

PACCAR Inc.(PCAR)

\$85.25 (As of 07/22/20)

Price Target (6-12 Months): **\$90.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

Summary

PACCAR offers a wide range of trucks that carry a solid reputation in terms of quality and reliability. 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. PACCAR's investment in next-generation technology across its range of industry-leading transport solutions that is environmentally friendly bodes well. Balance sheet strength and investor friendly moves boost shareholders' confidence. However, glum year over year outlook of truck sales mid coronavirus sparks pessimism for the trucking giant. Further, rising commodity price, falling used truck prices and high investments in innovative technology are likely to dent margins. As such, the stock warrants a cautious stance.

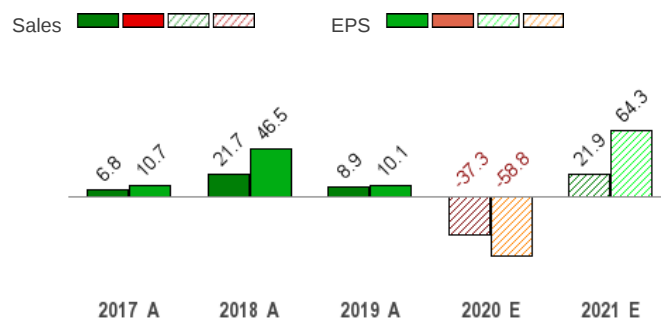
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$86.40 - \$49.11
20 Day Average Volume (sh)	1,856,870
Market Cap	\$29.5 B
YTD Price Change	7.8%
Beta	1.12
Dividend / Div Yld	\$1.28 / 1.5%
Industry	Automotive - Domestic
Zacks Industry Rank	Bottom 36% (161 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	38.7%
Last Sales Surprise	-7.9%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	10/27/2020
Earnings ESP	2.2%
P/E TTM	18.0
P/E F1	30.1
PEG F1	3.6
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,337 E	4,451 E	4,712 E	5,078 E	18,444 E
2020	4,778 A	2,702 A	3,724 E	3,980 E	15,127 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	\$0.93 E	\$1.04 E	\$1.20 E	\$1.35 E	\$4.65 E
2020	\$1.03 A	\$0.43 A	\$0.61 E	\$0.82 E	\$2.83 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/22/2020. The reports text is as of 07/23/2020.

Overview

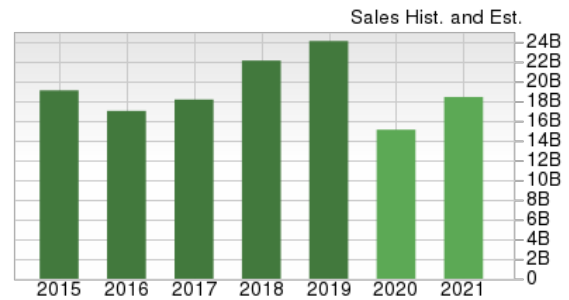
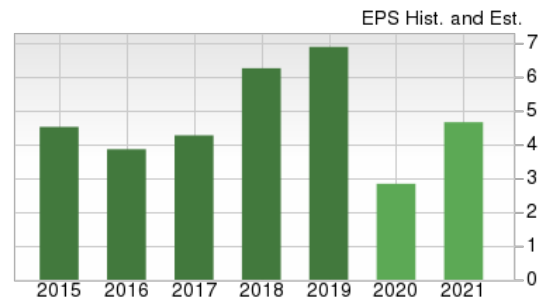
Headquartered in Bellevue, WA, PACCAR Inc. is a leading manufacturer of heavy-duty trucks in the world and has substantial manufacturing exposure to light/medium trucks. The company also provides customer support for its products by supplying aftermarket parts as well as finance and leasing services. 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 Buy:

- ▲ One of the leading names in the trucking business, PACCAR offers a wide range of trucks that carry a solid reputation in terms of quality and reliability. This consistency in product quality has allowed PACCAR to gradually increase its market share globally over time. The company has navigated many cycles and is expected to manage well through the downturn given its reputation for quality and leading brands namely Kenworth, Peterbilt and DAF.
- ▲ 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. By installing its own engines, the company can control its costs better. 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. It is expected that the parts business will serve as somewhat of a buffer to lower new-truck volumes.
- ▲ 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. The firm is also developing hydrogen fuel cell powered vehicles which promises long-haul applications due to high energy density and relatively fast refueling times. 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.
- ▲ 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 22% versus industry's 9% reflects the efficiency of the firm in utilizing shareholders' funds. Even amid the coronavirus woes when many firms have been tapping brakes on dividend, PACCAR has maintained its payout, thus preserving shareholders values. Further, the firm's total debt-to-capital ratio stands at 0.53, lower than its industry's 0.82. This favorable reading will allow the firm to tap onto growth opportunities. Moreover, the company's times interest earned ratio of 6.41 is also favorable to the industry ratio of 0.02. Investment grade ratings of A+/A1 credit rating by Standard & Poor's and Moody's respectively bode well.

