

## Navistar (NAV)

**\$35.05** (As of 03/05/20)

Price Target (6-12 Months): **\$37.00**

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: D

## Summary

Navistar reported narrower than expected loss in first-quarter fiscal 2020, while the sales missed estimates. Navistar's latest NEXT eMobility Solutions, will help the company move toward an electric future, thereby boosting its prospects. Navistar's 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 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.

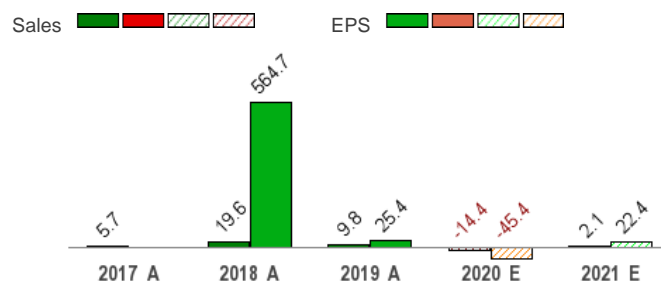
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$38.00 - \$21.32
20 Day Average Volume (sh)	763,984
Market Cap	\$3.5 B
YTD Price Change	21.1%
Beta	1.99
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Automotive - Original Equipment</a>
Zacks Industry Rank	Bottom 24% (193 out of 255)

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



Last EPS Surprise	13.2%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	06/02/2020
Earnings ESP	28.8%
P/E TTM	10.5
P/E F1	15.1
PEG F1	1.0
P/S TTM	0.3

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,926 E	2,459 E	2,814 E	2,908 E	9,830 E
2020	1,838 A	2,383 E	2,628 E	2,610 E	9,626 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	\$0.00 E	\$0.61 E	\$1.20 E	\$1.10 E	\$2.84 E
2020	-\$0.33 A	\$0.37 E	\$1.23 E	\$1.19 E	\$2.32 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 03/05/2020. The reports text is as of 03/06/2020.

## 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%).

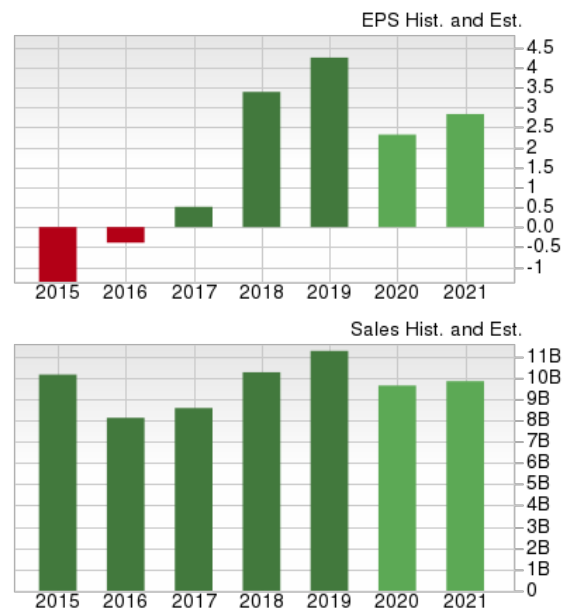
The **Truck** segment manufactures and distributes medium and heavy-duty (Class 4-8) trucks and buses, common carrier, private carrier and military vehicles under its International and IC brands. Additionally, it designs and manufactures proprietary diesel engines and International branded trucks.

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.



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## 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.

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## 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 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 726.77% compares unfavorably with the industry's 43.59%. The high leverage limits its financial flexibility to tap onto growth prospects. Navistar's ROE of -8.89% versus industry's 18.48% 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 Reports Narrower Than Expected Loss in Q1

Navistar came out with first-quarter fiscal 2020 loss of 33 cents per share, narrower than the Zacks Consensus Estimate of a loss of 38 cents. Better-than-expected external sales and revenues from Truck segment resulted in narrower-than-anticipated loss. Precisely, external sales and revenues from Truck segment came in at \$1,238 million, higher than the consensus mark of \$1,187 million. However, the bottom line tanked from the year-ago earnings of 11 cents a share. Soft year-over-year contribution across all segments led to the underperformance.

