	37.73	19.93	22.88
Price/Sales (P/S)	0.77	1.00	2.47	10.31	0.74	3.24
Earnings Yield	6.76%	5.25%	4.33%	2.65%	5.02%	4.37%
Debt/Equity	0.83	0.31	0.77	0.21	1.21	9.81
Cash Flow (\$/share)	3.43	3.34	6.94	2.71	8.16	22.02
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	11.88%	3.84%	10.46%	28.31%	5.17%	19.02%
Proj. EPS Growth (F1/F0)	-14.53%	-16.23%	-7.14%	13.48%	-18.49%	14.54%
Curr. Cash Flow Growth	6.66%	8.33%	5.47%	25.44%	10.00%	4.97%
Hist. Cash Flow Growth (3-5 yrs)	15.32%	5.86%	8.55%	19.27%	6.64%	11.32%
Current Ratio	2.11	1.52	1.32	2.77	1.22	0.95
Debt/Capital	45.34%	24.24%	44.59%	17.66%	54.83%	90.75%
Net Margin	4.72%	4.36%	10.15%	30.95%	-1.06%	14.45%
Return on Equity	13.83%	12.73%	14.46%	29.08%	21.67%	490.94%
Sales/Assets	0.95	0.90	0.51	0.77	1.27	0.98
Proj. Sales Growth (F1/F0)	-8.70%	-4.06%	-1.68%	8.01%	-13.16%	8.24%
Momentum Score	A	-	-	C	A	A
Daily Price Chg	4.20%	1.36%	0.59%	0.75%	1.36%	-0.92%
1 Week Price Chg	0.82%	2.16%	0.14%	4.17%	1.70%	7.92%
4 Week Price Chg	16.82%	11.47%	5.31%	14.52%	7.30%	11.43%
12 Week Price Chg	32.32%	31.62%	19.84%	22.41%	30.86%	20.17%
52 Week Price Chg	17.36%	2.10%	2.73%	30.01%	2.10%	24.66%
20 Day Average Volume	2,573,862	141,151	2,098,555	1,343,823	692,939	603,316
(F1) EPS Est 1 week change	25.81%	1.68%	0.00%	0.00%	9.15%	17.66%
(F1) EPS Est 4 week change	29.29%	9.71%	1.10%	0.00%	10.63%	24.48%
(F1) EPS Est 12 week change	29.02%	8.59%	1.04%	-3.10%	12.53%	26.32%
(Q1) EPS Est Mthly Chg	22.88%	24.65%	0.39%	0.00%	26.42%	24.94%

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	A
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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