

## Penske Automotive (PAG)

**\$48.32** (As of 01/08/20)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**

(Since: 01/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

### Summary

Lately, Penske Automotive has been witnessing northbound estimate revisions for fiscal 2020 earnings. Penske is anticipated to benefit from acquisitions or opening of dealerships in the United States and European markets. It also became the largest dealership group for Freightliner in North America with the acquisition of Warner Truck Centers which expected to enhance diversification and growth. The company's favorable brand mix with strong off-lease opportunities along with used vehicle expansion strategy is likely to boost the earnings going forward. Penske efforts to improve and enhance its digital capabilities are commendable. What's more, Penske engages in share buybacks and regular dividend payouts in almost every quarter which boosts investors' confidence.

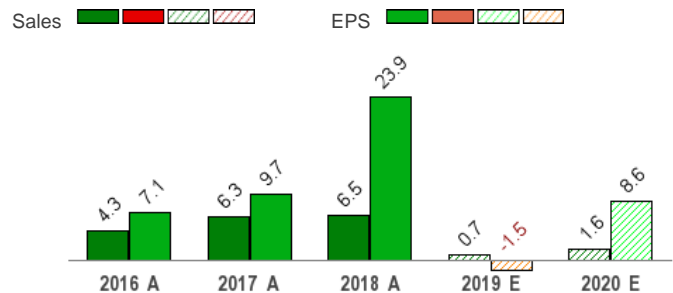
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$53.81 - \$41.26
20 Day Average Volume (sh)	334,339
Market Cap	\$3.9 B
YTD Price Change	-3.8%
Beta	1.28
Dividend / Div Yld	\$1.64 / 3.4%
Industry	<a href="#">Automotive - Retail and Whole Sales</a>
Zacks Industry Rank	Top 4% (10 out of 254)

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



Last EPS Surprise	0.7%
Last Sales Surprise	3.5%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/06/2020
Earnings ESP	0.5%
P/E TTM	9.3
P/E F1	8.5
PEG F1	1.5
P/S TTM	0.2

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	5,884 E	6,077 E	5,931 E	5,686 E	23,321 E
2019	5,564 A	5,756 A	5,968 A	5,693 E	22,951 E
2018	5,747 A	5,940 A	5,659 A	5,439 A	22,785 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.32 E	\$1.59 E	\$1.57 E	\$1.36 E	\$5.71 E
2019	\$1.25 A	\$1.42 A	\$1.42 A	\$1.20 E	\$5.26 E
2018	\$1.25 A	\$1.58 A	\$1.40 A	\$1.11 A	\$5.34 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 01/08/2020. The reports text is as of 01/09/2020.

## 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.

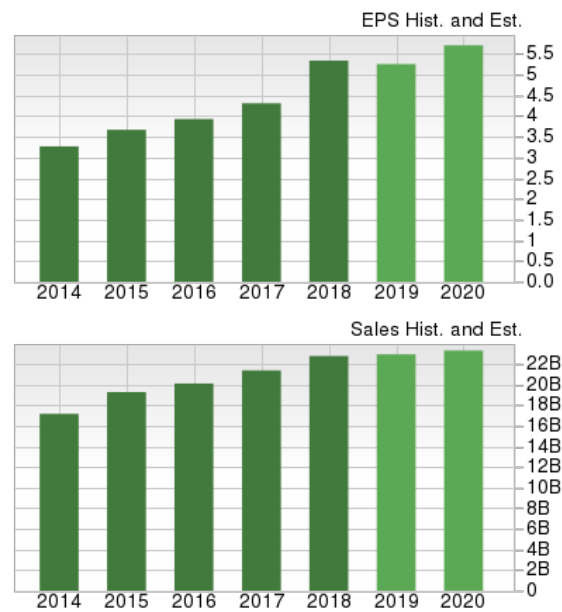
Retail Automotive which deals with retail automotive dealership operations generated 92% of revenues in 2018. The company believes that it is the second largest automotive retailer headquartered in the U.S.

Commercial Truck, which consists of the U.S. retail commercial truck dealership operations generated 6% of the revenues in 2018. 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% of the revenues in 2018. 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 2018, its retail automotive brand mix consisted of 70% Premium, 22% Volume non-U.S., 6% Used-Vehicle Supercenters and 2% 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. In line with this strategy, in January 2018, it acquired The Car People. Earlier in 2017, the company acquired two other retailers of used vehicles namely CarSense and CarShop.