The truck manufacturer generated \$1,838 million in revenues, which missed the Zacks Consensus Estimate of \$1,854 million. Revenues also marked a 24.4% fall from the year-earlier reported figure.

Quarter Ending **01/2020**

Report Date	Mar 04, 2020
Sales Surprise	-0.88%
EPS Surprise	13.16%
Quarterly EPS	-0.33
Annual EPS (TTM)	3.34

### Segmental Performance

The Truck segment's net sales came in at \$1,242 million in the reported quarter, down 30.8% year on year amid lower volumes in the company's core markets. The segment recorded net loss of \$58 million against the profit of \$90 million reported in the year-ago quarter. Lower volumes in North America along with higher used truck losses and warranty costs affected the margins. Further, the first quarter of fiscal 2019 had witnessed a gain of \$54 million on account of sale of a majority interest in the Defense business, resulting in weaker year-over-year profits in the quarter under review.

The Parts segment net sales summed \$493 million, down 10% year over year. The segment's profit was \$119 million, down 17.3% on a year-over-year basis. The downside can be attributed to weaker industry conditions in the United States and Canada, which led to lower volumes.

Net sales in the company's Global Operations totaled \$68 million, down from the year-ago level of \$73 million. It reported breakeven earnings as against a profit of \$6 million in the corresponding quarter of 2019. Lower volumes in South American operations along with depreciation of the Brazilian real against the U.S. dollar resulted in this downside.

Net sales in Navistar's Financial Services segment came in at \$57 million, down from \$74 million reported in the year-ago quarter. The segment recorded profit of \$17 million compared with the year-ago quarter's \$31 million. The downtick can be attributed to lower originations and average receivable balances.

### Financial Position

Navistar had cash and cash equivalents of \$1,000 million as of Jan 31, 2020, down from \$1,370 billion as of Oct 31, 2019. At the end of the quarter, long-term debt was \$4,283 million. During the quarter, capital expenditure totaled \$59 million.

### Fiscal 2020 Guidance

Navistar reiterates industrial and financial forecasts for fiscal 2020. The firm 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. Further, Class 8 retail deliveries are anticipated in the range of 210,000-240,000 units. The company expects revenues in the band of \$9.25-\$9.75 billion. Adjusted EBITDA is projected in the range of \$700-750 million.

## Valuation

Navistar's shares are up 21.1% in the year-to-date period and down 0.4% over the trailing 12-month period. Stocks in the Zacks Automotive-Original Equipment industry and the Zacks Automotive sector are down 11.4% and 2%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 4.5% and up 10.8%, respectively.

The S&P 500 index is down 2.7% in the year-to-date period and up 14.9% in the past year.

The stock is currently trading at 0.36X forward 12-month price to sales ratio, which compares to 0.58X for the Zacks sub-industry, 0.65X for the Zacks sector and 3.3X 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.

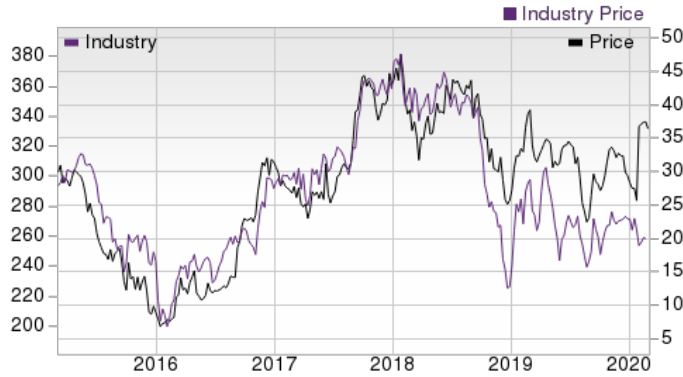
Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$37 price target reflects 0.38X forward 12-month sales.

