

Navistar (NAV)

\$36.62 (As of 01/31/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: F

Summary

Navistar's new EV business, named NEXT eMobility Solutions, will help the company move toward an electric future, thereby boosting its prospects. Navistar upgraded product line, ranging between heavy to medium trucks and buses, will benefit the company. Its investment of more than \$250 million in San Antonio, along with \$125 million investment in Alabama to produce next-gen, big-bore powertrains bode well. However, faltering freight market demand and waning orders for Class 8 trucks will hurt Navistar's earnings prospects in the near future. In the wake of reduced industry order activity, Navistar has lowered its profit guidance for fiscal 2020. In order to comply with environmental standards, the firm has to increase R&D and product development costs, which may clip its margins. Hence, the stock warrants a cautious stance.

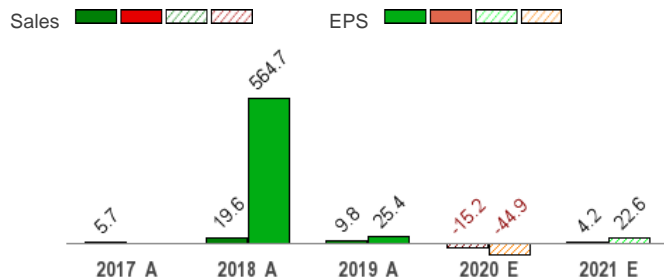
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.52 - \$21.32
20 Day Average Volume (sh)	330,801
Market Cap	\$3.6 B
YTD Price Change	26.5%
Beta	2.17
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 28% (183 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.1%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-6.6%
Expected Report Date	03/13/2020
Earnings ESP	21.6%
P/E TTM	9.7
P/E F1	15.7
PEG F1	1.0
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,975 E	2,489 E	2,934 E	3,052 E	9,935 E
2020	1,854 E	2,388 E	2,657 E	2,639 E	9,538 E
2019	2,433 A	2,996 A	3,042 A	2,780 A	11,251 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.03 E	\$0.60 E	\$1.23 E	\$1.14 E	\$2.87 E
2020	-\$0.38 E	\$0.35 E	\$1.21 E	\$1.17 E	\$2.34 E
2019	\$0.11 A	\$1.06 A	\$1.47 A	\$1.14 A	\$4.25 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 01/31/2020. The reports text is as of 02/03/2020.

Overview

Incorporated in 1993, Navistar International Corporation is an Illinois-based, holding company, having two operating entities, which are Navistar, Inc. and Navistar Financial Corporation.

The company manufactures commercial and military trucks, diesel engines, school and commercial buses, and service parts for trucks and diesel engines. Additionally, it provides retail, wholesale, and lease financing services for trucks and parts.

Navistar operates through four industry segments — Truck (76% of total revenues in fiscal 2019), Parts (20%), Global Operations (3%) and Financial Services (1%).

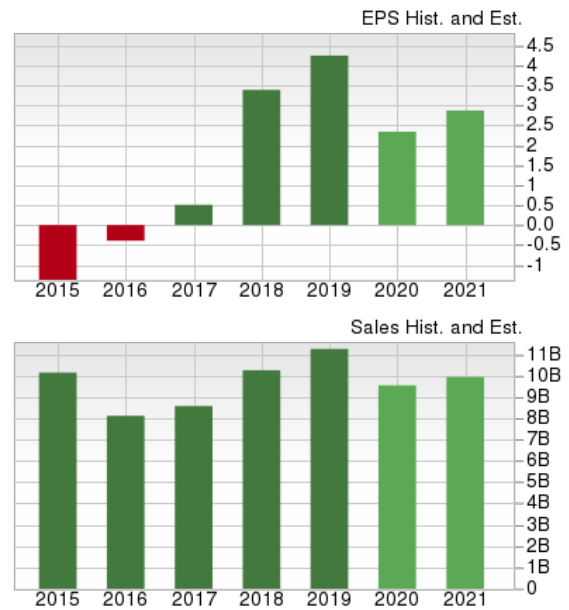
The **Truck** segment manufactures and distributes medium and heavy-duty (Class 4-8) trucks and buses, common carrier, private carrier and military vehicles under its International and IC brands. Additionally, it designs and manufactures proprietary diesel engines and International branded trucks.

The **Parts** segment supplies products that support the International commercial and military trucks, IC Buses, and proprietary engine lines as well as other product lines. The segment also provides standard truck, trailer and engine service parts.