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## Reasons To Buy:

- ▲ Penske is anticipated to benefit from acquisitions or opening of dealerships in the United States and European markets. Penske 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.
- ▲ 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 engages in share buybacks and regular dividend payouts in almost every quarter which boosts investors' confidence. In third-quarter 2019, the company repurchased 1,021,622 shares for \$43.6 million or an average of \$42.66 per share. In September 2019, the management increased the share repurchase authorization to \$200 million. It also increased the dividend to its common stock shareholders to 41 cents per share, marking the 34th consecutive increase in quarterly dividend.
- ▲ Penske continues to improve and enhance its digital capabilities. It has more than 60,000 vehicles ready to be purchased online. Further, the company's product diversification, stand-alone used-vehicle supercenters, and robust demand for medium-duty and Class 8 heavy-duty in North America contributed to revenue generation. Moreover, an increase in the number of off-lease used-vehicles in the market might drive the company's used-vehicle sales.

Acquisition of Warner Truck Centers is likely to boost the top line of the company going forward.

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## Risks

- The declining sales of new vehicles are hampering Penske Automotive's top line. The plunge in new vehicle sales was primarily due to the introduction of the light-vehicle testing procedure called WLTP in Europe. Also, uncertainty and higher taxes on diesel-powered vehicles in the U.K., largely as the result of Brexit, along with the country's exit from the European Union might hamper new-vehicle sales.
  - 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. Rising competition and increasing price transparency can lead to lower selling prices, thus affecting profits of the company.
  - Penske's international business is exposed to fluctuations in foreign exchange rates since the last few quarters. In addition, it is also affected by economic and political conditions of markets it has expanded into. The U.S.-Sino trade tiff remain concerns may affect the top-line growth of the firm.
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## Last Earnings Report

### Penske Automotive Beat Q3 Earnings & Revenues Estimates

Penske Automotive Group, Inc. reported third-quarter 2019 adjusted earnings per share of \$1.42 compared with \$1.40 recorded in the year-ago quarter. Also, the bottom line beat the Zacks Consensus Estimate of \$1.41. Despite the weak market conditions in the U.K., largely due to Brexit, the company managed to perform well in the third quarter on synergies from the Warner Truck Group acquisition.

Penske Automotive, which belongs to the Retail and Whole Sales industry, posted revenues of \$5.97 billion for the quarter ended Sep 30, 2019. The figure rose from the year-ago quarter's level of \$5.66 billion. Further, it beat the Zacks Consensus Estimate of \$5.77 billion.

The company's gross profit rallied to \$869.7 million from \$852.6 million in the prior-year quarter. During the quarter under review, operating income increased 3.4% to \$169.4 million.

Same-store retail unit sale increased 0.9% year over year to 129,834. Within the retail automotive segment, new-vehicle revenues declined 0.8% year over year to \$2.32 billion while used-vehicle revenues remained flat at \$1.82 billion year over year.

### Segmental Details

Revenues in the Retail Automotive rose to \$5155.4 million from \$5148.5 million in the year-ago quarter.

In the quarter, Penske 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 which led the revenues in the Retail Commercial Trucks segment increase to \$692.3 million from \$385.3 million in the year-ago quarter.

Revenues in the Commercial Vehicles Australia/Power Systems and Other declined to \$119.9 million from \$124.8 million in the prior-year quarter.

### Financial Position

Penske Automotive had cash and cash equivalents of \$77.5 million as of Sep 30, 2019, up from \$39.4 million recorded as of Dec 31, 2018. As of Sep 30, 2019, long-term debt amounted to \$2.28 billion, up from \$2.12 billion as of Dec 31, 2018. The debt-to-capital ratio stands at 46.45%.

### Dividend and Share Repurchase

On Oct 16, the company announced that its Board of Directors increased the dividend to its common stock shareholders to 41 cents per share. This marked the 34th consecutive increase in quarterly dividend.

In third-quarter 2019, the company repurchased 1,021,622 shares for \$43.6 million or an average of \$42.66 per share. In September 2019, the management increased the share repurchase authorization to \$200 million.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	3.47%
EPS Surprise	0.71%
Quarterly EPS	1.42
Annual EPS (TTM)	5.20

## Valuation

Penske Automotive's shares are up 7.1% over the trailing 12-month period. Stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto sector are up 32.5% and up 11.1% over the last year, respectively. The S&P 500 index is up 23.4% in the past year.

