

Navistar (NAV)

\$28.04 (As of 06/29/20)

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

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: C

Summary

Navistar's NEXT eMobility Solutions is likely to help the company move toward an electric future, thereby boosting its prospects. Navistar's alliance with TRATON Group and upgraded product lines are likely to boost its long term prospects. Per Navistar 4.0 strategy, the firm expects EBITDA margins to improve to 12% by fiscal 2024. The firm's cost control actions including capex cut and compensation reduction/ deferrals to preserve cash amid coronavirus-led uncertainty may offer some respite. However, Weak consumer sentiment amid the pandemic is likely to hurt the firm's sales and earnings in the near future. Faltering freight market demand and waning orders for Class 8 trucks will weigh on Navistar in the near future. High debt levels also play a spoilsport. As such, investors are recommended to wait for a better entry point.

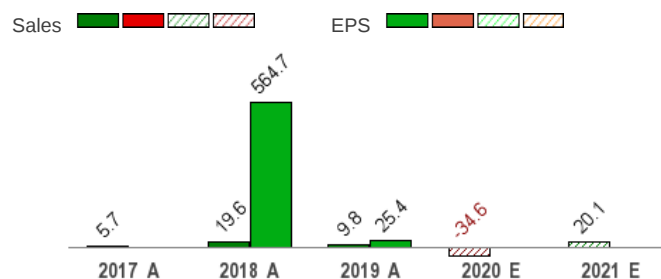
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.00 - \$15.01
20 Day Average Volume (sh)	903,275
Market Cap	\$2.8 B
YTD Price Change	-3.1%
Beta	2.56
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Top 37% (94 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	86.1%
Last Sales Surprise	10.3%
EPS F1 Est- 4 week change	45.6%
Expected Report Date	09/02/2020
Earnings ESP	0.0%
P/E TTM	12.9
P/E F1	NA
PEG F1	NA
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,744 E	2,146 E	2,352 E	2,435 E	8,841 E
2020	1,838 A	1,925 A	1,694 E	1,925 E	7,359 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	-\$0.29 E	\$0.08 E	\$0.54 E	\$0.77 E	\$1.07 E
2020	-\$0.33 A	-\$0.10 A	-\$0.32 E	\$0.20 E	-\$0.87 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 06/29/2020. The reports text is as of 06/30/2020.

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%).

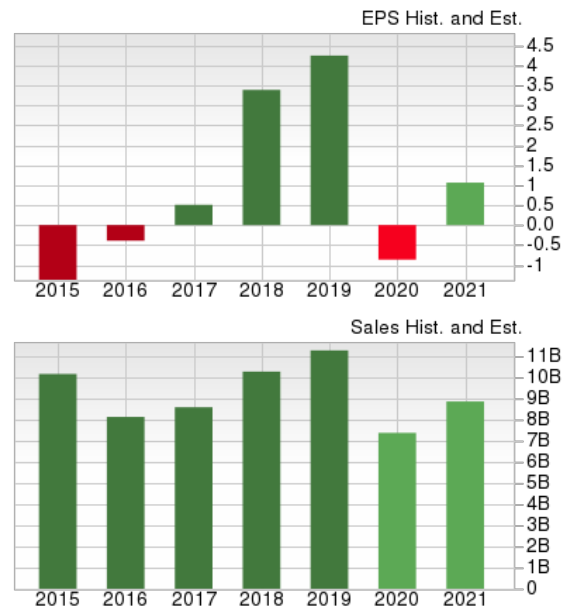
The **Truck** segment manufactures and distributes medium and heavy-duty (Class 4-8) trucks and buses, common carrier, private carrier and military vehicles under its International and IC brands. Additionally, it designs and manufactures proprietary diesel engines and International branded trucks.

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:

- ▲ The company's upgraded product line, ranging between heavy to medium trucks and buses, is impressive. 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 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 has been taking necessary cost control actions including capex cut and compensation reduction/ deferrals to preserve cash amid coronavirus-led uncertainty. These cost-reduction initiatives are expected to preserve about \$300 million in cash, which will be used to deal with the losses caused by the production shutdowns. The firm's SG&A expenses are on a decline which bodes well.
- ▲ Navistar intends to preserve its goals under Navistar 4.0 strategy, which bodes well for its long term prospects. Per Navistar 4.0., the firm expects EBITDA margins to improve to 12% by fiscal 2024. Moreover, the company's strategic alliance with TRATON Group is likely to leverage global scale through common powertrains as well as lead to meaningful commercial and operating synergies.

