Penske Automotive (PAG)

$50.30 (As of 02/07/20)

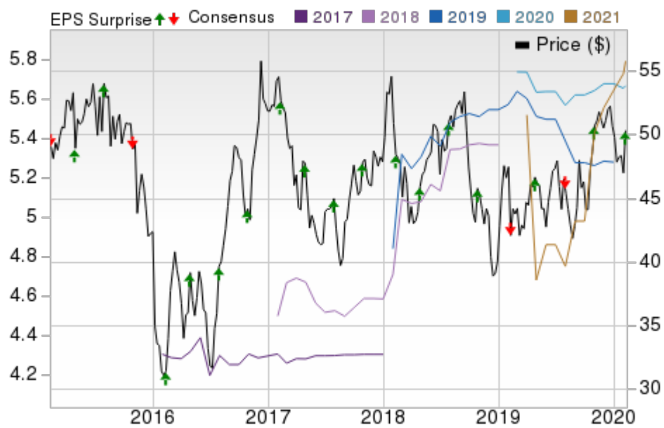
Price Target (6-12 Months): **$53.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/09/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: A | Momentum: D	

Summary

Penske is anticipated to benefit from acquisitions or opening of dealerships in the U.S. 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. Penske expects its UK business to improve in 2020 post-Brexit. 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. As such, the auto retailing giant warrants a bullish stance at the moment.

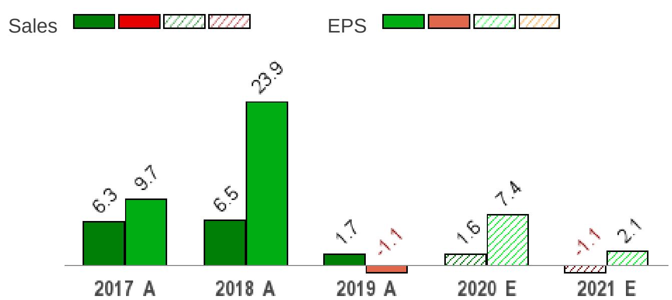
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$53.81 - $41.26**
20 Day Average Volume (sh)	**269,535**
Market Cap	**$4.1 B**
YTD Price Change	**0.2%**
Beta	**1.30**
Dividend / Div Yld	**$1.64 / 3.3%**
Industry	**Automotive - Retail and Whole Sales**
Zacks Industry Rank	**Top 14% (36 out of 254)**
Last EPS Surprise	**4.2%**
Last Sales Surprise	**3.3%**
EPS F1 Est- 4 week change	**-0.8%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**9.4**
P/E F1	**8.9**
PEG F1	**1.6**
P/S TTM	**0.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					23,310 E
2020	5,884 E	6,068 E	5,931 E	5,686 E	23,558 E
2019	5,564 A	5,756 A	5,968 A	5,881 A	23,179 A

EPS Estimates

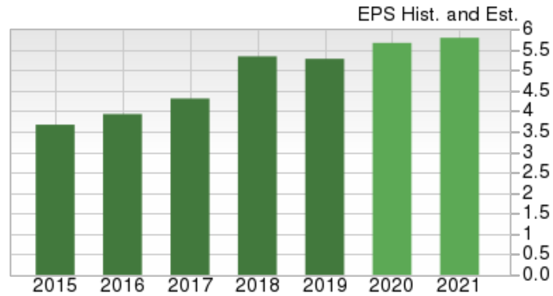
	Q1	Q2	Q3	Q4	Annual*
2021	$1.33 E	$1.60 E	$1.54 E	$1.38 E	$5.79 E
2020	$1.30 E	$1.57 E	$1.50 E	$1.39 E	$5.67 E
2019	$1.25 A	$1.42 A	$1.42 A	$1.25 A	$5.28 A

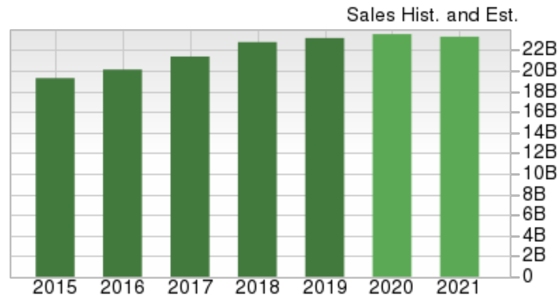
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/07/2020. The reports text is as of 02/10/2020.

