

Penske Automotive (PAG)

\$46.44 (As of 07/30/20)

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

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**
(Since: 07/15/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Penske is anticipated to benefit from acquisitions or opening of dealerships in the U.S. and European markets. The firm has become the largest dealership group for Freightliner in North America with the acquisition of Warner Truck Centers. This aided the company to diversify business, expand customer base and capitalize on the Retail Commercial Trucks segment. The firm's favorable brand mix with strong off-lease opportunities along with used vehicle expansion strategy positions it for long-term growth. Its increasing digital performance rates and increased online sales through home curbside delivery bode well. Its cost cut initiatives amid coronavirus crisis is likely to aid its near-term margins. Penske engages in share buybacks in almost every quarter which boosts investors' confidence. Thus, the stock warrants a bullish stance.

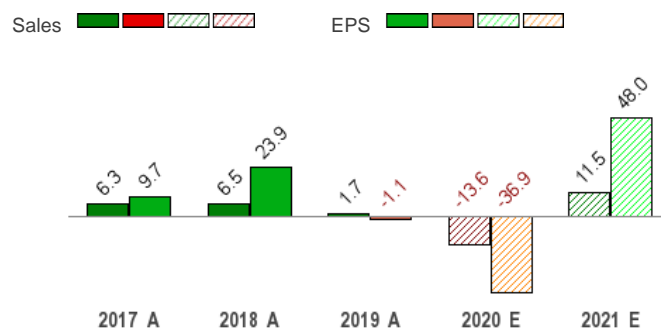
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$53.81 - \$19.99
20 Day Average Volume (sh)	364,690
Market Cap	\$3.7 B
YTD Price Change	-7.5%
Beta	1.66
Dividend / Div Yld	\$1.23 / 2.6%
Industry	Automotive - Retail and Whole Sales
Zacks Industry Rank	Top 1% (3 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.8%
Last Sales Surprise	-3.9%
EPS F1 Est- 4 week change	28.0%
Expected Report Date	11/03/2020
Earnings ESP	11.6%
P/E TTM	12.0
P/E F1	14.0
PEG F1	2.5
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,410 E	5,698 E	5,851 E	5,867 E	22,344 E
2020	5,009 A	3,651 A	5,088 E	5,531 E	20,034 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	\$1.02 E	\$1.45 E	\$1.64 E	\$1.61 E	\$4.93 E
2020	\$0.64 A	\$0.56 A	\$1.12 E	\$1.35 E	\$3.33 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 07/30/2020. The reports text is as of 07/31/2020.

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.

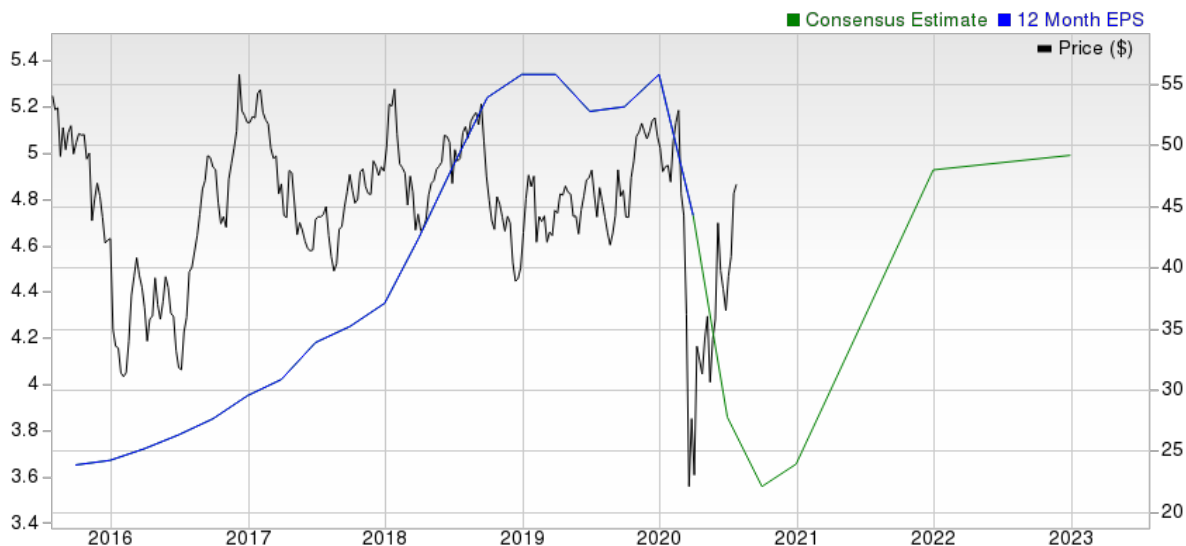
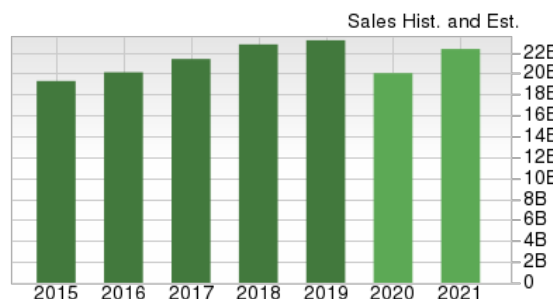
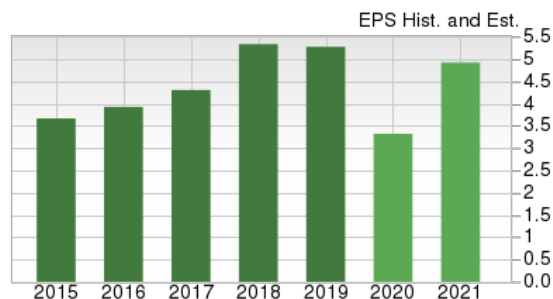
Retail Automotive which deals with retail automotive dealership operations generated 89% of revenues in 2019. Per the company, it is the second largest automotive retailer headquartered in the U.S.

