

PACCAR Inc.(PCAR)

\$59.67 (As of 03/17/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/16/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

While Class 8 trucks have been aiding the firm's revenues, some industrial experts believe that the demand for new trucks has reached a near-term peak, with the sales growth likely to decline, going forward. Weak freight market and economic slowdown is likely reduce the Class 8 truck orders, marring PACCAR's prospects. Lower forecasts for first quarter deliveries and gross margins have dampened investors' confidence. Further, rising commodity price along with high labor and SG&A costs are concerns for PACCAR. While the company's heavy investment in innovative products and technology is likely to buoy its future prospects, it may strain the near-term financials. As it is, the firm's high leverage plays a spoilsport. As such, PACCAR is viewed as a risky bet at the moment.

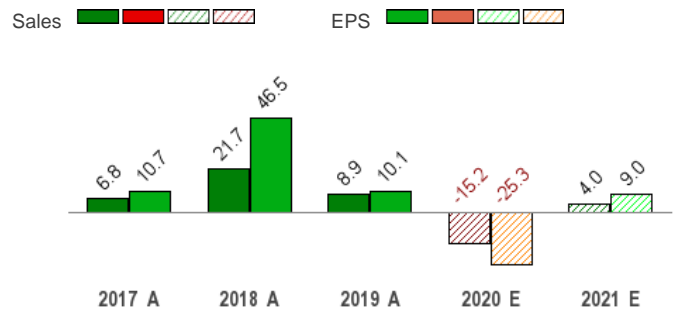
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$83.41 - \$56.16
20 Day Average Volume (sh)	2,738,468
Market Cap	\$20.7 B
YTD Price Change	-24.6%
Beta	1.21
Dividend / Div Yld	\$1.28 / 2.1%
Industry	Automotive - Domestic
Zacks Industry Rank	Bottom 37% (159 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.0%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	-5.6%
Expected Report Date	05/05/2020
Earnings ESP	-10.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,283 E	5,416 E	5,490 E	5,853 E	21,271 E
2020	5,315 E	5,189 E	4,904 E	5,048 E	20,457 E
2019	6,138 A	6,267 A	6,004 A	5,711 A	24,120 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.34 E	\$1.40 E	\$1.43 E	\$1.48 E	\$5.59 E
2020	\$1.32 E	\$1.34 E	\$1.29 E	\$1.29 E	\$5.13 E
2019	\$1.81 A	\$1.78 A	\$1.75 A	\$1.53 A	\$6.87 A

*Quarterly figures may not add up to annual.

P/E TTM	8.7
P/E F1	11.6
PEG F1	1.4
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/17/2020. The reports text is as of 03/18/2020.

Overview

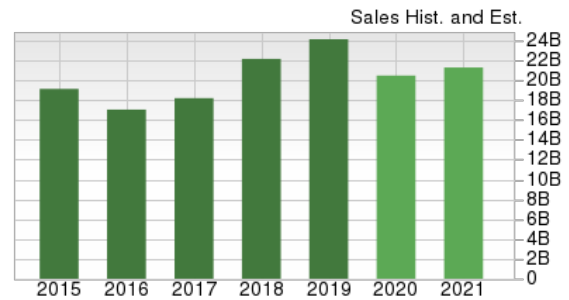
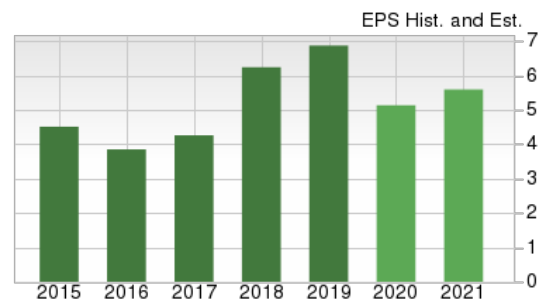
Headquartered in Bellevue, WA, PACCAR Inc. is a leading manufacturer of heavy-duty trucks in the world and has substantial manufacturing exposure to light/medium trucks. The company also provides customer support for its products by supplying aftermarket parts as well as finance and leasing services. PACCAR has two principal business segments: 1) Truck, Parts and Other; and 2) Financial Services.

