

Penske Automotive (PAG)

\$37.23 (As of 04/29/20)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/13/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: D

Summary

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. The coronavirus has crippled the auto industry, and will lead to decline in sales and production of the automotive distributor. The pandemic has affected Penske's customers worldwide, leading to temporary plant closures, change in processes and cut in production levels, in line with the nationwide campaign addressing the crisis. Rising competition and increasing price transparency can lead to lower selling prices, thus affecting its profits. In addition, the company is also affected by economic and political conditions of markets it has expanded into. As such, the stock is viewed as a risky bet.

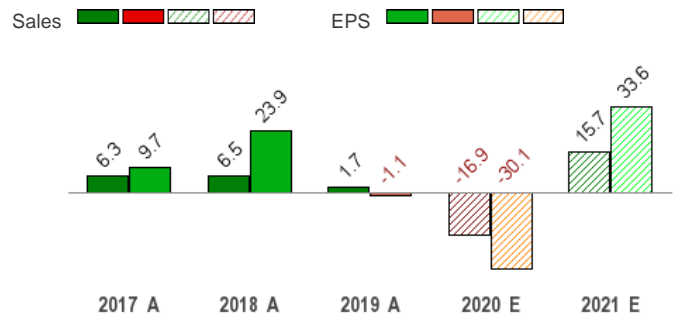
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.81 - \$19.99
20 Day Average Volume (sh)	402,896
Market Cap	\$3.0 B
YTD Price Change	-25.9%
Beta	1.56
Dividend / Div Yld	\$1.68 / 4.5%
Industry	Automotive - Retail and Whole Sales
Zacks Industry Rank	Bottom 7% (235 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.2%
Last Sales Surprise	3.3%
EPS F1 Est- 4 week change	-24.1%
Expected Report Date	05/06/2020
Earnings ESP	-14.4%
P/E TTM	7.0
P/E F1	10.1
PEG F1	1.8
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	4,868 E	3,432 E	4,783 E	5,323 E	19,267 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	\$4.93 E
2020	\$0.75 E	-\$0.08 E	\$1.28 E	\$1.47 E	\$3.69 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 04/29/2020. The reports text is as of 04/30/2020.

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.

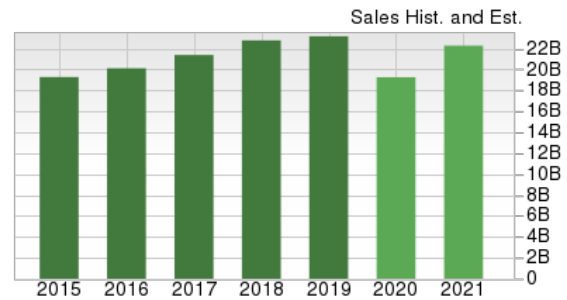
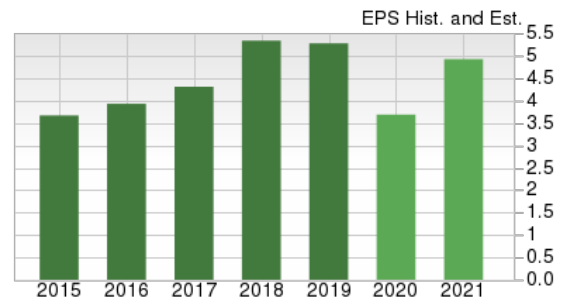
Retail Automotive which deals with retail automotive dealership operations generated 89% of revenues in 2019. Per the company, it is the second largest automotive retailer headquartered in the U.S.

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:

- ▼ The coronavirus has crippled the auto industry, and will lead to decline in sales and production, hurting the automotive distributor. The pandemic has affected Penske's customers worldwide, leading to temporary plant closures, change in processes and cut in production levels, in line with the nationwide campaign addressing the crisis. Weak consumer sentiment amid the COVID-19 is likely to hurt the firm's sales and earnings in the near future.
- ▼ 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.
- ▼ As of Dec 31, 2019, the company's long-term debt amounted to \$2.26 billion, up from \$2.12 billion as of Dec 31, 2018. Its total debt-to-capital ratio stands at 0.46, higher than its industry's 0.44. A high total debt-to-capital ratio often indicates that a firm may not be able to generate enough cash to satisfy its debt obligations. 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.

Slump in new vehicles sales and competition with other franchised automotive dealerships are concerns for Penske Automotive. International business is subject to fluctuations in foreign exchange rates.

Risks

- 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 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.
 - 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.
-

Last Earnings Report

Penske Automotive Beat Q4 Earnings & Revenues Estimates

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 \$4,949.2 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.

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

Valuation

Penske Automotive's shares are down 25.8% and 17.9% 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 25.6% and 7.8%, respectively, year to date. Over the past year, the Zacks sub-industry and sector are down 9.8% and 0.2%, respectively.

The S&P 500 index is down 11.3% and down 2.6% in the year-to-date period and in the past year.

The stock is currently trading at 9.09X forward 12-month earnings, which compares to 10.06X for the Zacks sub-industry, 18.41X for the Zacks sector and 20.16X 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 9.45X.