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:

- ▲ 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 has become 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 firm increased its digital performance rates and increased online sales through home curbside delivery and click and collect initiatives in the quarter, which helped in generating revenues. Further, initiatives like compensation reductions and staffing-level adjustments including furloughing 8% of its worldwide workforce may help the firm achieve substantial savings amid COVID-19 induced financial crisis.
- ▲ Penske engages in share buybacks in almost every quarter which boosts investors' confidence. In the wake of the gloomy scenario, many auto companies have suspended buybacks. However, Penske has maintained its share repurchase program, preserving shareholders' values. The company repurchased 1,023,288 shares as of Jun 30, 2020 for \$34.2 million. As of Jun 30, 2020, Penske had a share-repurchase authorization of \$170.6 million.

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

Risks

- Coronavirus has rattled the auto sector with 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. 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-half 2020'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.
 - Penske Automotive's rising debt levels are also a cause of concern. As of Jun 30, 2020, long-term debt was \$2,054.1 million higher than cash and cash equivalents of \$159.3 million during the same period. Notably, its long-term debt-to-capital ratio stands at 0.49, same as that of the industry it belongs to. Elevated leverage restricts the financial flexibility of the firm.
 - Used truck pricing is going down following low demand in the wake of the COVID-19 pandemic. Notably, gross profit of the firm was impacted during second-quarter 2020 by 20% decline in used truck prices. Used-truck pricing environment is expected to remain weak throughout 2020, which may dent the profit levels of the firm.
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Last Earnings Report

Penske Automotive's Q2 Earnings Surpass Estimates

Penske reported second-quarter 2020 adjusted earnings per share of 56 cents, beating the Zacks Consensus Estimate of 55 cents. However, the bottom line declined from the \$1.42 per share recorded in the year-ago quarter. The auto retailer posted revenues of \$3,651.1 million, missing the consensus mark of \$3,798 million. The top line also declined from the year-ago level of \$5,755.8 million. Heightened coronavirus woes resulted in dismal earnings and revenue numbers.

The company's gross profit decreased to \$552.9 million from the prior-year quarter's \$867.8 million. During the second quarter, operating income plummeted 58.4% from the prior-year period to \$71.4 million.

Same-store retail unit sales plunged 41.1% year over year to 72,916. Within the retail automotive segment, new vehicle revenues fell 38.8% year over year to \$1,384.7 million and used-vehicle revenues declined 36% to \$1,159.6 million.

Segmental Details

Revenues in Retail Automotive slipped to \$3,153.5 million from the year-ago quarter's \$5,196.3 million. Gross profit of \$466.3 million compared unfavorably with the \$774.9 million reported in second-quarter 2019.

In the June-end quarter, revenues in the Retail Commercial Trucks segment decreased to \$399.2 million from the year-ago period \$426.8 million. Gross profit for the segment was \$60.2 million, up from the year-ago quarter's figure of \$58.5 million.

Revenues in the Commercial Vehicles Australia/Power Systems and Other declined to \$98.4 million from the \$132.7 million generated in the prior-year quarter. Gross profit came in at \$26.4 million compared with the \$34.4 million witnessed in second-quarter 2019.

Financial Position

Penske had cash and cash equivalents of \$159.3 million as of Jun 30, 2020, up from \$28.1 million as of Dec 31, 2019. As of Jun 30, 2020, long-term debt amounted to \$2,054.1 million, down from \$2,257 million as of Dec 31, 2019. For six months ended Jun 30, 2020, the company had free cash flow of \$427.8 million.

Dividends & Share Repurchase

During the April-June quarter, the company suspended its cash dividends to help mitigate the impact of the coronavirus pandemic.

The company repurchased 1,023,288 shares as of Jun 30, 2020 for \$34.2 million. As of Jun 30, 2020, Penske had a share-repurchase authorization of \$170.6 million.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	-3.86%
EPS Surprise	1.82%
Quarterly EPS	0.56
Annual EPS (TTM)	3.87

Valuation

Penske Automotive's shares are down 7.5% and 3.6% 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 up 7.7% and 18.6%, respectively, year to date. Over the past year, the Zacks sub-industry and sector are up 21% and 34%, respectively.

