

Penske Automotive (PAG)

\$34.70 (As of 05/07/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/13/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

Summary

Low demand of vehicles and weak consumer confidence amid COVID-19 are likely to impact the near-term earnings and sales of the automotive retailer. With shelter-in-place orders enforced in full swing in April, Penske Automotive's sales and profits are likely to be badly hit in the upcoming quarter. Used-truck pricing environment is expected to remain weak throughout 2020, which may dent the profit levels of the firm. Rising debt levels of the firm restrict its financial flexibility. Further, the firm's international business is exposed to fluctuations in foreign exchange rates since the last few quarters and the trend is likely to continue. Moreover, rising competition and increasing price transparency can further limit the prospects. As such, the stock is viewed as a risky bet.

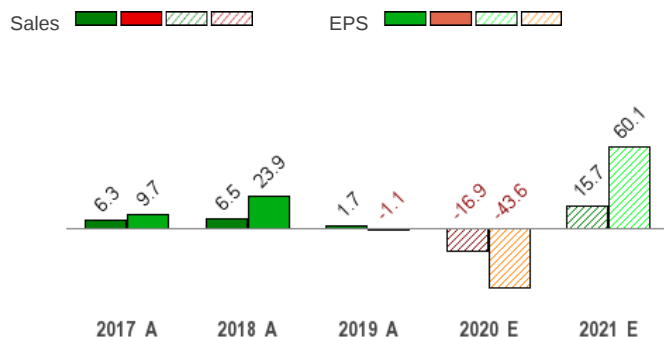
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.81 - \$19.99
20 Day Average Volume (sh)	310,657
Market Cap	\$2.8 B
YTD Price Change	-30.9%
Beta	1.67
Dividend / Div Yld	\$1.68 / 4.8%
Industry	Automotive - Retail and Whole Sales
Zacks Industry Rank	Bottom 1% (251 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	-43.4%
Expected Report Date	08/04/2020
Earnings ESP	-973.3%
P/E TTM	7.3
P/E F1	11.6
PEG F1	2.1
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,336 E	5,261 E	5,300 E	5,319 E	22,284 E
2020	5,009 A	3,432 E	4,783 E	5,323 E	19,260 E
2019	5,564 A	5,756 A	5,968 A	5,881 A	23,179 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.20 E	\$1.05 E	\$1.09 E	\$1.05 E	\$4.77 E
2020	\$0.64 A	-\$0.08 E	\$1.27 E	\$1.44 E	\$2.98 E
2019	\$1.25 A	\$1.42 A	\$1.42 A	\$1.25 A	\$5.28 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 05/07/2020. The reports text is as of 05/08/2020.

Overview

Established in 1990, Penske Automotive Group, Inc., based in Bloomfield Hills, MI, engages in the operation of automotive and commercial truck dealerships in the United States, Canada and Western Europe. The company also distributes commercial vehicles, diesel engines, gas engines, power systems and related parts and services principally in Australia and New Zealand. It employs more than 27,000 people across the globe.

The company also offers higher margin products such as finance, insurance and vehicle service contracts; maintenance repair services; replacement parts and aftermarket automotive products.

The company operates under three reportable segments, Retail Automotive, Commercial Truck and Commercial Vehicles Australia/Power Systems.

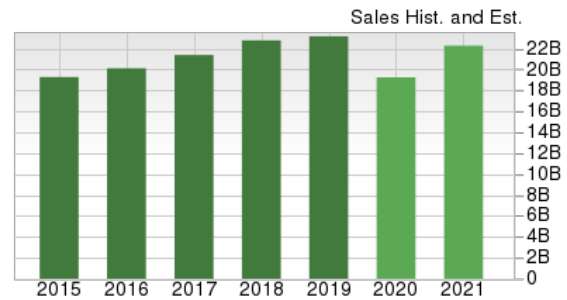
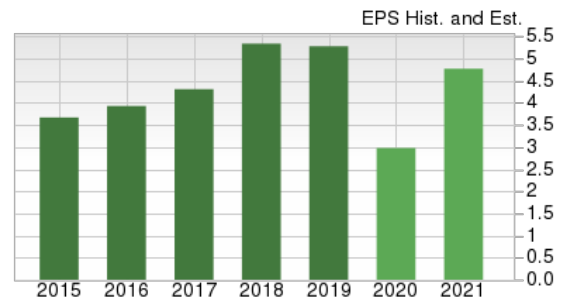
Retail Automotive which deals with retail automotive dealership operations generated 89% of revenues in 2019. Per the company, it is the second largest automotive retailer headquartered in the U.S.

