

PACCAR Inc.(PCAR)

\$68.19 (As of 05/25/20)

Price Target (6-12 Months): **\$58.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/16/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: D

Summary

PACCAR's sales volumes are likely to decline substantially in the near-term due to the economic shutdown thanks to the coronavirus outbreak. The trucking giant has warned the investors that 2020 will be impacted by lower production schedules due to changes in customer demand and the impact of government mandates. Weak freight market and economic slowdown is likely to reduce the Class 8 truck orders, marring PACCAR's prospects. With industry production expected to be much lower in the second quarter with extended factory closures, PACCAR's second quarter results are anticipated to witness a heavy blow. Further, high capex, commodity costs and operating expenses are likely to clip margins. High leverage is also a concern. As such, the stock is viewed as a risky bet.

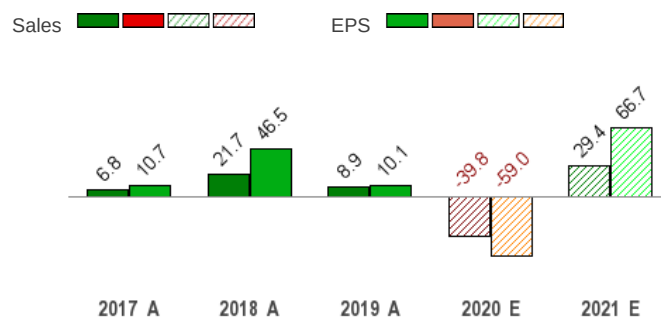
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$83.41 - \$49.11
20 Day Average Volume (sh)	2,065,953
Market Cap	\$23.7 B
YTD Price Change	-13.5%
Beta	1.11
Dividend / Div Yld	\$1.28 / 1.9%
Industry	Automotive - Domestic
Zacks Industry Rank	Bottom 10% (223 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-14.9%
Last Sales Surprise	-5.1%
EPS F1 Est- 4 week change	-5.6%
Expected Report Date	NA
Earnings ESP	-11.3%
P/E TTM	11.2
P/E F1	24.2
PEG F1	2.9
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,754 E	4,733 E	4,846 E	5,203 E	18,789 E
2020	4,778 A	2,740 E	3,575 E	4,065 E	14,523 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	\$1.11 E	\$1.22 E	\$1.26 E	\$1.33 E	\$4.70 E
2020	\$1.03 A	\$0.34 E	\$0.70 E	\$0.84 E	\$2.82 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 05/25/2020. The reports text is as of 05/26/2020.

