

Standard Motor (SMP)

\$46.26 (As of 08/03/20)

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

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 08/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

Standard Motors enjoys a strong competitive advantage due to brand recognition and sizeable customer base. Its Pollak business buyout has enhanced Standard Motors' growth opportunities in OE, heavy duty and commercial vehicle markets, aftermarket distribution, and product management, along with service areas. The transaction is boosting the Engine Management segment's prospects and leading to various commercial and operational synergies. Encouragingly, Standard Motor Products expects sequential improvement in the sales volume in the upcoming quarter as the customers' orders have started to pick up. Healthy balance sheet with a low leverage of 6% is another positive. Cost cut efforts are also likely to aid margins. As such, Standard Motors warrants a bullish stance at the moment.

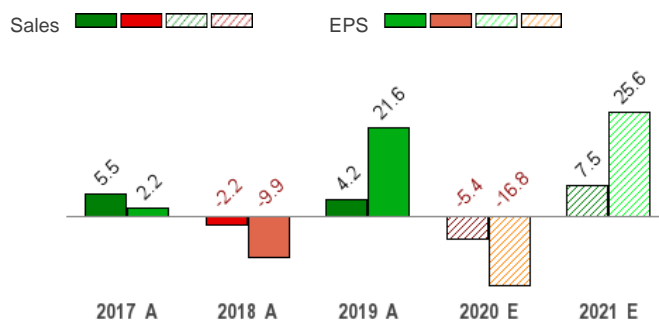
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.85 - \$33.94
20 Day Average Volume (sh)	134,459
Market Cap	\$1.0 B
YTD Price Change	-13.1%
Beta	0.75
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Replacement Parts
Zacks Industry Rank	Top 10% (26 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	136.4%
Last Sales Surprise	9.1%
EPS F1 Est- 4 week change	13.4%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	18.1
P/E F1	17.9
PEG F1	1.6
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	277 E	285 E	340 E	257 E	1,158 E
2020	254 A	248 A	330 E	244 E	1,077 E
2019	284 A	305 A	308 A	241 A	1,138 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.65 E	\$0.84 E	\$1.24 E	\$0.70 E	\$3.24 E
2020	\$0.43 A	\$0.52 A	\$0.94 E	\$0.58 E	\$2.58 E
2019	\$0.57 A	\$0.92 A	\$1.02 A	\$0.59 A	\$3.10 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 08/03/2020. The reports text is as of 08/04/2020.

Overview

Long Island City, NY-based Standard Motor Products Inc. was founded in 1919 and is one of the leading manufacturers, distributors, and marketers of premium automotive replacement parts for engine management and temperature control systems. It majorly focuses on heavy-duty industrial and the original equipment market.