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:

- ▼ The COVID-19 outbreak has rattled the truck manufacturer with factory closures, falling demand of vehicles and supply chain disruptions. Navistar scrapped the fiscal 2020 guidance as it expects that the pandemic's impact will strain the company's operations in the upcoming period. Weak consumer sentiment amid the pandemic is likely to hurt the firm's sales and earnings in the near future.
- ▼ Declining freight demand and waning orders for Class 8 trucks are weighing on the firm. After reaching its peak in 2018, freight demand declined in 2019 and is expected to wane further. With excess trucking capacity, new orders are declining as companies reevaluate their needs in the wake of low demand. In fact, some deals have been put on the backburner or completely scrapped. In April, Navistar incurred Class 8 order cancellations of about 300 units (or 2.5%) of the backlog. Navistar's backlog of Class 6-8 truck orders stood at around 18,000 units by the end of fiscal Q2, falling 12% from the end of fiscal Q1.
- ▼ Used truck pricing started weakening in 2019 from the 2018 peak. Coronavirus-led sluggish economy and low demand are adding to the woes. Used truck volumes have been going down. Used truck pricing, which is a leading indicator of new truck orders, was down 20% year-over-year in the most recent quarter.
- ▼ The company's stretched balance sheet also plays a spoilsport. As of Apr 30, 2020, the company had total debt of \$4.9 billion which is much higher when compared to its cash and cash equivalents of \$1.5 billion. Moreover, long-term debt increased to \$4,859 million, up from \$4,317 million as of Oct 31, 2019. Its total debt-to-capital ratio stands at 4.84, way higher than its industry's 0.45. The elevated leverage of the firm makes it difficult for it to tap to growth opportunities and restricts its financial flexibility. Further, the company's times interest earned ratio of 1.9 is unfavorable to the industry ratio of 6.28, increasing the default risk.

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

Last Earnings Report

Navistar Q2 Sales and Revenues Fall Y/Y

Navistar reported second-quarter fiscal 2020 loss of 10 cents per share, narrower than the Zacks Consensus Estimate of a loss of 72 cents. Higher-than-expected sales from the Truck and Financial Services segments resulted in the narrower-than-anticipated loss. Total sales and revenues from the Truck and Financial Services segments came in at \$1,389 million and \$64 million, higher than the consensus mark of \$1,373 million and \$47 million, respectively. However, the bottom line tanked from the year-ago earnings of \$1.06 a share. Dismal year-over-year contribution across all segments resulted in the underperformance.

The truck manufacturer generated \$1,925 million in revenues, which surpassed the Zacks Consensus Estimate of \$1,746 million. However, revenues marked a 35.8% year-over-year plunge on lower volumes in the company's core (class 6-8 trucks and buses in the United States and Canada) market due to the coronavirus outbreak.

Navistar scrapped the fiscal 2020 guidance as it expects that the pandemic's impact will strain the company's operations in the upcoming period.

Segmental Performance

The Truck segment's total net sales came in at \$1,389 million in the reported quarter, plummeting 39.5% year on year. The segment witnessed a net loss of \$51 million, narrower than the net loss of \$74 million reported in the year-ago quarter. The year-over-year sales decline primarily resulted from lower volumes in the company's core markets due to the coronavirus pandemic, dismal Mexico volumes and a decrease in GM-branded units.

The Parts segment net sales summed \$443 million, down 23% year over year. The segment's profit was \$103 million, down 28% on a year-over-year basis. The year-over-year sales decline resulted from lower North America volumes due to the COVID-19 crisis as well as a decrease in Blue Diamond Parts (BDP) sales.

Net sales in the company's Global Operations totaled \$51 million, significantly down from the year-ago level of \$87 million. The segment reported net loss of \$13 million as against the net profit of \$3 million recorded in second-quarter fiscal 2019. Lackluster volumes in South American operations, along with depreciation of the Brazilian real against the U.S. dollar, resulted in the year-on-year sales decline.

Net sales in Navistar's Financial Services segment came in at \$64 million, down from \$78 million reported in the year-ago quarter. The segment recorded profit of \$24 million compared with the year-ago quarter's \$32 million. The year-over-year sales decline resulted from lower average finance receivables and reduction in finance fees.

Financial Position

Navistar had cash and cash equivalents of \$1,547 million as of Apr 30, 2020, up from \$1,370 billion as of Oct 31, 2019. At the end of the fiscal second quarter, long-term debt was \$4,859 million, up from \$4,317 million as of Oct 31, 2019.

Quarter Ending **04/2020**

Report Date	Jun 04, 2020
Sales Surprise	10.26%
EPS Surprise	86.11%
Quarterly EPS	-0.10
Annual EPS (TTM)	2.18

Valuation

Navistar's shares are down 3.1% in the year-to-date period and down 19.5% over the trailing 12-month period. Stocks in the Zacks Automotive-Original Equipment industry and the Zacks Automotive sector are down 15.4% and 0.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 13.2% and up 10.1%, respectively.

The S&P 500 index is down 6.6% in the year-to-date period and up 2.1% in the past year.