The table below shows summary valuation data for NAV:

Valuation Multiples - NAV					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.36	0.58	0.65	3.3
	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	0.64	0.62	3.01
EV/EBITDA TTM	Current	6.92	5.57	10.12	10.93
	5-Year High	14.72	8.63	11.33	12.88
	5-Year Low	4.64	4.64	7.05	8.49
	5-Year Median	6.85	6.61	9.35	10.79
P/E F12M	Current	13.88	12.08	10.72	17.89
	5-Year High	78.89	13.46	11.75	19.34
	5-Year Low	NA	8.52	8.23	15.18
	5-Year Median	13.46	11.6	9.91	17.46

As of 03/05/2020

## Industry Analysis Zacks Industry Rank: Bottom 24% (193 out of 255)



## Top Peers

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

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	NAV Neutral	X Industry	S&P 500	DDAIF Neutral	OSK Neutral	PCAR Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>C</b>	<b>B</b>
Market Cap	3.48 B	632.45 M	21.47 B	43.07 B	4.81 B	22.64 B
# of Analysts	4	3	13	3	8	9
Dividend Yield	0.00%	0.00%	2.04%	0.00%	1.70%	1.96%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>B</b>	<b>B</b>
Cash/Price	0.42	0.13	0.05	0.72	0.05	0.23
EV/EBITDA	7.97	4.48	12.81	5.84	5.82	5.59
PEG Ratio	0.96	1.02	1.88	2.19	0.93	1.44
Price/Book (P/B)	NA	1.08	2.95	0.62	1.79	2.33
Price/Cash Flow (P/CF)	5.48	4.18	11.75	2.63	6.88	6.52
P/E (F1)	14.88	9.11	17.19	7.16	9.11	12.02
Price/Sales (P/S)	0.33	0.36	2.32	0.22	0.58	0.88
Earnings Yield	6.62%	10.09%	5.81%	13.96%	10.99%	8.32%
Debt/Equity	-1.14	0.51	0.70	1.58	0.31	0.73
Cash Flow (\$/share)	6.40	3.79	7.01	15.32	10.26	10.02
<b>Growth Score</b>	<b>A</b>	-	-	<b>A</b>	<b>F</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	NA%	8.01%	10.85%	-1.19%	29.20%	12.15%
Proj. EPS Growth (F1/F0)	-45.41%	5.00%	6.27%	-34.31%	-6.68%	-20.88%
Curr. Cash Flow Growth	9.70%	-2.66%	6.07%	-10.36%	17.40%	6.65%
Hist. Cash Flow Growth (3-5 yrs)	81.17%	6.21%	8.52%	1.70%	9.98%	11.72%
Current Ratio	1.41	1.56	1.23	1.22	2.14	2.32
Debt/Capital	NA%	38.59%	42.57%	61.31%	23.40%	42.29%
Net Margin	1.63%	3.15%	11.69%	1.38%	6.60%	9.33%
Return on Equity	-8.89%	13.35%	16.66%	10.82%	21.05%	24.87%
Sales/Assets	1.54	1.30	0.54	0.58	1.50	0.94
Proj. Sales Growth (F1/F0)	-16.00%	0.00%	3.90%	-2.36%	-3.62%	-15.19%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>D</b>	<b>A</b>	<b>D</b>
Daily Price Chg	-0.79%	-3.89%	-3.79%	-5.49%	-6.64%	-5.89%
1 Week Price Chg	-2.81%	-11.07%	-12.06%	-10.96%	-14.81%	-11.23%
4 Week Price Chg	-5.73%	-13.57%	-10.92%	-16.97%	-21.83%	-15.76%
12 Week Price Chg	7.02%	-17.93%	-8.10%	-27.79%	-24.84%	-21.21%
52 Week Price Chg	-0.37%	-19.15%	4.09%	-28.67%	-9.28%	-2.62%
20 Day Average Volume	763,984	173,610	2,483,920	85,822	801,322	2,097,834
(F1) EPS Est 1 week change	-0.96%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.96%	-0.24%	-0.06%	-6.59%	0.05%	-0.45%
(F1) EPS Est 12 week change	-25.69%	-2.85%	-0.42%	-13.09%	-0.80%	-2.72%
(Q1) EPS Est Mthly Chg	3.55%	-1.78%	-0.29%	NA	-0.46%	-0.98%

## 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>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>D</b>
VGM Score	<b>A</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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