Commercial Truck, which consists of the U.S. retail commercial truck dealership operations generated 8.8% of the revenues in 2019. The company operates a heavy and medium-duty truck dealership group known as Premier Truck Group (PTG) with locations in Texas, Oklahoma, Tennessee, Georgia, and Canada.

Commercial Vehicles Australia/Power Systems and Other generated 2.2% of the revenues in 2019. The company is the exclusive importer and distributor of Western Star heavy-duty trucks (a Daimler brand), MAN heavy and medium-duty trucks and buses (a VW Group brand), and Dennis Eagle refuse collection vehicles.

In 2019, its retail automotive brand mix consisted of 70% Premium, 23% Volume non-U.S., 6% Used-Vehicle Supercenters and 1% the U.S. big-three.

Of late, the company has been expanding its presence in the U.K., its second largest market, with an aim to capitalize on the highly fragmented used automotive retail segment and reinforce its position in the country.



Reasons To Sell:

- ▼ Coronavirus has rattled the auto sector with factory closure, low footfall in auto sales and supply-chain disruptions. Depressed demand of vehicles and weak consumer confidence amid COVID-19 are likely to impact the near-term earnings and sales of the automotive retailer. Heightened coronavirus woes, especially in March, resulted in lower year over year results in the first quarter of 2020. With shelter-in-place orders enforced in full swing in April, the firm's sales and profits are likely to be badly hit in the upcoming quarter.
- ▼ Decline in the used commercial truck gross profits due to changing market conditions also plays a spoilsport. Used truck pricing is going down following record new truck sales in 2019 and low demand in the wake of the COVID-19 pandemic. Used-truck pricing environment is expected to remain weak throughout 2020, which may dent the profit levels of the firm.
- ▼ Penske Automotive's rising debt levels are also a cause of concern. As of Mar 31, 2020, long-term debt rose to \$2,516.1 million from \$2,257 million as of Dec 31, 2019. Its long-term debt-to-capital ratio stands at 0.48, higher than its industry's 0.41. Elevated leverage restricts the financial flexibility of the firm. Moreover, the company's times interest earned ratio 3.59 is unfavorable to the industry ratio of 3.71.
- ▼ Penske's international business is exposed to fluctuations in foreign exchange rates since the last few quarters and the trend is likely to continue. Notably, unfavorable foreign currency translations negatively impacted first quarter's EPS by a penny.
- ▼ Rising competition and increasing price transparency can lead to lower selling prices, thus affecting profits of the company. Penske Automotive competes with other franchised automotive dealerships, private market buyers and sellers of used vehicles; Internet-based vehicle brokers; national and local service, repair shops and parts retailers; and automotive manufacturers.

With shelter-in-place orders enforced in full swing in April, Penske Automotive's sales and profits are likely to be badly hit in the upcoming quarter.

Risks

- The company's diversified business segments which include heavy duty truck retailing/leasing bode well. Its favorable brand mix with strong off-lease opportunities along with used vehicle expansion strategy is likely to boost the earnings going forward. Penske Automotive is anticipated to benefit from acquisitions or opening of dealerships in the United States and European markets. The firm also became the largest dealership group for Freightliner in North America with the acquisition of Warner Truck Centers, representing six dealership locations in Utah and Idaho. This aided the company to diversify business, expand customer base and capitalize on the Retail Commercial Trucks segment.
 - Expansion of digital capabilities and cost-cut initiatives are likely to offer respite amid the coronavirus-led lockdown and low demand. The rollout of internal digital initiatives which enable greater on-line interactions/purchases may help in generating revenues. Further, initiatives like company-wide hiring freeze, rent deferrals, compensation reductions, capex postponement and staffing-level adjustments including furloughing 57% of its worldwide workforce may help the firm achieve substantial savings amid COVID-19 induced financial crisis.
 - Penske engages in share buybacks and regular dividend payouts in almost every quarter which boosts investors' confidence. In the wake of the gloomy scenario, many auto companies have suspended dividends and buybacks. However, Penske has maintained its payouts and repurchase program, preserving shareholders' values. Penske has a dividend yield of 4.84% compares much favorably with the industry's yield is 1.66%. In the past five-year period, Penske Automotive has increased its dividend 5 times on a year-over-year basis for an average annual increase of 13.84%. In 2019, the company returned \$305 million or 70% of its income to shareholders through share repurchase and dividends.
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Last Earnings Report

Penske Automotive's Q1 Sales and Earnings Drop Y/Y

Penske Automotive reported first-quarter 2020 adjusted earnings per share of 64 cents, in line with the Zacks Consensus Estimate. However, the bottom line declined from \$1.25 per share recorded in the year-ago quarter. The auto retailer posted revenues of \$5,009.1 million, surpassing the consensus mark of \$4,868 million. However, the top line declined from the year-ago level of \$5,564 million. Heightened coronavirus woes, especially in March, resulted in weaker year-over-year earnings and revenues.