The **Global Operations** segment mainly comprises revenues generated from Navistar's wholly-owned subsidiary, International Industria de Motores da América do Sul Ltda. ("IIAA") in Brazil. IIAA manufactures and distributes mid-range diesel engines in agriculture, marine, genset and light truck markets.

The **Financial Services** segment provides retail, wholesale, and lease financing of products sold by the Truck and Parts segments as well as their dealers in the United States, Canada and Mexico. It also provides financing for wholesale accounts and selected retail accounts receivable.

Navistar aims to offer innovative, and value-creating trucks and buses to its customers. In sync with the idea, it launched International HV Series Mid-Range Diesel in 2018. Additionally, the company introduced the newly updated IC Bus RE Series Type D school bus, featuring remote diagnostics connectivity solutions.



Reasons To Buy:

- ▲ Over the past few years, the company has re-launched its entire product line, ranging between heavy to medium and the vocational trucks and buses with all the alternative power trains. Additionally, launching products also contributed to the company's rise of market share. Navistar is likely to benefit from the launch of upgraded product line.
- ▲ Navistar formed a new business unit in October 2019 to support electrification of commercial vehicles, solidifying the company's previously announced plans to enter the emerging market of electric trucks. With a new business unit known as Next eMobility Solutions, the company will direct its move towards an electrified future and one of the targets will be to launch medium-duty electric trucks in 2021. Navistar also highlighted the advantages of its partnership with the multinational truck manufacturer Traton Group, which will give access to technologies that would have been very difficult for the company to develop on its own.
- ▲ Last year, it launched an International truck brand line, International MV, which has been one of the company's best-sellers. The company's investment of more than \$250 million in a manufacturing facility in San Antonio, with best-in-class lean processes along with \$125 million investment in its Huntsville, Alabama manufacturing facilities to produce next-generation, big-bore powertrains bode well.
- ▲ Navistar has been taking necessary actions to adjust its business to current market conditions, including reducing production rates and SG&A expenses while restructuring its global and export operations. The company's generation of free cash flow bodes is a positive.

Navistar's new EV business, named NEXT eMobility Solutions, will help the company move toward an electric future, which is the need of the hour.

Reasons To Sell:

- ▼ After reaching its peak in 2018, freight demand declined in 2019 and is expected to wane further. Similarly, used truck pricing also weakened from the 2018 peak. Industry Class 8 orders slumped more than 70% on a year-over-year basis. For fiscal 2020, Navistar projects industry retail deliveries of Class 6-8 trucks, and buses in the United States and Canada to be between 335,000 units and 365,000 units compared with the 435,000 units and 455,000 units mentioned earlier. Further, Class 8 retail deliveries are anticipated in the range of 210,000-240,000 units compared with the previously-projected 295,000-315,000 units. Reduced industry order activity is likely to hurt Navistar's performance.
- ▼ Bleak guidance for fiscal 2020 has also spooked the investors. Amid the falling freight rates and contracting heavy-duty truck demand, Navistar has lowered its revenue and profit guidance. The company expects revenues in the band of \$9.25-\$9.75 billion, down from the earlier expectation of \$11.25-\$11.75 billion. Also, adjusted EBITDA projections are in the range of \$700-750 million, showing a downtrend from the prior guidance of \$875-\$925 million.
- ▼ High costs arising out of transportation expenses, freight and engineering and SG&A expenses, along with high commodity prices are adding to its woes. In order to conform with environmental standards, the company has to increase engineering and product development as well as production costs, which will hamper its profit margin. Notably, the firm's total operating costs for fiscal 2019 increased around 12% Y/Y.
- ▼ The company's stretched balance sheet also plays a spoilsport. With its total liabilities exceeding total assets, the company carries a negative book value. Its debt to capital ratio of 521.6% compares unfavorably with the industry's 43.47%. The high leverage limits its financial flexibility to tap onto growth prospects. Navistar's ROE of -10% versus industry's 22.7% reflects the management's inefficiency in rewarding shareholders.

Declining freight demand and waning orders for Class 8 trucks are likely to hurt Navistar, going forward.

Last Earnings Report

Navistar Q4 Earnings & Revenue Down Y/Y, View Trimmed

Navistar International Corporation recorded net income of \$102 million or \$1.02 per share in fourth-quarter fiscal 2019 (ended Oct 31, 2019) compared with the prior-year quarter's \$188 million or \$1.89 per share.

Adjusted earnings per share for the reported quarter came in at \$1.14, which surpassed the Zacks Consensus Estimate of 89 cents. Solid contribution from the Parts segment, aided by improving North American operations, resulted in this outperformance. This comes in lower than the \$1.89 per share reported a year ago.