Overview

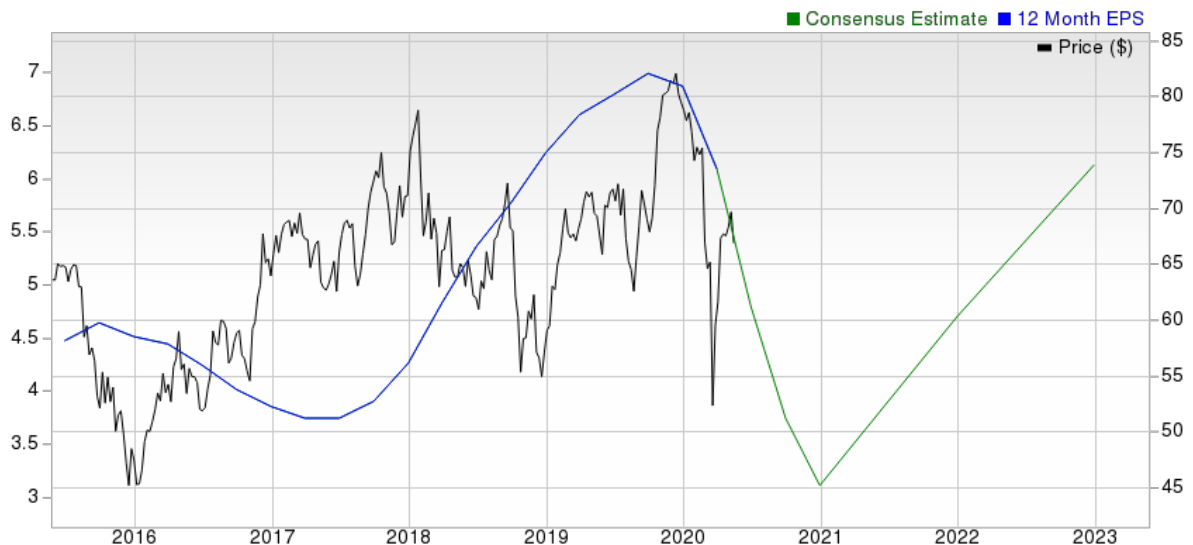
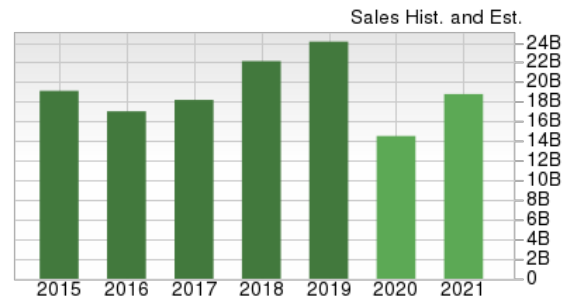
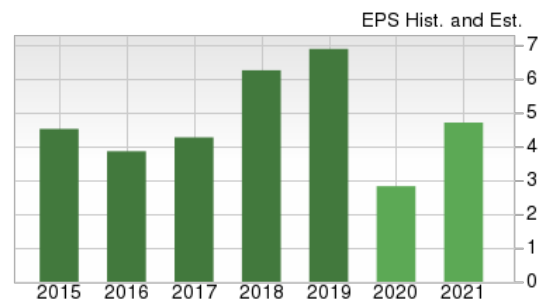
Headquartered in Bellevue, WA, PACCAR Inc. is a leading manufacturer of heavy-duty trucks in the world and has substantial manufacturing exposure to light/medium trucks. The company also provides customer support for its products by supplying aftermarket parts as well as finance and leasing services.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

- ▼ 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. Going forward, sales volumes are likely to decline substantially due to the economic shutdowns thanks to the coronavirus outbreak. Amid the uncertain global macro environment, the trucking giant has refrained from providing any near term production or margin guidance. Nonetheless, it has warned the investors that 2020 will be impacted by lower production schedules due to changes in customer demand and the impact of government mandates.
- ▼ PACCAR's earnings and sales declined in the first quarter of 2020, which only contained a week of production shutdown. Industry production is expected to be much lower in the second quarter with extended factory closures. Challenges related to the virus outbreak will certainly impact the upcoming earnings cycle of PACCAR. In fact, the second and third-quarter earnings will be a litmus test as these will determine the actual impact of the COVID-19 pandemic on the trucking giant.
- ▼ 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. Notably, through the first quarter of 2020, used truck prices in Europe were down, though relatively flat in North America. Continued weakness in used prices is likely to affect the earnings of the company's financial services arm.
- ▼ Rising commodity price amid tariff woes, along with high labor costs are concerns for PACCAR. High SG&A and other operating costs are likely to mar margins of the firm. The firm's high leverage of around 54% also plays a spoilsport.

Going forward, PACCAR's sales volumes are likely to decline substantially due to the economic shutdowns thanks to the coronavirus outbreak.

Risks

- 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 leading brands and reputation for quality.
 - 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. 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 14% reflects the efficiency of the firm in utilizing shareholders' funds.
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Last Earnings Report

PACCAR Q1 Earnings & Sales Decline Y/Y

PACCAR reported earnings of \$1.03 per share for first-quarter 2020, missing the Zacks Consensus Estimate of \$1.21, mainly due to lower income and revenues from the company's trucks, parts and others unit. The reported figure also came in lower than the prior-year quarter's \$1.81.