The stock is currently trading at 0.33X forward 12-month price to sales ratio, which compares to 0.63X for the Zacks sub-industry, 0.74X for the Zacks sector and 3.37X 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 0.3X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$29 price target reflects 0.34X 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	0.33	0.63	0.74	3.37
	5-Year High	0.51	0.78	0.75	3.44
	5-Year Low	0.05	0.44	0.49	2.53
	5-Year Median	0.3	0.61	0.61	3.02
EV/EBITDA TTM	Current	7.51	5.3	10.58	11.14
	5-Year High	14.8	8.44	11.3	12.86
	5-Year Low	4.58	3.94	6.94	8.25
	5-Year Median	6.76	6.32	9.24	10.85
P/E F12M	Current	54.02	23.12	23.39	21.54
	5-Year High	78.89	25.8	23.39	22.14
	5-Year Low	NA	8.36	8.2	15.25
	5-Year Median	13.29	11.41	9.9	17.51

As of 06/29/2020

Industry Analysis Zacks Industry Rank: Top 37% (94 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Daimler AG (DDAIF)	Neutral	3
Ford Motor Company (F)	Neutral	3
Fiat Chrysler Automobiles N.V. (FCAU)	Neutral	3
Navistar International Corporation (NAV)	Neutral	3
Oshkosh Corporation (OSK)	Neutral	2
PACCAR Inc. (PCAR)	Neutral	3
Toyota Motor Corporation (TM)	Underperform	5
AB Volvo (VLVLY)	Underperform	3

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	NAV	X Industry	S&P 500	DDAIF	OSK	PCAR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	D	-	-	D	A	B
Market Cap	2.79 B	950.06 M	21.46 B	43.21 B	4.87 B	25.47 B
# of Analysts	4	3	14	3	8	8
Dividend Yield	0.00%	0.00%	1.95%	0.00%	1.68%	1.74%
Value Score	B	-	-	C	A	B
Cash/Price	0.58	0.21	0.07	0.79	0.09	0.18
EV/EBITDA	7.69	5.21	12.54	8.69	5.74	6.48
PEG Ratio	NA	2.13	2.81	NA	2.03	2.26
Price/Book (P/B)	NA	1.27	2.93	0.61	1.81	2.65
Price/Cash Flow (P/CF)	4.38	4.38	11.53	2.42	6.97	7.35
P/E (F1)	NA	25.05	20.96	64.45	17.95	25.62
Price/Sales (P/S)	0.29	0.36	2.25	0.23	0.60	1.05
Earnings Yield	-3.10%	2.28%	4.53%	1.56%	5.57%	3.91%
Debt/Equity	-1.26	0.49	0.76	1.58	0.30	0.75
Cash Flow (\$/share)	6.40	3.19	7.01	16.67	10.26	10.02
Growth Score	F	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	93.61%	8.02%	10.93%	-4.10%	30.52%	12.44%
Proj. EPS Growth (F1/F0)	-120.35%	-55.91%	-10.50%	-92.68%	-52.08%	-58.13%
Curr. Cash Flow Growth	9.70%	-5.66%	5.51%	8.72%	17.40%	6.65%
Hist. Cash Flow Growth (3-5 yrs)	81.17%	4.57%	8.62%	4.06%	9.98%	11.72%
Current Ratio	1.69	1.62	1.30	1.21	1.96	2.49
Debt/Capital	NA%	40.91%	44.51%	61.21%	23.31%	42.85%
Net Margin	1.92%	1.34%	10.62%	0.21%	6.02%	8.73%
Return on Equity	-5.82%	12.25%	15.82%	7.91%	19.08%	21.76%
Sales/Assets	1.42	1.26	0.55	0.56	1.44	0.88
Proj. Sales Growth (F1/F0)	-34.59%	-14.92%	-2.61%	-12.66%	-17.11%	-37.97%
Momentum Score	C	-	-	D	A	A
Daily Price Chg	1.12%	2.70%	1.71%	3.19%	3.16%	1.71%
1 Week Price Chg	1.35%	-2.77%	-3.90%	-3.12%	-5.69%	-3.36%
4 Week Price Chg	14.97%	1.70%	-2.17%	4.77%	-1.08%	0.77%
12 Week Price Chg	68.00%	35.00%	14.42%	34.28%	10.29%	13.46%
52 Week Price Chg	-19.52%	-17.01%	-8.82%	-26.68%	-14.41%	1.99%
20 Day Average Volume	903,275	224,091	2,732,041	41,673	520,675	1,598,574
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	49.21%	1.43%	0.00%
(F1) EPS Est 4 week change	45.59%	0.50%	0.00%	-31.88%	1.43%	1.99%
(F1) EPS Est 12 week change	-123.44%	-44.07%	-10.60%	-77.42%	-26.81%	-41.51%
(Q1) EPS Est Mthly Chg	-146.15%	0.00%	0.00%	NA	2.90%	4.93%

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	B
Growth Score	F
Momentum Score	C
VGM Score	D

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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