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 Buy:

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

- 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 also expects its UK business to improve in 2020 post-Brexit.

- Penske engages in share buybacks and regular dividend payouts in almost every quarter which boosts investors' confidence. Currently paying a dividend of $0.41 per share, Penske has a dividend yield of 3.4%. In comparison, the Automotive - Retail and Whole Sales industry's yield is 0.44%, while the S&P 500's yield is 1.75%. 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.

- 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.

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.

Last Earnings Report

Penske Automotive Beat Q4 Earnings & Revenues Estimates

Quarter Ending	12/2019
Report Date	Feb 05, 2020
Sales Surprise	3.32%
EPS Surprise	4.17%
Quarterly EPS	1.25
Annual EPS (TTM)	5.34

Penske Automotive reported fourth-quarter 2019 adjusted earnings per share of $1.25 compared with $1.11 recorded in the year-ago quarter. Also, the bottom line beat the Zacks Consensus Estimate of $1.20. Despite weak market conditions in the U.K., largely due to Brexit, the company managed to perform well in the fourth quarter on the back of robust U.S. retail operations along with synergies from the Warner Truck Group acquisition.

Penske Automotive, which belongs to the Retail and Whole Sales industry, posted revenues of $5,881 million for the quarter ended Dec 31, 2019. The figure rose from the year-ago quarter's level of $5,439 million. Further, it beat the Zacks Consensus Estimate of $5,693 million.

The company's gross profit increased to $866.5 million from $808.1 million in the prior-year quarter. During the quarter under review, operating income increased 11.9% to $152.8 million.

Same-store retail unit sales increased 1.9% year over year to 118,598. Within the retail automotive segment, new-vehicle revenues rallied 6.2% year over year to $2.4 billion while used-vehicle revenues increased 3.7% year over year to $1.67 billion.

Segmental Details

Revenues in the Retail Automotive rose to $5,162.7 million from $4949.2 million in the year-ago quarter. Gross profit was $755.1 million compared with $720.1 million in the fourth quarter of 2018. It also topped the Zacks Consensus Estimate of $722 million in the quarter.

In the quarter, revenues in the Retail Commercial Trucks segment increased to $599.1 million from $358 million in the year-ago quarter. Gross profit for the segment was $78.3 million, which missed the Zacks Consensus Estimate of $82 million. However, it increased from the year-ago figure of $54.7 million in the quarter.

Revenues in the Commercial Vehicles Australia/Power Systems and Other declined to $119.6 million from $132.1 million in the prior-year quarter. Gross profit was $33.1 million compared with $33.3 million in the fourth quarter of 2018. It missed the Zacks Consensus Estimate of $36.10 million in the quarter.

Financial Position

Penske Automotive had cash and cash equivalents of $28.1 million as of Dec 31, 2019, down from $39.4 million as of Dec 31, 2018. As of Dec 31, 2019, long-term debt amounted to $2.26 billion, up from $2.12 billion as of Dec 31, 2018. The debt-to-capital ratio was 44.53%.

Share Repurchase

The company repurchased 3,986,836 shares for $174.1 million or an average of $43.68 per share in 2019. As of Dec 31, 2019, the company had share repurchase authorization of approximately $200.0 million.

Valuation

Penske Automotive's shares are up 0.1% and 19.8% 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 6.7% and up 4.2%, respectively, year to date. Over the past year, the Zacks sub-industry and sector are up 30.5% and 16.9%, respectively.

The S&P 500 index is up 3.2% and 21.9% in the year-to in the past year.