In the Truck, Parts and Other segment (accounting for 94.6% of the total revenues in 2019), PACCAR designs, manufactures and distributes commercial vehicles as well as related aftermarket parts. The trucks are built in plants across the United States, Europe, Australia, Canada, Brazil and Mexico.

PACCAR Trucks distributes premium trucks under the Kenworth and Peterbilt nameplates in the United States and Canada. The company operates in the European light/medium market under the DAF nameplate through its wholly owned subsidiary, Leyland, in the U.K. The company also exports the DAF vehicles to the Middle East, Australia and Africa. PACCAR International distributes the Kenworth, Peterbilt and DAF trucks outside their primary markets in over 100 countries. The Kenworth nameplate is also marketed and distributed by foreign subsidiaries in Mexico and Australia.

Moreover, the company operates a parts distribution network under PACCAR Parts, offering aftermarket support to Kenworth, Peterbilt and DAF dealers, and customers globally. The Other businesses of PACCAR include the manufacturing of industrial winches in two United States plants that are marketed under the Braden, Carco and Gearmatic nameplates.

In the Financial Services segment (accounting for 5.4% of total revenues), PACCAR provides finance, lease and insurance services to the dealers and customers across 24 countries, including a portfolio of more than 188,000 trucks and trailers. The group includes PACCAR Leasing ('PacLease'), a major full-service truck-leasing company in North America and Europe that handles leases for 38,000 vehicles.



Reasons To Sell:

- ▼ While Class 8 trucks have been aiding the firm's revenues, some industrial experts believe that the demand for new trucks has reached a near-term peak, with the sales growth likely to decline, going forward. In fact, the firm estimates 2020 U.S. and Canada Class 8 truck market to be in a range of 230,000 to 260,000 vehicles, down from 309,000 in 2019. Further, European above 16-tonne truck registrations are expected in the band of 260,000-290,000 vehicles, as against 320,000 in 2019.
 - ▼ Rising commodity price amid tariff woes, along with high labor costs are concerns for PACCAR. The company is also bearing the brunt of high SG&A over the past few quarters. Rising costs are likely to dent the operating margins of the firm. The firm's high leverage of 52% also plays a spoilsport.
 - ▼ While the company's heavy investment in innovative products and technology is likely to buoy its future prospects, it may strain the near-term financials. For 2020, capital expenditures are projected at \$625-\$675 million, and research and development expenses are estimated in the \$310-\$340 million band. The high expenses may further dent the cash flows of the firm, which declined 4.4% year over year in 2019.
 - ▼ Lower forecasts for first quarter deliveries and gross margins are also headwinds. In the first quarter 2020, the firm expects deliveries to be 5% to 7% lower sequentially amid lower build rates in North America. Further gross margins in the upcoming quarter are also anticipated to fall to 14%, compared with 14.4% in the latest quarter.
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Rising commodity price amid tariff woes, along with high labor and SG&A costs are concerns for PACCAR.

Risks

- While PACCAR derives bulk of its revenues from truck sales, it also produces and sells a wide range of parts, including its own brand of engines. Continued growth in the aftermarket parts is a positive for the firm. Aftermarket parts also tend to be less cyclical than the heavy trucks segment and also carry high margins, aiding the profitability of the firm. Further, by installing its own engines, the company can control its costs better.
 - PACCAR follows an active capital deployment policy via regular dividend payments and share buybacks. In fact, the company paid dividend every year since 1941. In 2019, PACCAR declared dividends of \$3.58 per share a 16% increase over 2018. The company's return on equity ratio of 25% versus industry's 16.8% reflects the efficiency of the firm in utilizing shareholders' funds.
 - PACCAR's investment in next-generation technology across its range of industry-leading transport solutions that is environmentally friendly bodes well for the company. The firm is investing for long-term growth in aerodynamic truck models, along with electric and autonomous trucks to keep in pace with the changing dynamics of the industry. PACCAR's focus on quality, technology and productivity has enabled the company to invest in innovative products and new technologies, which will boost its long term prospects.
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Last Earnings Report