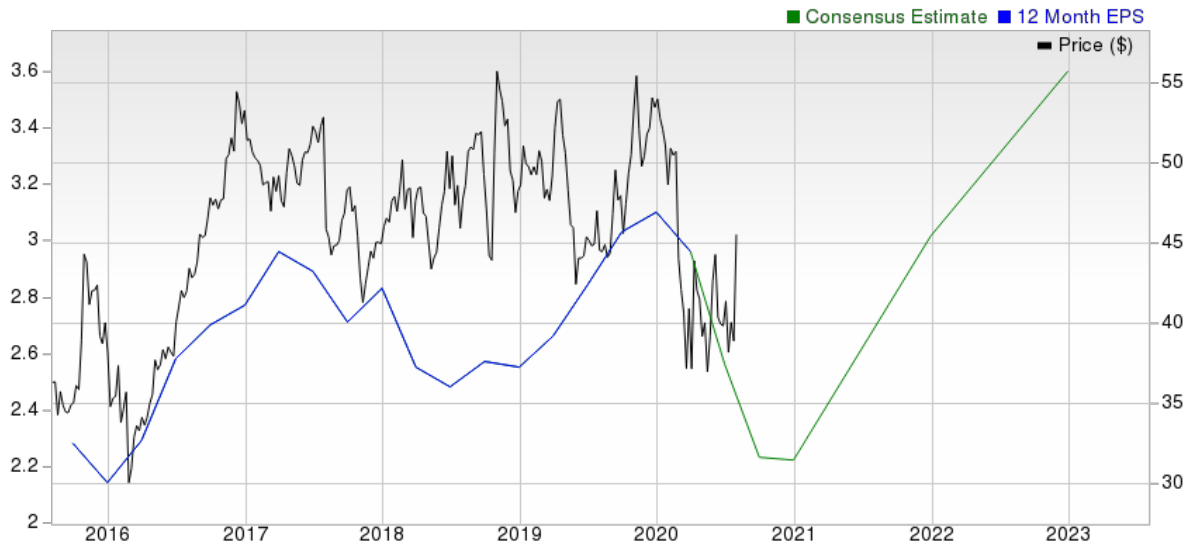
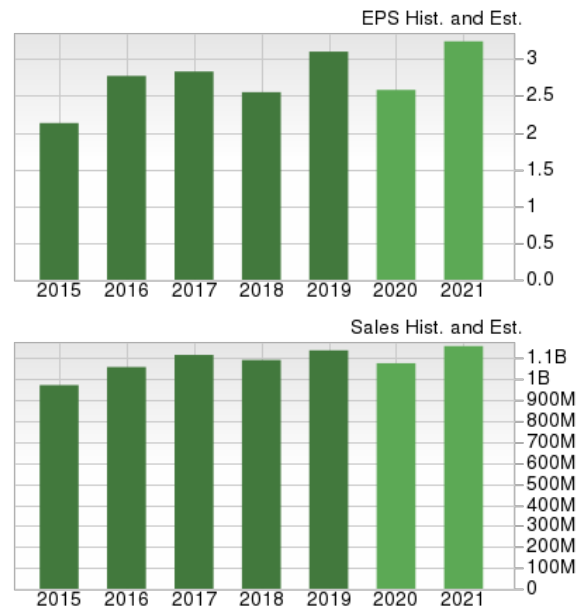
Presently, the company has two primary operating segments.

The **Engine Management** segment manufactures and markets a wide range of components required for ignition, electrical, emissions, and fuel and safety-related systems of vehicles. A few of major products are — diesel injectors and pumps, ignition wires, coils, switches, relays, and EGR valves, among others. In 2018, the segment generated roughly \$849.2 million in net sales or 75.3% of consolidated net sales in 2019.

The **Temperature Control** segment manufactures and distributes components for temperature control systems, engine cooling systems, power window accessories, and windshield washer systems of vehicles. A few of the key products are — air conditioning compressor repair kits, clutch assemblies, blower and radiator fan motors, among others. In 2018, the unit generated roughly \$278 million in net sales or 24.7% of consolidated net sales in 2019.

Standard Motor sells products primarily to warehouse distributors like CARQUEST and NAPA Auto Parts; large retail chains such as Advance Auto Parts, Inc., AutoZone, Inc. and O'Reilly Automotive, Inc.; and national program distribution groups, such as Auto Value and All Pro/Bumper to Bumper, original equipment manufacturers (OEMs), and original equipment service part operations. The products are sold in the United States, Canada, Mexico, Europe, Asia and other countries in Latin America.

In May 2016, Standard Motor completed the acquisition of General Cable Corporation's automotive ignition wire business for \$71 million, subject to post-closing adjustments. The buyout included General Cable's automotive ignition wire business in North America as well as its subsidiary in Mexico. In April 2019, it acquired the Pollak business of Stoneridge, Inc. for approximately \$40 million.