The stock is currently trading at 8.85X forward 12-month earnings, which compares to 9.22X for the Zacks sub-industry, 11.27X for the Zacks sector and 19.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.93X and as low as 7X, with a 5-year median of 9.63X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our $53 price target reflects 9.33X 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	8.85	9.22	11.27	19.12
	5-Year High	13.93	13.9	11.75	19.34
	5-Year Low	7	7.6	8.23	15.18
	5-Year Median	9.63	10.01	9.93	17.47
EV/EBITDA TTM	Current	8.36	7.4	8.79	11.36
	5-Year High	14.55	9.82	11.23	12.85
	5-Year Low	6.26	6.25	6.9	8.47
	5-Year Median	8.83	7.64	9.21	10.7
P/B TTM	Current	1.45	1.64	1.73	4.29
	5-Year High	2.92	2.85	2.16	4.42
	5-Year Low	1.26	1.24	1.38	2.85
	5-Year Median	1.83	1.83	1.74	3.62

As of 02/07/2020

Industry Analysis **Zacks Industry Rank:** Top 14% (36 out of 254)

Top Peers

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

Industry Comparison Industry: Automotive - Retail And Whole Sales

Industry Peers

	PAG Outperform	**X Industry**	**S&P 500**	**GPI** Outperform	**KMX** Neutral	**SAH** Neutral
VGM Score	A	-	-	A	C	A
Market Cap	4.08 B	1.60 B	24.00 B	1.76 B	15.73 B	1.36 B
# of Analysts	7	3	13	5	8	5
Dividend Yield	3.26%	0.45%	1.78%	1.23%	0.00%	1.26%
Value Score	A	-	-	A	C	A
Cash/Price	0.02	0.02	0.04	0.02	0.03	0.00
EV/EBITDA	6.93	6.93	14.07	8.16	22.08	9.26
PEG Ratio	1.60	2.06	2.04	2.33	1.54	3.58
Price/Book (P/B)	1.45	1.43	3.28	1.40	4.28	1.51
Price/Cash Flow (P/CF)	7.48	7.17	13.58	6.56	15.99	7.82
P/E (F1)	8.91	9.88	18.86	8.23	18.72	10.75
Price/Sales (P/S)	0.18	0.25	2.65	0.15	0.80	0.13
Earnings Yield	11.27%	10.12%	5.30%	12.15%	5.34%	9.29%
Debt/Equity	0.80	0.63	0.71	1.31	4.07	1.31
Cash Flow ($/share)	6.73	7.44	6.89	14.41	6.02	4.04
Growth Score	A	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	11.44%	15.41%	10.80%	9.91%	15.43%	0.71%
Proj. EPS Growth (F1/F0)	7.36%	13.83%	7.23%	5.05%	7.39%	15.28%
Curr. Cash Flow Growth	-2.36%	7.33%	9.51%	7.33%	18.60%	-0.88%
Hist. Cash Flow Growth (3-5 yrs)	12.56%	10.29%	8.55%	6.68%	10.83%	0.73%
Current Ratio	0.98	1.14	1.20	1.04	2.43	1.04
Debt/Capital	44.53%	41.53%	42.90%	56.68%	80.28%	56.62%
Net Margin	1.89%	1.89%	11.76%	1.43%	4.40%	1.16%
Return on Equity	16.37%	15.68%	16.98%	17.00%	24.53%	12.20%
Sales/Assets	1.70	1.78	0.54	2.25	1.00	2.54
Proj. Sales Growth (F1/F0)	1.68%	4.55%	4.15%	2.48%	10.37%	6.70%
Momentum Score	D	-	-	A	B	C
Daily Price Chg	0.36%	-0.74%	-0.64%	1.27%	-0.69%	-2.41%
1 Week Price Chg	-2.79%	-2.56%	-2.60%	-1.97%	0.32%	3.84%
4 Week Price Chg	5.61%	-2.64%	0.72%	-2.43%	9.93%	8.69%
12 Week Price Chg	-2.06%	-7.68%	4.69%	-7.20%	-0.56%	-8.16%
52 Week Price Chg	14.66%	16.14%	16.01%	63.30%	60.18%	110.59%
20 Day Average Volume	269,535	139,270	1,961,054	226,481	1,183,399	263,133
(F1) EPS Est 1 week change	0.20%	0.00%	0.00%	0.53%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.78%	0.00%	-0.00%	1.54%	-0.72%	-1.14%
(F1) EPS Est 12 week change	1.18%	3.05%	-0.16%	3.27%	-2.70%	7.06%
(Q1) EPS Est Mthly Chg	-1.77%	-0.67%	0.00%	4.92%	0.11%	-2.86%

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	D
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.