The S&P 500 index is up 1.4% and 10.8% in the year-to-date period and in the past year.

The stock is currently trading at 11X forward 12-month earnings, which compares to 11.69X for the Zacks sub-industry, 27.16X for the Zacks sector and 22.69X 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 Outperform recommendation indicates that the stock will perform better than the market. Our \$53 price target reflects 12.56X 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	11	11.69	27.16	22.69
	5-Year High	13.72	12.54	27.16	22.69
	5-Year Low	3.82	6.45	8.2	15.25
	5-Year Median	9.43	9.96	9.9	17.52
EV/EBITDA TTM	Current	7.98	7.55	11.62	12.11
	5-Year High	13.81	9.71	11.79	12.85
	5-Year Low	5.08	4.58	6.94	8.25
	5-Year Median	8.36	7.32	9.32	10.89
P/S F12M	Current	0.18	0.22	0.88	3.59
	5-Year High	0.25	0.25	0.88	3.59
	5-Year Low	0.08	0.11	0.49	2.53
	5-Year Median	0.18	0.18	0.61	3.02

As of 07/30/2020

Industry Analysis Zacks Industry Rank: Top 1% (3 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Asbury Automotive Group, Inc. (ABG)	Outperform	1
AutoNation, Inc. (AN)	Outperform	1
Americas CarMart, Inc. (CRMT)	Outperform	2
Lithia Motors, Inc. (LAD)	Outperform	1
Rush Enterprises, Inc. (RUSHA)	Outperform	1
Sonic Automotive, Inc. (SAH)	Outperform	1
Group 1 Automotive, Inc. (GPI)	Neutral	3
CarMax, Inc. (KMX)	Neutral	3

Industry Comparison Industry: Automotive - Retail And Whole Sales				Industry Peers		
	PAG	X Industry	S&P 500	GPI	KMX	SAH
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	1
VGM Score	A	-	-	A	A	C
Market Cap	3.74 B	1.73 B	22.57 B	1.63 B	16.04 B	1.73 B
# of Analysts	4	3	14	3	5	5
Dividend Yield	2.65%	0.26%	1.83%	0.97%	0.00%	0.99%
Value Score	A	-	-	A	A	B
Cash/Price	0.11	0.09	0.07	0.01	0.07	0.10
EV/EBITDA	5.89	6.39	12.96	7.26	20.38	6.93
PEG Ratio	2.43	2.98	3.04	3.76	2.46	NA
Price/Book (P/B)	1.35	1.47	3.13	1.34	4.48	2.40
Price/Cash Flow (P/CF)	6.90	7.31	12.61	6.15	14.55	8.37
P/E (F1)	13.51	13.97	22.06	12.37	30.52	16.63
Price/Sales (P/S)	0.18	0.28	2.42	0.15	0.88	0.18
Earnings Yield	7.17%	7.17%	4.31%	8.09%	3.27%	6.01%
Debt/Equity	0.74	0.67	0.75	1.30	4.15	1.63
Cash Flow (\$/share)	6.73	8.38	6.94	14.63	6.76	4.83
Growth Score	B	-	-	B	A	D
Hist. EPS Growth (3-5 yrs)	9.97%	13.73%	10.85%	10.50%	13.75%	3.89%
Proj. EPS Growth (F1/F0)	-37.03%	-4.78%	-7.75%	-33.52%	-39.55%	-8.30%
Curr. Cash Flow Growth	-2.36%	6.74%	5.39%	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	0.94	1.15	1.31	1.03	2.85	1.06
Debt/Capital	42.51%	41.29%	44.32%	56.43%	80.58%	61.95%
Net Margin	1.53%	1.53%	10.44%	1.31%	3.45%	-0.94%
Return on Equity	11.48%	13.97%	14.73%	17.34%	18.00%	13.74%
Sales/Assets	1.51	1.55	0.52	2.09	0.89	2.43
Proj. Sales Growth (F1/F0)	-15.62%	-2.23%	-1.95%	-10.67%	-10.08%	-6.10%
Momentum Score	A	-	-	A	F	B
Daily Price Chg	-2.76%	-1.88%	-0.92%	0.84%	-0.35%	-5.98%
1 Week Price Chg	1.63%	8.57%	0.37%	17.86%	2.57%	5.74%
4 Week Price Chg	18.23%	21.97%	4.14%	39.49%	10.21%	20.96%
12 Week Price Chg	33.83%	48.46%	12.21%	76.25%	34.94%	88.26%
52 Week Price Chg	3.61%	7.81%	-1.73%	8.92%	13.94%	49.30%
20 Day Average Volume	364,690	271,852	1,887,986	268,393	1,091,685	432,726
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	28.05%	40.53%	0.38%	6.92%	-1.70%	57.28%
(F1) EPS Est 12 week change	34.07%	46.84%	-0.07%	32.72%	10.52%	154.18%
(Q1) EPS Est Mthly Chg	9.00%	28.33%	0.16%	-9.23%	-6.78%	47.65%

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	A
Growth Score	B
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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