Reasons To Buy:

- ▲ Standard Motors enjoys a strong competitive advantage due to brand recognition and sizeable customer base. The company also displays a healthy balance sheet, with a leverage of just 0.06 (versus industry's 0.51), gives it enough financial flexibility to tap on growth opportunities. In the second quarter of 2020, long-term debt decreased to \$108,000 from \$129,000 recorded as of Dec 31, 2019. Moreover, the company's times interest earned ratio of 19.36 is favorable to the industry ratio of 8.
- ▲ The company's Pollak business buyout has enhanced Standard Motors' growth opportunities in OE, heavy duty and commercial vehicle markets, aftermarket distribution, product management, along with service areas. The transaction is boosting the Engine Management segment's prospects and leading to various commercial and operational synergies.
- ▲ On an encouraging note, the business started to witness recovery in May. In fact, volumes in June were consistent with 2019 levels, per the company. Standard Motor Products expects sequential improvement in the sales volume in the upcoming quarter as the customers' orders have started to pick up. Importantly, the company is also engaging in various cost-cut measures like pay cuts and suspension of discretionary expenses, etc. These measures are likely to aid the margins in the coming period.
- ▲ Aging Vehicles are a boon to the auto replacement and repair companies like Standard Motors. Per IHS Markit, the current combined average age of passenger cars and light trucks is around 11.8 years. In a bid to ensure long-term functioning of the aging vehicle population, customers will be making investments to replace faulty vehicle parts and components. This has boosted demand for auto replacement parts. Even amid the economic downturn, customers are more likely to opt for repairing old vehicles rather than splurging on new vehicles that are highly priced, making the industry somewhat less consumer cyclic.

Pollak business buyout and strong balance sheet are likely to boost Standard Motor's prospects.

Risks

- While the firm expects third-quarter sales to witness a sequential uptick, coronavirus-led uncertainty still looms large. Spike in COVID cases and continued high unemployment may again put pressure on the company's prospects.
 - Standard Motor, which increased its payout for 11 straight years since Great Recession, suspended its quarterly dividends, thanks to coronavirus-led uncertainty and financial crisis. This is likely to have dampened investors' confidence. The firm has also suspended its stock buyback program. Notably, the firm's cash flow is also coming under pressure.
 - A challenging macroeconomic environment is weighing on the prospects of Standard Motor. Tariffs woes in China and economic slowdown are putting pressure on carmakers. Resultantly, Standard Motor's business conditions are becoming tougher. The product lifecycle of the Engine Management segment's wire and cable business is likely to negatively impact Standard Motor's performance in 2020.
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Last Earnings Report

Standard Motor Q2 Earnings & Sales Decline Y/Y

Standard Motor reported adjusted earnings of 52 cents per share in second-quarter 2020, beating the Zacks Consensus Estimate of 22 cents. However, the bottom line came in lower than the prior-year quarter's 92 cents per share. Dismal performance of both its major segments — Engine Management and Temperature Control — resulted in this year-over-year decline.

Second-quarter earnings from continuing operations were \$11.8 million compared with the \$21 million recorded in the prior-year quarter. Total revenues decreased to \$248 million, beating the Zacks Consensus Estimate of \$227 million. The revenue figure, however, came in lower than the year-ago number of \$305 million.

Gross profit decreased to \$64.3 million from the year-ago quarter's \$88.9 million. Operating income slid to \$16 million from the \$27.7 million recorded in the prior-year quarter.

Segmental Results

During the June-end quarter, revenues from the Engine Management segment fell 20.6% year on year to \$173.1 million. Operating income was \$16.7 million compared with the prior-year quarter's \$26.3 million.

Revenues in the Temperature Control segment decreased 14.2% year over year to \$72.4 million. The segment registered an operating income of \$3.97 million compared with the \$7.15 million recorded in second-quarter 2019.

Revenues in the All Other segment decreased to \$2.39 million from the \$2.72 million recorded in the prior-year quarter. The segment reported an operating loss of \$4.67 million, wider than the loss of \$5.13 million posted in corresponding quarter of 2019.

Financial Position

Standard Motor had cash and cash equivalents of \$22.5 million as of Jun 30, 2020, compared with \$10.4 million as of Dec 31, 2019. Long-term debt was \$108,000 compared with \$129,000 recorded as of Dec 31, 2019. Capex during the quarter amounted to \$9.03 million, up from the \$7.58 million recorded in the first six months of 2020.

In a bid to boost financial flexibility amid the pandemic-related uncertainties, Standard Motor has suspended its quarterly payouts and stock-buyback programs.