PACCAR's leading brands namely Kenworth, Peterbilt and DAF along with balance sheet strength and investor friendly moves are major tailwinds.

Reasons To Sell:

- ▼ Sales of Class 8 heavy duty trucks are highly cyclical in nature. Industrial experts believe that the demand for new trucks has reached a near-term peak, with the sales growth likely to decline amid weak freight market. Sales volumes have been hit hard amid the economic shutdowns thanks to the coronavirus outbreak. The company's 2020 earnings will be impacted by lower production schedules due to changes in customer demand and the impact of government mandates. Particularly in light of second wave of COVID-19 infections, heavy truck sales recovery may take longer than expected.
- ▼ Glum year over year outlook of truck sales sparks pessimism for the trucking giant. Class 8 truck industry retail sales in the United States and Canada in 2020 are expected to lie between 160,000 and 190,000 units compared to 308,800 in 2019. In Europe, the 2020 truck industry registrations for over 16-tonne vehicles are expected to be 190,000 to 220,000 units compared to 320,200 in 2019. In South America, heavy-duty truck industry sales in 2020 are estimated in the band of 60,000 to 80,000 units compared to 105,000 units in 2019.
- ▼ 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. Even though the company has lowered its capex and R&D forecasts, it will still dent the cash flows and earnings of the firm, especially amid weak revenues.
- ▼ Falling used truck prices are also a concern. The year-over-year average price of a used Class 8 vehicle fell for the 13th straight month in May. Continued weakness in the used truck prices is likely to weigh on the company's Financial Services arm. Moreover, rising commodity prices is also a headwind. It should be noted that PACCAR expects Truck, Parts and Other gross margins in the band of 12-13% for the upcoming quarter, lower than 14.9% recorded in the third quarter of 2019.

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Last Earnings Report

PACCAR's Q2 Earnings & Sales Top Estimates, Down Y/Y

PACCAR reported earnings of 43 cents per share for second-quarter 2020, beating the Zacks Consensus Estimate of 31 cents, mainly on higher pre-tax income from the company's trucks, parts and others, and financial service units. However, the reported figure comes in lower than the prior-year quarter's \$1.78.

Consolidated revenues (including trucks and financial services) came in at \$3.06 billion, surpassing the Zacks Consensus Estimate of \$2.93 billion. The top-line figure, however, comes in lower than the year-ago quarter's \$6.63 billion.

During the reported quarter, the company recorded total pre-tax income of \$184 million, marking a decline from the prior-year quarter's \$814.4 million. The company's net income fell to \$147.7 million from the \$619.7 million reported in second-quarter 2019.

SG&A expenses during second-quarter 2020 plunged 30.6% to \$120.2 million from the \$173.3 million incurred in second-quarter 2019. R&D expenses declined 19.4% to \$66.5 million during the June-end quarter from the year-earlier quarter's \$82.5 million.

Segmental Performance

Revenues from trucks, parts and others totaled \$2.7 billion in the second quarter, down from the prior-year quarter's \$6.27 billion. The segment's pre-tax income significantly decreased to \$119.5 million from the \$712.3 million recorded in the year-ago period. However, the figure surpassed the Zacks Consensus Estimate of \$53 million.

Revenues in the financial services segment decreased to \$360.3 million from the year-earlier quarter's \$361.4 million. Pre-tax income declined to \$55.5 million from the \$80.3 million reported in the year-ago quarter. However, the figure outpaced the Zacks Consensus Estimate of \$38.66 million.

Dividends & Cash Position

During second-quarter 2020, PACCAR announced a regular quarterly cash dividend of 32 cents per share, payable on Sep 1, to stockholders of record as of Aug 11, 2020.

PACCAR's cash and marketable debt securities amounted to \$4.2 billion as of Jun 30, 2020, compared with \$5.2 billion as of Dec 31, 2019.

Outlook

The company has reiterated its capex and R&D expenses projection for the ongoing year. Capex is now projected at \$525-\$575 million, and R&D expenses are estimated in the \$265-\$295 million band.

Quarter Ending 06/2020

Report Date	Jul 21, 2020
Sales Surprise	-7.92%
EPS Surprise	38.71%
Quarterly EPS	0.43
Annual EPS (TTM)	4.74

Valuation

PACCAR's shares are up 7.8% in the year-to-date period and 18.2% 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 up 111.6% and 29.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 89.8% and 21.1%, respectively.