The company's gross profit decreased to \$776.7 million from \$851.5 million in the prior-year quarter. During the quarter under review, operating income fell 33% from the prior-year period to \$106.4 million.

Same-store retail unit sales tanked 14.5% year over year to 104,870. Within the retail automotive segment, new-vehicle revenues fell 14.3% year over year to \$1,863.5 million and used-vehicle revenues declined 11.3% to \$1,597.6 million.

Segmental Details

Revenues in Retail Automotive slipped to \$4,416.6 million from \$5,091.2 million in the year-ago quarter. Gross profit of \$678.1 million compared unfavorably with \$761.5 million in first-quarter 2019. However, the metric topped the Zacks Consensus Estimate of \$617 million.

In the quarter, revenues in the Retail Commercial Trucks segment increased to \$491.4 million from \$332.3 million in the year-ago period. Gross profit for the segment was \$68.8 million, which beat the Zacks Consensus Estimate of \$68 million. Further, it increased from the year-ago figure of \$54.4 million in the quarter.

Revenues in the Commercial Vehicles Australia/Power Systems and Other declined to \$101.1 million from \$140.9 million in the prior-year quarter. Gross profit was \$29.8 million compared with \$35.6 million in the first quarter of 2019. The reported figure also missed the Zacks Consensus Estimate of \$34.20 million.

Financial Position

Penske Automotive had cash and cash equivalents of \$431.9 million as of Mar 31, 2020, up from \$28.1 million on Dec 31, 2019. As of Mar 31, 2020, long-term debt amounted to \$2,516.1 million, up from \$2,257 million on Dec 31, 2019.

Share Repurchase

During the quarter under review, the company repurchased 890,195 shares for \$29.4 million or an average of \$33.06 per share. As of Mar 31, 2020, Penske Automotive had a share repurchase authorization of \$170.6 million.

Actions Amid COVID-19

To counter the pandemic-led crisis, the company has enforced a variety of measures including company-wide hiring freeze, substantial cost cuts, staffing-level adjustments, postponement of \$150 million in capex and negotiated rent deferrals at different locations for up to 90 days.

Additionally, executive and management compensation has been drastically slashed, including a 100% pay cut for the CEO and president during the crisis. The board of directors has also suspended cash compensation through September-end of this year.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	2.91%
EPS Surprise	0.00%
Quarterly EPS	0.64
Annual EPS (TTM)	4.73

Valuation

Penske Automotive's shares are down 30.9% and 24.7% in the year-to-date period and over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto sector are down 31.1% and 11.7%, respectively, year to date. Over the past year, the Zacks sub-industry and sector are down 16.5% and 1.4%, respectively.

The S&P 500 index is down 10.4% and up 0.2% in the year-to-date period and in the past year.

The stock is currently trading at 8.42X forward 12-month earnings, which compares to 11.17X for the Zacks sub-industry, 18.05X for the Zacks sector and 20.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.72X and as low as 3.82X, with a 5-year median of 9.43X.

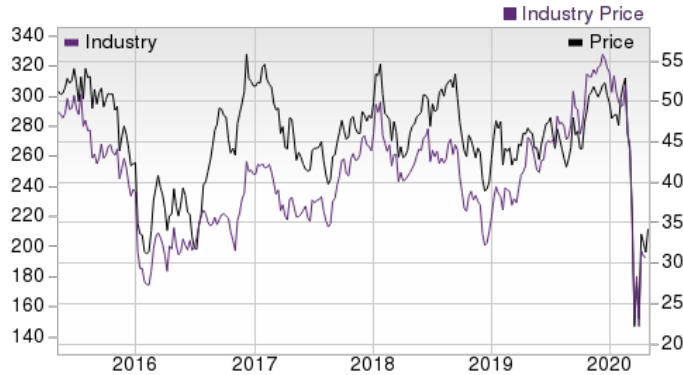
Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$29 price target reflects 7.03X forward 12-month earnings per share.