PACCAR Q4 Earnings and Sales Down Y/Y

PACCAR reported earnings of \$1.53 per share for fourth-quarter 2019, beating the Zacks Consensus Estimate of \$1.50, mainly aided by higher income and revenues from the company's parts unit. However, the reported figure came in lower than the prior-year quarter's \$1.65.

Consolidated revenues (including trucks and financial services) came in at \$6.12 billion, outpacing the Zacks Consensus Estimate of \$5.55 billion. The top-line figure, however, came in lower than the year-ago quarter's \$6.28 billion.

During the reported quarter, the company recorded total pre-tax income of \$687.8 million, reflecting a decline from the prior-year quarter's \$752.4 million. The company's net income fell to \$531.3 million from the \$578.1 million reported in fourth-quarter 2018.

SG&A expenses during fourth-quarter 2019 rose 8.3% to \$148 million from the \$136.6 million incurred in fourth-quarter 2018. R&D expenses flared up 3.9% to \$83.6 million in the December-end quarter from the fourth-quarter 2018 number of \$80.5 million.

Segmental Performance

Revenues from trucks, parts and others totaled \$5.71 billion in the fourth quarter, up from the prior-year quarter's \$5.93 billion. The segment's pre-tax income decreased to \$599.6 million from the \$645.3 million recorded a year ago.

Revenues in the financial services segment increased to \$406.3 million from the year-earlier quarter's \$347 million. Pre-tax income declined to \$68.1 million from the \$87.2 million reported in the year-ago quarter.

Share Repurchase & Cash Position

During 2019, the company repurchased 1.68 million shares of its common stock for \$110.2 million. As of Dec 31, 2019, it had shares of \$430.5 million remaining for repurchase under the current \$500-million program.

PACCAR's cash and marketable debt securities amounted to \$5.17 billion as of Dec 31, 2019, compared with \$4.30 billion as of Dec 31, 2018.

Quarter Ending 12/2019

Report Date	Jan 28, 2020
Sales Surprise	2.93%
EPS Surprise	2.00%
Quarterly EPS	1.53
Annual EPS (TTM)	6.87

Valuation

PACCAR's shares are down 24.6% in the year-to-date period and 12.4% over the trailing 12-month period. Over the past year, stocks in the Zacks Automotive - Domestic industry and the Zacks Auto-Tires-Trucks sector are down 25.1% and 26.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 10.5% and 18.8%, respectively.

The S&P 500 index is down 21.4% and 11.6% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 10.91X forward 12-month earnings, which compares to 10.3X for the Zacks sub-industry, 8.18X for the Zacks sector and 14.79X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.14X and as low as 8.6X, with a 5-year median of 13.44X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$51 price target reflects 9.34X forward 12-month earnings per share.

The table below shows summary valuation data for PCAR:

Valuation Multiples - PCAR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.91	10.3	8.18	14.79
	5-Year High	19.14	14	11.75	19.34
	5-Year Low	8.6	7.95	8.18	14.79
	5-Year Median	13.44	10.41	9.88	17.42
EV/EBITDA TTM	Current	6.17	12.36	8.7	8.81
	5-Year High	11.41	16.64	11.34	12.88
	5-Year Low	6.13	6.37	6.97	8.31
	5-Year Median	7.84	11.8	9.33	10.79
P/S F12M	Current	1	0.59	0.48	2.56
	5-Year High	1.57	0.9	0.76	3.43
	5-Year Low	0.83	0.52	0.48	2.54
	5-Year Median	1.15	0.65	0.62	3

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 253)