The stock is currently trading at 8.51X forward 12-month earnings, which compares to 9.47X for the Zacks sub-industry, 10.66X for the Zacks sector and 18.78X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15X and as low as 7X, with a 5-year median of 9.69X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$56 price target reflects 9.87X 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	8.51	9.47	10.66	18.78
	5-Year High	13.93	13.9	11.75	19.34
	5-Year Low	7	7.6	8.23	15.17
	5-Year Median	9.67	10.02	9.93	17.44
EV/EBITDA TTM	Current	8.14	7.62	8.67	11.99
	5-Year High	13.81	9.71	11.33	12.86
	5-Year Low	6.1	6.21	7.05	8.48
	5-Year Median	8.79	7.62	9.26	10.67
P/B TTM	Current	1.47	1.68	1.61	4.35
	5-Year High	2.92	2.85	2.16	4.37
	5-Year Low	1.26	1.24	1.37	2.85
	5-Year Median	1.85	1.84	1.75	3.6

As of 01/08/2020

## Industry Analysis Zacks Industry Rank: Top 4% (10 out of 254)



## Top Peers

Asbury Automotive Group, Inc. (ABG)	Outperform
Americas Car-Mart, Inc. (CRMT)	Outperform
Group 1 Automotive, Inc. (GPI)	Outperform
Lithia Motors, Inc. (LAD)	Outperform
Sonic Automotive, Inc. (SAH)	Outperform
AutoNation, Inc. (AN)	Neutral
CarMax, Inc. (KMX)	Neutral
Rush Enterprises, Inc. (RUSHA)	Neutral

Industry Comparison Industry: Automotive - Retail And Whole Sales				Industry Peers		
	PAG Outperform	X Industry	S&P 500	GPI Outperform	KMX Neutral	SAH Outperform
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>D</b>	<b>A</b>
Market Cap	3.92 B	1.65 B	23.84 B	1.79 B	14.23 B	1.28 B
# of Analysts	7	4	13	5	8	5
Dividend Yield	3.39%	0.43%	1.79%	1.20%	0.00%	1.35%
<b>Value Score</b>	<b>A</b>	-	-	<b>A</b>	<b>B</b>	<b>A</b>
Cash/Price	0.02	0.02	0.04	0.02	0.04	0.00
EV/EBITDA	6.78	7.39	13.88	7.90	20.98	8.95
PEG Ratio	1.52	1.31	2.02	1.15	1.33	3.35
Price/Book (P/B)	1.49	1.47	3.33	1.51	3.87	1.42
Price/Cash Flow (P/CF)	7.34	7.38	13.76	7.41	14.45	7.34
P/E (F1)	8.46	10.06	18.76	8.52	16.73	10.06
Price/Sales (P/S)	0.17	0.26	2.63	0.15	0.72	0.12
Earnings Yield	11.82%	9.94%	5.32%	11.73%	5.98%	9.94%
Debt/Equity	0.86	0.63	0.72	1.27	4.07	1.31
Cash Flow (\$/share)	6.58	7.44	6.94	13.00	6.02	4.04
<b>Growth Score</b>	<b>A</b>	-	-	<b>A</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	11.44%	15.41%	10.56%	9.91%	15.43%	0.71%
Proj. EPS Growth (F1/F0)	8.64%	10.65%	7.46%	6.74%	8.69%	16.04%
Curr. Cash Flow Growth	20.08%	19.73%	14.83%	9.82%	18.60%	-0.88%
Hist. Cash Flow Growth (3-5 yrs)	12.56%	10.29%	9.00%	6.68%	10.83%	0.73%
Current Ratio	0.97	1.14	1.23	1.00	2.43	1.04
Debt/Capital	46.19%	42.36%	42.99%	55.90%	80.28%	56.62%
Net Margin	1.91%	1.91%	11.08%	1.31%	4.40%	1.16%
Return on Equity	16.40%	15.69%	17.16%	16.48%	24.53%	12.20%
Sales/Assets	1.76	1.78	0.55	2.28	1.00	2.54
Proj. Sales Growth (F1/F0)	1.61%	5.28%	4.16%	2.14%	10.37%	6.55%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>A</b>	<b>F</b>	<b>A</b>
Daily Price Chg	-0.68%	-0.67%	0.39%	-0.82%	-0.17%	-0.47%
1 Week Price Chg	-1.80%	-1.66%	-0.30%	-1.73%	-1.29%	0.46%
4 Week Price Chg	-7.47%	-8.07%	2.38%	-9.73%	-12.07%	-10.92%
12 Week Price Chg	3.67%	3.27%	6.40%	6.04%	-5.80%	1.26%
52 Week Price Chg	6.38%	23.25%	22.97%	61.38%	32.66%	86.85%
20 Day Average Volume	334,339	151,247	1,610,101	149,468	1,623,551	326,159
(F1) EPS Est 1 week change	0.58%	0.00%	0.00%	0.01%	-0.45%	0.00%
(F1) EPS Est 4 week change	0.58%	0.34%	0.00%	0.60%	-1.84%	0.34%
(F1) EPS Est 12 week change	1.69%	4.44%	-0.50%	3.99%	-1.51%	17.99%
(Q1) EPS Est Mthly Chg	1.28%	0.52%	0.00%	1.04%	-2.20%	0.00%

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## 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.

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### 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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