The table below shows summary valuation data for PAG:

Valuation Multiples - PAG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.42	11.17	18.05	20.81
	5-Year High	13.72	13.44	18.05	20.81
	5-Year Low	3.82	6.58	8.23	15.19
	5-Year Median	9.43	9.96	9.91	17.44
EV/EBITDA TTM	Current	6.29	5.93	9.32	10.57
	5-Year High	13.81	9.71	11.34	12.86
	5-Year Low	5.08	4.63	6.85	8.28
	5-Year Median	8.49	7.41	9.25	10.77
P/S F12M	Current	0.14	0.15	0.67	3.25
	5-Year High	0.25	0.25	0.76	3.44
	5-Year Low	0.08	0.11	0.5	2.54
	5-Year Median	0.18	0.18	0.61	3.01

As of 05/07/2020

Industry Analysis Zacks Industry Rank: Bottom 1% (251 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AutoNation Inc (AN)	Neutral	4
Americas CarMart Inc (CRMT)	Neutral	4
Group 1 Automotive Inc (GPI)	Neutral	5
Lithia Motors Inc (LAD)	Neutral	3
Asbury Automotive Group Inc (ABG)	Underperform	5
CarMax Inc (KMX)	Underperform	5
Rush Enterprises Inc (RUSHA)	Underperform	5
Sonic Automotive Inc (SAH)	Underperform	5

Industry Comparison Industry: Automotive - Retail And Whole Sales				Industry Peers		
	PAG	X Industry	S&P 500	GPI	KMX	SAH
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	5	-	-	5	5	5
VGM Score	D	-	-	A	F	A
Market Cap	2.79 B	1.22 B	19.51 B	936.91 M	11.85 B	913.36 M
# of Analysts	6	3	14	3	8	5
Dividend Yield	4.84%	0.56%	2.15%	2.35%	0.00%	1.86%
Value Score	C	-	-	B	D	A
Cash/Price	0.01	0.02	0.06	0.02	0.05	0.03
EV/EBITDA	5.80	5.14	11.77	5.14	18.28	4.73
PEG Ratio	2.20	1.89	2.54	1.55	2.45	NA
Price/Book (P/B)	1.04	1.05	2.67	0.80	3.16	0.98
Price/Cash Flow (P/CF)	5.16	4.80	10.44	3.49	10.78	4.45
P/E (F1)	12.22	12.49	19.30	8.55	28.14	18.89
Price/Sales (P/S)	0.12	0.18	1.99	0.08	0.58	0.09
Earnings Yield	8.59%	8.01%	4.91%	11.71%	3.55%	5.31%
Debt/Equity	0.93	0.60	0.75	1.15	4.08	1.04
Cash Flow (\$/share)	6.73	7.44	7.01	14.63	6.76	4.83
Growth Score	F	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	11.12%	14.01%	10.87%	10.37%	15.66%	3.89%
Proj. EPS Growth (F1/F0)	-43.59%	-43.91%	-9.87%	-45.41%	-51.41%	-57.13%
Curr. Cash Flow Growth	-2.36%	6.74%	5.88%	8.93%	7.77%	20.48%
Hist. Cash Flow Growth (3-5 yrs)	8.31%	8.47%	8.55%	6.43%	9.70%	5.19%
Current Ratio	1.03	1.14	1.24	0.91	2.39	0.98
Debt/Capital	48.17%	42.75%	44.23%	53.41%	80.32%	50.85%
Net Margin	1.72%	2.07%	10.68%	1.38%	4.37%	-0.94%
Return on Equity	14.32%	14.39%	16.36%	16.32%	24.46%	12.85%
Sales/Assets	1.65	1.67	0.55	2.21	1.00	2.53
Proj. Sales Growth (F1/F0)	-16.87%	-12.73%	-2.26%	-15.23%	-25.12%	-10.01%
Momentum Score	B	-	-	A	F	F
Daily Price Chg	4.80%	2.44%	1.52%	2.53%	-0.14%	7.78%
1 Week Price Chg	9.18%	7.61%	0.53%	10.23%	0.16%	22.59%
4 Week Price Chg	3.46%	5.52%	0.73%	-3.87%	9.58%	28.04%
12 Week Price Chg	-33.40%	-29.09%	-21.09%	-47.92%	-26.31%	-32.39%
52 Week Price Chg	-24.68%	-22.18%	-10.17%	-34.52%	-7.21%	10.16%
20 Day Average Volume	310,657	273,425	2,398,409	286,439	2,272,758	460,347
(F1) EPS Est 1 week change	-25.69%	-8.64%	0.00%	5.54%	-14.17%	-11.94%
(F1) EPS Est 4 week change	-43.38%	-27.71%	-6.95%	-26.25%	-25.44%	-45.33%
(F1) EPS Est 12 week change	-56.36%	-51.33%	-15.68%	-48.04%	-53.65%	-61.39%
(Q1) EPS Est Mthly Chg	-111.63%	-102.41%	-13.12%	-235.93%	-110.71%	-414.52%

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	C
Growth Score	F
Momentum Score	B
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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