Top Peers

Fiat Chrysler Automobiles N.V. (FCAU)	Outperform
CNH Industrial N.V. (CNHI)	Neutral
Daimler AG (DDAIF)	Neutral
Navistar International Corporation (NAV)	Neutral
Tata Motors Ltd (TTM)	Neutral
AB Volvo (VLVLY)	Neutral
Volkswagen AG (VWAGY)	Neutral
General Motors Company (GM)	Underperform

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	PCAR Underperform	X Industry	S&P 500	NAV Neutral	VLVLY Neutral	VWAGY Neutral
VGM Score	D	-	-	C	C	B
Market Cap	20.67 B	3.42 B	17.72 B	1.91 B	22.26 B	61.46 B
# of Analysts	9	4.5	13	4	2	3
Dividend Yield	2.15%	0.00%	2.51%	0.00%	7.85%	2.81%
Value Score	D	-	-	B	B	A
Cash/Price	0.24	0.15	0.06	0.40	0.18	NA
EV/EBITDA	5.14	7.61	10.97	6.55	4.77	NA
PEG Ratio	1.35	1.14	1.54	0.54	NA	0.82
Price/Book (P/B)	2.13	2.04	2.39	NA	1.55	0.46
Price/Cash Flow (P/CF)	5.96	5.31	9.36	3.01	4.01	1.52
P/E (F1)	11.33	7.85	13.98	8.38	8.69	4.14
Price/Sales (P/S)	0.81	0.49	1.87	0.18	0.49	0.22
Earnings Yield	8.60%	12.75%	7.13%	11.93%	11.51%	24.14%
Debt/Equity	0.73	0.73	0.70	-1.14	0.78	NA
Cash Flow (\$/share)	10.02	4.37	7.01	6.40	2.73	8.06
Growth Score	C	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	12.15%	3.88%	10.85%	NA	38.53%	NA
Proj. EPS Growth (F1/F0)	-25.28%	11.01%	5.38%	-45.88%	-32.62%	-1.66%
Curr. Cash Flow Growth	6.65%	-1.51%	6.15%	9.70%	23.94%	29.82%
Hist. Cash Flow Growth (3-5 yrs)	11.72%	5.42%	8.55%	81.17%	NA	4.83%
Current Ratio	2.32	1.22	1.24	1.41	1.30	NA
Debt/Capital	42.29%	59.04%	42.57%	NA	43.90%	NA
Net Margin	9.33%	4.78%	11.57%	1.63%	8.32%	NA
Return on Equity	24.87%	14.52%	16.74%	-8.89%	26.36%	NA
Sales/Assets	0.94	0.94	0.54	1.54	0.83	NA
Proj. Sales Growth (F1/F0)	-15.19%	3.84%	3.33%	-16.38%	-9.82%	0.62%
Momentum Score	F	-	-	C	B	C
Daily Price Chg	-0.83%	0.00%	5.62%	-15.18%	0.64%	6.42%
1 Week Price Chg	-0.83%	-15.44%	-11.01%	-20.87%	-12.72%	-20.30%
4 Week Price Chg	0.88%	-35.65%	-28.54%	-48.57%	-37.80%	-33.46%
12 Week Price Chg	-19.69%	-44.45%	-25.74%	-35.84%	-35.17%	-36.11%
52 Week Price Chg	-24.93%	-36.40%	-18.88%	-41.27%	-27.87%	-28.78%
20 Day Average Volume	-12.38%	1,204,414	3,651,283	1,230,391	77,680	259,864
(F1) EPS Est 1 week change	2,738,468	-0.96%	0.00%	-1.39%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.27%	-0.96%	-0.58%	-1.81%	1.61%	-2.63%
(F1) EPS Est 12 week change	-5.56%	-8.11%	-1.18%	-13.60%	-1.82%	-2.63%
(Q1) EPS Est Mthly Chg	-8.11%	-1.20%	-0.77%	-31.21%	0.00%	NA
	-5.14%					

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	D
Growth Score	C
Momentum Score	F
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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