The company generated \$2,780 million in revenues, which beat the Zacks Consensus Estimate of \$2,775 million. The revenue figure, however, marks a 16% fall from the year-earlier reported figure, which resulted from lower industry demand.

Segment in Detail

The Truck segment's net sales came in at \$2.1 billion in the reported quarter, down 19.6% year on year. The segment recorded net profit of \$86 million, significantly down from the \$197 million reported in the year-ago quarter. The downside primarily resulted from decline in the company's core chargeouts and impact of the sale of a majority interest in the Defense business.

The Parts segment net sales summed \$547 million, down 13.6% year over year. The segment's profit was \$161 million, up 3.2% on a year-over-year basis. This upside was aided by improved North American operating results, reflecting the company's growing private label business.

Net sales in the company's Global Operations were flat year over year at \$93 million. It reported a loss of \$10 million compared with the profit of \$4 million recorded in fourth-quarter fiscal 2018. Rise in restructuring charges, including ceasing production at the company's MWM Argentina engine plant, and restructuring activities in Brazil resulted in this downside.

Net sales in Navistar's Financial Services segment inched up 1.4% year over year to \$71 million. The segment recorded profit of \$30 million compared with the year-ago quarter's \$26 million. Its profit improved, aided by lower interest expenses, owing to the payoff of the company's \$400-million Term Loan in May 2019.

Financial Position

Navistar had cash and cash equivalents of \$1,370 million as of Oct 31, 2019, up from \$1,320 billion as of Oct 31, 2018. At the end of the quarter, long-term debt was \$4.32 billion, down compared with \$4.52 billion as of Oct 31, 2018. The debt-to-capital ratio was 521.66%, as of Oct 31, 2019.

In the year ended fiscal 2019, capital expenditure totaled \$134 million, up from the \$113 million recorded at the end of fiscal 2018.

Fiscal 2020 Guidance

For fiscal 2020, Navistar projects industry retail deliveries of Class 6-8 trucks, and buses in the United States and Canada to be between 335,000 units and 365,000 units compared with the 435,000 units and 455,000 units mentioned earlier. Further, Class 8 retail deliveries are anticipated in the range of 210,000-240,000 units compared with the previously-projected 295,000-315,000 units.

The company expects revenues in the band of \$9.25-\$9.75 billion, down from the earlier expectation of \$11.25-\$11.75 billion. Also, adjusted EBITDA projections are in the range of \$700-750 million, showing a downtrend from the prior guidance of \$875-\$925 million.

Quarter Ending **10/2019**

Report Date	Dec 17, 2019
Sales Surprise	0.16%
EPS Surprise	28.09%
Quarterly EPS	1.14
Annual EPS (TTM)	3.78

Valuation

Navistar's shares are up 7% over the trailing 12-month period. Stocks in the Zacks Automotive-Original Equipment industry and the Zacks Automotive sector are up 2.3% and 10.9%, respectively, over the past year.

The S&P 500 index is up 20% in the past year.

The stock is currently trading at 0.38X forward 12-month price to sales ratio, which compares to 0.62X for the Zacks sub-industry, 0.67X for the Zacks sector and 3.43X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.51X and as low as 0.05X, with a 5-year median of 0.29X.

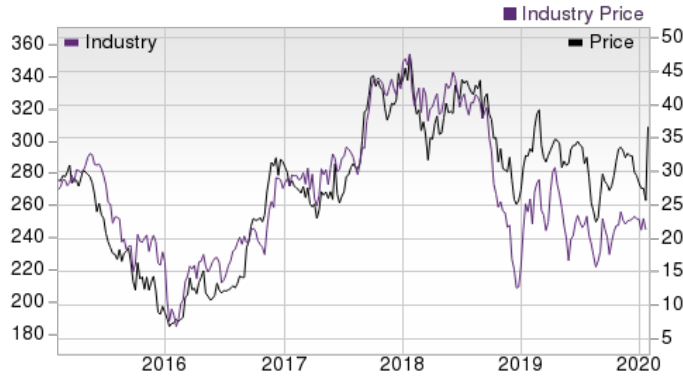
Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 0.39X forward 12-month sales.