Consolidated revenues (including trucks and financial services) came in at \$5.16 billion, outpacing the Zacks Consensus Estimate of \$5.04 billion. The top-line figure, however, came in lower than the year-ago quarter's \$6.49 billion.

During the reported quarter, the company recorded total pre-tax income of \$462.2 million, reflecting a decline from the prior-year quarter's \$819.4 million. The company's net income fell to \$359.4 million from the \$629 million reported in first-quarter 2019.

SG&A expenses during first-quarter 2020 fell 3.2% to \$164 million from the \$169.4 million incurred in first-quarter 2019. R&D expenses declined 9.3% to \$71 million during the March-end quarter from the first-quarter 2019 number of \$78.3 million.

Segmental Performance

Revenues from trucks, parts and others totaled \$4.78 billion in the first quarter, down from the prior-year quarter's \$6.14 billion. The segment's pre-tax income decreased to \$399.1 million from the \$716.1 million recorded in the year-ago period.

Revenues in the financial services segment increased to \$383.7 million from the year-earlier quarter's \$349.5 million. Pre-tax income declined to \$48.3 million from the \$874 million reported in the year-ago quarter.

Dividends & Cash Position

During first-quarter 2020, PACCAR announced a regular quarterly cash dividend of 32 cents per share, payable on Jun 2, to stockholders of record as of May 12, 2020.

PACCAR's cash and marketable debt securities amounted to \$4.3 billion as of Mar 31, 2020, compared with \$5.2 billion as of Mar 31, 2019.

Outlook

For the ongoing year, the company has lowered its capex and R&D expenses forecast amid the coronavirus crisis. Capex is now projected at \$525-575 million, and R&D expenses are estimated in the \$265-\$295 million band.

Quarter Ending **03/2020**

Report Date	Apr 21, 2020
Sales Surprise	-5.13%
EPS Surprise	-14.88%
Quarterly EPS	1.03
Annual EPS (TTM)	6.09

Valuation

PACCAR's shares are down 13.5% in the year-to-date period and up 1.3% 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 19.4% and down 9.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 54.6% and 6.9%, respectively.

The S&P 500 index is down 8.1% and up 4.5% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 19.16X forward 12-month earnings, which compares to 76.16X for the Zacks sub-industry, 19.7X for the Zacks sector and 21.5X for the S&P 500 index.

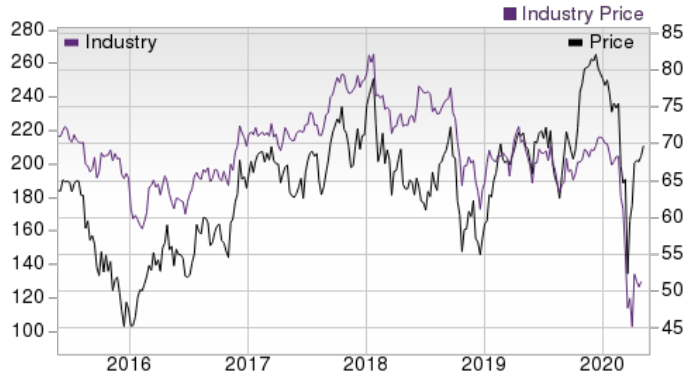
Over the past five years, the stock has traded as high as 19.27X and as low as 8.6X, with a 5-year median of 13.29X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$58 price target reflects 16.25X forward 12-month earnings per share.

The table below shows summary valuation data for PCAR:

Valuation Multiples - PCAR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.16	76.16	19.7	21.5
	5-Year High	19.27	76.16	19.7	21.5
	5-Year Low	8.6	7.95	8.23	15.23
	5-Year Median	13.29	10.47	9.94	17.49
EV/EBITDA TTM	Current	8.07	15.43	10.39	10.93
	5-Year High	11.41	16.59	11.35	12.68
	5-Year Low	5.39	6.37	6.97	8.26
	5-Year Median	7.8	11.97	9.29	10.79
P/S F12M	Current	1.46	1.05	0.69	3.33
	5-Year High	1.57	1.05	0.76	3.44
	5-Year Low	0.83	0.52	0.5	2.53
	5-Year Median	1.15	0.65	0.62	3.01