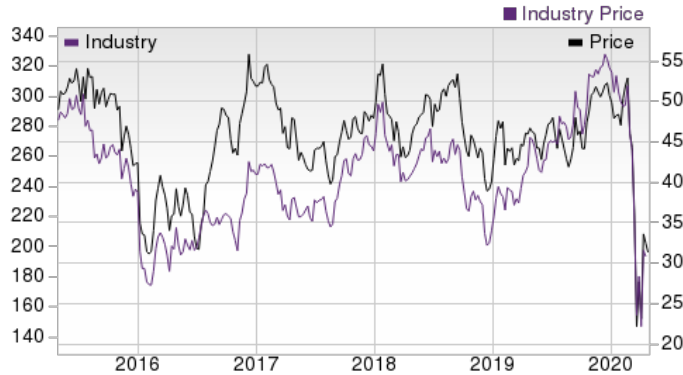
Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$32 price target reflects 7.8X forward 12-month earnings per share.

The table below shows summary valuation data for PAG:

Valuation Multiples - PAG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.09	10.6	18.41	20.16
	5-Year High	13.72	13.44	18.41	20.16
	5-Year Low	3.82	6.59	8.23	15.19
	5-Year Median	9.45	9.95	9.93	17.45
EV/EBITDA TTM	Current	6.69	6.22	9.38	10.45
	5-Year High	13.81	9.71	11.34	12.87
	5-Year Low	5.08	4.63	6.97	8.27
	5-Year Median	8.52	7.42	9.26	10.78
P/B TTM	Current	1.07	1.24	1.53	3.78
	5-Year High	2.92	2.85	2.16	4.55
	5-Year Low	0.61	0.73	1.13	2.84
	5-Year Median	1.76	1.81	1.73	3.64

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (235 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AutoNation, Inc. (AN)	Neutral	3
Americas Car-Mart, Inc. (CRMT)	Neutral	4
Group 1 Automotive, Inc. (GPI)	Neutral	3
Lithia Motors, Inc. (LAD)	Neutral	3
Asbury Automotive Group, Inc. (ABG)	Underperform	5
CarMax, Inc. (KMX)	Underperform	5
Rush Enterprises, Inc. (RUSHA)	Underperform	4
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)	3	-	-	3	5	5
VGM Score	D	-	-	A	F	A
Market Cap	3.01 B	1.34 B	20.82 B	1.08 B	12.84 B	958.05 M
# of Analysts	6	3	14	4	8	5
Dividend Yield	4.51%	0.51%	2.07%	2.04%	0.00%	1.78%
Value Score	B	-	-	B	D	A
Cash/Price	0.01	0.03	0.06	0.03	0.05	0.04
EV/EBITDA	5.76	5.76	12.12	6.15	18.97	4.85
PEG Ratio	1.75	1.36	2.51	1.48	2.17	NA
Price/Book (P/B)	1.07	1.12	2.74	0.87	3.42	1.03
Price/Cash Flow (P/CF)	5.53	5.20	11.23	4.03	11.69	4.66
P/E (F1)	9.74	13.05	19.26	8.15	24.90	15.23
Price/Sales (P/S)	0.13	0.19	2.16	0.09	0.63	0.09
Earnings Yield	9.91%	7.67%	5.03%	12.27%	4.01%	6.57%
Debt/Equity	0.80	0.60	0.72	1.31	4.08	1.04
Cash Flow (\$/share)	6.73	7.44	7.01	14.63	6.76	4.83
Growth Score	D	-	-	A	F	A
Hist. EPS Growth (3-5 yrs)	11.12%	14.01%	10.88%	10.37%	15.66%	2.43%
Proj. EPS Growth (F1/F0)	-30.15%	-32.06%	-6.94%	-33.87%	-40.48%	-44.23%
Curr. Cash Flow Growth	-2.36%	6.74%	5.92%	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	0.98	1.14	1.23	1.04	2.39	0.98
Debt/Capital	44.53%	40.93%	43.90%	56.68%	80.32%	50.85%
Net Margin	1.89%	2.07%	11.15%	1.43%	4.37%	-0.94%
Return on Equity	16.37%	15.42%	16.47%	17.00%	24.46%	12.85%
Sales/Assets	1.70	1.70	0.54	2.25	1.00	2.53
Proj. Sales Growth (F1/F0)	-16.84%	-13.99%	-1.52%	-17.45%	-23.13%	-12.90%
Momentum Score	D	-	-	F	F	B
Daily Price Chg	8.07%	7.49%	2.91%	11.27%	6.60%	20.18%
1 Week Price Chg	-3.52%	0.05%	-1.74%	-2.10%	8.80%	4.64%
4 Week Price Chg	42.37%	43.06%	21.33%	43.76%	50.86%	78.08%
12 Week Price Chg	-28.11%	-27.99%	-16.28%	-40.95%	-19.37%	-32.73%
52 Week Price Chg	-17.92%	-15.09%	-7.57%	-23.92%	0.82%	11.32%
20 Day Average Volume	402,896	247,375	2,658,107	331,206	2,662,100	444,146
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-24.06%	-23.42%	-6.32%	-19.67%	-41.03%	-28.87%
(F1) EPS Est 12 week change	-34.79%	-36.70%	-12.93%	-36.70%	-43.22%	-49.76%
(Q1) EPS Est Mthly Chg	-107.03%	-101.03%	-11.84%	-269.26%	-94.23%	-408.07%

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	D
Momentum Score	D
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.

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.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.