The table below shows summary valuation data for NAV:

Valuation Multiples - NAV					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	5.97	6.17	8.74	12.25
	5-Year High	14.72	8.66	11.33	12.86
	5-Year Low	4.64	4.63	7.05	8.48
	5-Year Median	6.86	6.62	9.27	10.7
P/E F12M	Current	14.77	12.76	10.87	18.51
	5-Year High	78.89	13.46	11.75	19.34
	5-Year Low	NA	8.52	8.23	15.18
	5-Year Median	13.45	11.6	9.91	17.46
P/S F12M	Current	0.38	0.62	0.67	3.43
	5-Year High	0.51	0.81	0.76	3.43
	5-Year Low	0.05	0.49	0.5	2.54
	5-Year Median	0.29	0.65	0.62	3

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (183 out of 255)



Top Peers

Ford Motor Company (F)	Neutral
Navistar International Corporation (NAV)	Neutral
Oshkosh Corporation (OSK)	Neutral
PACCAR Inc. (PCAR)	Neutral
Toyota Motor Corporation (TM)	Neutral
Daimler AG (DDAIF)	Underperform
Fiat Chrysler Automobiles N.V. (FCAU)	Underperform
AB Volvo (VLVLY)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	NAV Neutral	X Industry	S&P 500	DDAIF Underperform	OSK Neutral	PCAR Neutral
VGM Score	A	-	-	B	D	C
Market Cap	3.63 B	651.19 M	23.55 B	49.33 B	5.86 B	25.67 B
# of Analysts	4	3	13	3	8	9
Dividend Yield	0.00%	0.00%	1.81%	0.00%	1.39%	1.72%
Value Score	B	-	-	A	B	B
Cash/Price	0.59	0.11	0.04	0.62	0.07	0.18
EV/EBITDA	8.21	4.68	13.97	6.14	6.77	6.92
PEG Ratio	1.01	1.14	1.97	2.34	1.03	1.94
Price/Book (P/B)	NA	1.36	3.21	0.71	2.18	2.64
Price/Cash Flow (P/CF)	5.72	4.68	13.36	3.01	8.39	7.41
P/E (F1)	15.62	11.10	18.42	7.66	11.10	13.59
Price/Sales (P/S)	0.32	0.40	2.60	0.25	0.71	1.00
Earnings Yield	6.39%	8.21%	5.43%	13.05%	9.01%	7.36%
Debt/Equity	-1.16	0.41	0.72	1.58	0.31	0.69
Cash Flow (\$/share)	6.40	3.65	6.92	15.32	10.26	10.02
Growth Score	A	-	-	A	F	C
Hist. EPS Growth (3-5 yrs)	NA%	8.47%	10.68%	0.39%	26.73%	11.22%
Proj. EPS Growth (F1/F0)	-44.88%	7.33%	7.59%	39.78%	-6.72%	-20.52%
Curr. Cash Flow Growth	9.70%	5.67%	10.81%	-10.36%	17.40%	6.65%
Hist. Cash Flow Growth (3-5 yrs)	81.17%	10.36%	8.78%	1.70%	9.98%	10.39%
Current Ratio	1.39	1.56	1.22	1.22	2.14	1.27
Debt/Capital	NA%	35.95%	42.99%	61.31%	23.40%	40.27%
Net Margin	1.96%	3.38%	11.69%	2.40%	6.60%	9.33%
Return on Equity	-10.02%	14.34%	17.33%	11.23%	21.05%	24.87%
Sales/Assets	1.59	1.30	0.55	0.58	1.50	0.94
Proj. Sales Growth (F1/F0)	-15.23%	0.28%	4.12%	0.34%	-4.05%	-15.43%
Momentum Score	F	-	-	F	C	D
Daily Price Chg	52.14%	-0.77%	-1.98%	-3.06%	-1.45%	-2.43%
1 Week Price Chg	-6.71%	-2.95%	-1.09%	-7.04%	-2.69%	-2.20%
4 Week Price Chg	28.31%	-8.90%	-2.11%	-17.78%	-9.13%	-6.67%
12 Week Price Chg	9.12%	-8.37%	2.15%	-22.39%	-3.14%	-7.09%
52 Week Price Chg	11.51%	-7.36%	14.15%	-22.27%	14.64%	13.26%
20 Day Average Volume	330,801	145,100	1,808,632	43,474	624,328	1,617,401
(F1) EPS Est 1 week change	0.86%	0.00%	0.00%	0.00%	0.84%	-1.48%
(F1) EPS Est 4 week change	-6.60%	0.00%	0.00%	-6.96%	0.16%	-2.27%
(F1) EPS Est 12 week change	-29.14%	-4.68%	-0.09%	-18.98%	-0.21%	-2.39%
(Q1) EPS Est Mthly Chg	-115.49%	0.00%	0.00%	NA	-3.01%	-4.37%

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	B
Growth Score	A
Momentum Score	F
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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