As of 05/22/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (223 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
CNH Industrial N.V. (CNHI)	Neutral	3
Navistar International Corporation (NAV)	Neutral	3
Tata Motors Ltd (TTM)	Neutral	3
AB Volvo (VLVLY)	Neutral	4
Daimler AG (DDAIF)	Underperform	3
Fiat Chrysler Automobiles N.V. (FCAU)	Underperform	3
General Motors Company (GM)	Underperform	4
Volkswagen AG (VWAGY)	Underperform	5

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	PCAR	X Industry	S&P 500	NAV	VLVLY	VWAGY
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	3	4	5
VGM Score	D	-	-	D	A	B
Market Cap	23.65 B	4.96 B	20.16 B	2.53 B	26.61 B	75.97 B
# of Analysts	8	5.5	14	4	3	3
Dividend Yield	1.87%	0.00%	2.11%	0.00%	3.02%	2.27%
Value Score	C	-	-	C	A	A
Cash/Price	0.19	0.11	0.07	0.45	0.26	NA
EV/EBITDA	6.06	9.47	12.07	7.33	4.22	NA
PEG Ratio	3.03	2.48	2.72	NA	NA	NA
Price/Book (P/B)	2.45	2.33	2.77	NA	1.78	NA
Price/Cash Flow (P/CF)	6.83	6.83	10.95	3.98	4.46	1.88
P/E (F1)	25.44	24.08	20.22	NA	15.90	17.55
Price/Sales (P/S)	0.97	0.74	2.12	0.24	0.61	0.28
Earnings Yield	4.12%	3.62%	4.71%	-0.75%	6.26%	5.68%
Debt/Equity	0.75	1.07	0.76	-1.14	0.72	NA
Cash Flow (\$/share)	10.02	3.24	6.96	6.40	2.94	8.06
Growth Score	D	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	12.44%	1.90%	10.87%	NA	33.64%	NA
Proj. EPS Growth (F1/F0)	-58.95%	-44.02%	-10.31%	-104.53%	-55.97%	-72.37%
Curr. Cash Flow Growth	6.65%	6.65%	5.46%	9.70%	7.58%	29.82%
Hist. Cash Flow Growth (3-5 yrs)	11.72%	7.39%	8.55%	81.17%	NA	4.83%
Current Ratio	2.49	1.28	1.29	1.41	1.37	NA
Debt/Capital	42.85%	58.92%	44.54%	NA	41.77%	NA
Net Margin	8.73%	3.82%	10.54%	1.63%	7.20%	NA
Return on Equity	21.76%	6.54%	16.27%	-8.89%	21.80%	NA
Sales/Assets	0.88	0.82	0.54	1.54	0.79	NA
Proj. Sales Growth (F1/F0)	-39.79%	-13.78%	-2.49%	-28.29%	-15.08%	-15.27%
Momentum Score	D	-	-	F	A	D
Daily Price Chg	0.34%	0.70%	0.12%	0.04%	-2.68%	-0.49%
1 Week Price Chg	-4.01%	-5.43%	-4.56%	-4.99%	-5.93%	-5.75%
4 Week Price Chg	3.81%	18.25%	5.28%	16.30%	11.28%	8.99%
12 Week Price Chg	0.96%	-15.31%	-8.60%	-28.88%	-15.11%	-6.68%
52 Week Price Chg	2.03%	-26.05%	-6.15%	-16.93%	-6.97%	-4.64%
20 Day Average Volume	2,065,953	1,669,262	2,645,192	584,362	120,348	172,324
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.61%	-12.40%	-3.80%	-116.87%	-19.68%	-33.08%
(F1) EPS Est 12 week change	-48.12%	-57.60%	-16.57%	-107.26%	-33.60%	-71.60%
(Q1) EPS Est Mthly Chg	-26.77%	-35.00%	-7.64%	-125.74%	0.00%	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	C
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.

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