The S&P 500 index is up 1.4% and 8.7% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 22.28X forward 12-month earnings, which compares to 78.79X for the Zacks sub-industry, 28.73X for the Zacks sector and 23.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.28X and as low as 8.6X, with a 5-year median of 13.29X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$90 price target reflects 23.56X 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	22.28	78.79	28.73	23.06
	5-Year High	22.28	78.79	28.73	23.06
	5-Year Low	8.6	7.95	8.2	15.25
	5-Year Median	13.29	10.47	9.9	17.52
EV/EBITDA TTM	Current	9.23	19.65	11.71	12.12
	5-Year High	11.41	20	11.8	12.86
	5-Year Low	5.39	6.37	6.94	8.25
	5-Year Median	7.8	12.07	9.3	10.88
P/S F12M	Current	1.74	1.63	0.89	3.61
	5-Year High	1.74	1.63	0.89	3.61
	5-Year Low	0.83	0.52	0.49	2.53
	5-Year Median	1.16	0.65	0.61	3.02

As of 07/22/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (161 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AB Volvo (VLVLY)	Outperform	2
Daimler AG (DDAIF)	Neutral	3
Fiat Chrysler Automobiles N.V. (FCAU)	Neutral	3
General Motors Company (GM)	Neutral	3
Navistar International Corporation (NAV)	Neutral	3
Tata Motors Ltd (TTM)	Neutral	3
Volkswagen AG (VWAGY)	Neutral	3
CNH Industrial N.V. (CNHI)	Underperform	5

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	PCAR	X Industry	S&P 500	NAV	VLVLY	VWAGY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	C	-	-	D	C	B
Market Cap	29.47 B	5.30 B	22.74 B	3.15 B	36.76 B	87.43 B
# of Analysts	9	5	14	3	2	3
Dividend Yield	1.50%	0.00%	1.81%	0.00%	2.18%	0.00%
Value Score	B	-	-	B	A	A
Cash/Price	0.16	0.09	0.06	0.54	0.18	NA
EV/EBITDA	7.39	10.57	13.19	8.15	5.61	NA
PEG Ratio	3.61	4.04	3.05	NA	NA	NA
Price/Book (P/B)	3.01	3.01	3.14	NA	2.45	0.63
Price/Cash Flow (P/CF)	8.51	8.99	12.31	4.95	6.15	2.05
P/E (F1)	30.32	28.93	22.34	NA	30.64	23.57
Price/Sales (P/S)	1.42	0.86	2.40	0.33	0.96	NA
Earnings Yield	3.32%	2.78%	4.27%	-2.30%	3.26%	4.24%
Debt/Equity	0.74	1.07	0.75	-1.26	0.72	NA
Cash Flow (\$/share)	10.02	3.23	6.94	6.40	2.94	8.53
Growth Score	D	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	12.44%	1.90%	10.82%	93.61%	25.32%	NA
Proj. EPS Growth (F1/F0)	-58.77%	-41.79%	-9.08%	-117.25%	-68.45%	-76.32%
Curr. Cash Flow Growth	6.65%	7.98%	5.51%	9.70%	7.58%	5.78%
Hist. Cash Flow Growth (3-5 yrs)	11.72%	7.39%	8.55%	81.17%	NA	4.83%
Current Ratio	1.32	1.28	1.30	1.69	1.37	NA
Debt/Capital	42.85%	53.08%	44.41%	NA	41.77%	NA
Net Margin	7.95%	3.82%	10.46%	1.92%	5.03%	NA
Return on Equity	16.85%	12.73%	15.29%	-5.82%	13.11%	NA
Sales/Assets	0.75	0.75	0.54	1.42	0.69	NA
Proj. Sales Growth (F1/F0)	-37.28%	-13.10%	-2.27%	-33.01%	-23.49%	-14.24%
Momentum Score	B	-	-	D	F	F
Daily Price Chg	1.90%	0.78%	0.60%	2.86%	3.08%	1.10%
1 Week Price Chg	5.57%	2.89%	3.82%	10.18%	5.84%	2.22%
4 Week Price Chg	17.55%	6.42%	7.55%	20.82%	18.56%	10.24%
12 Week Price Chg	22.50%	26.36%	7.51%	26.11%	38.76%	9.96%
52 Week Price Chg	18.17%	-17.05%	-3.37%	-1.80%	14.00%	-3.11%
20 Day Average Volume	1,856,870	1,437,490	2,037,153	505,731	85,825	87,094
(F1) EPS Est 1 week change	0.20%	0.00%	0.00%	0.00%	-3.28%	3.26%
(F1) EPS Est 4 week change	-1.53%	0.00%	0.14%	23.72%	-4.84%	-5.93%
(F1) EPS Est 12 week change	-5.47%	-11.39%	-3.51%	-176.97%	-42.44%	-42.64%
(Q1) EPS Est Mthly Chg	0.27%	0.00%	0.00%	-2.08%	NA	NA

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	B
VGM Score	C

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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