Quarter Ending **06/2020**

Report Date	Jul 29, 2020
Sales Surprise	9.08%
EPS Surprise	136.36%
Quarterly EPS	0.52
Annual EPS (TTM)	2.56

Valuation

Standard Motor's shares are down 13.1% in the year-to-date period and up 6.5% over the trailing 12-month period. Stocks in the Automotive - Replacement Parts industry and the Zacks Auto sector are down 15.5% and up 17.5%, respectively, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 4.4% and 36.4%, respectively.

The S&P 500 index is up 1.6% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 17.05X forward 12-month earnings, which compares to 17.15X for the Zacks sub-industry, 24.91X for the Zacks sector and 22.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.66X and as low as 10.43X, with a 5-year median of 14.54X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$53 price target reflects 19.56X forward 12-month earnings per share.

The table below shows summary valuation data for SMP:

Valuation Multiples - SMP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.05	17.15	24.91	22.62
	5-Year High	18.66	19.45	25.33	22.62
	5-Year Low	10.43	10.69	8.2	15.25
	5-Year Median	14.54	17.1	9.87	17.55
EV/EBITDA TTM	Current	9.77	11.39	11.5	12.67
	5-Year High	11.44	15.38	11.75	12.85
	5-Year Low	6.86	7.61	6.8	8.24
	5-Year Median	8.74	12.9	9.27	10.88
P/S F12M	Current	0.99	0.81	0.87	3.59
	5-Year High	1.16	1.18	0.87	3.59
	5-Year Low	0.65	0.56	0.49	2.53
	5-Year Median	0.93	0.99	0.61	3.04

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Top 10% (26 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Aptiv PLC (APTIV)	Neutral	3
AutoZone, Inc. (AZO)	Neutral	3
Continental AG (CTTAY)	Neutral	2
Delphi Technologies PLC (DLPH)	Neutral	3
Dorman Products, Inc. (DORM)	Neutral	3
Genuine Parts Company (GPC)	Neutral	3
LKQ Corporation (LKQ)	Neutral	3
Visteon Corporation (VC)	Neutral	3

Industry Comparison Industry: Automotive - Replacement Parts				Industry Peers		
	SMP	X Industry	S&P 500	APTIV	GPC	VC
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	B	-	-	D	A	C
Market Cap	1.03 B	1.03 B	22.67 B	21.53 B	13.11 B	2.11 B
# of Analysts	2	2.5	13.5	10	5	4
Dividend Yield	0.00%	0.00%	1.77%	0.00%	3.48%	0.00%
Value Score	B	-	-	B	A	B
Cash/Price	0.02	0.07	0.07	0.09	0.08	0.38
EV/EBITDA	8.42	10.77	13.08	11.85	12.21	10.18
PEG Ratio	1.63	2.51	2.94	7.69	14.74	NA
Price/Book (P/B)	2.02	3.29	3.10	3.02	4.57	4.50
Price/Cash Flow (P/CF)	10.73	11.30	12.34	10.39	11.14	11.89
P/E (F1)	17.93	20.02	21.71	84.09	22.11	NA
Price/Sales (P/S)	0.98	0.98	2.46	1.74	0.72	0.85
Earnings Yield	5.58%	5.05%	4.38%	1.19%	4.52%	-0.41%
Debt/Equity	0.05	0.31	0.75	0.59	1.21	1.89
Cash Flow (\$/share)	4.31	3.34	6.94	7.67	8.16	6.36
Growth Score	C	-	-	D	A	D
Hist. EPS Growth (3-5 yrs)	3.84%	3.84%	10.46%	-8.92%	5.17%	-18.53%
Proj. EPS Growth (F1/F0)	-16.77%	-16.23%	-7.08%	-80.25%	-27.77%	-111.01%
Curr. Cash Flow Growth	17.09%	8.33%	5.47%	-5.77%	10.00%	-34.80%
Hist. Cash Flow Growth (3-5 yrs)	5.08%	5.86%	8.55%	-1.25%	6.64%	-17.58%
Current Ratio	1.75	1.52	1.32	1.89	1.22	2.38
Debt/Capital	4.71%	24.24%	44.21%	37.30%	54.83%	65.36%
Net Margin	4.36%	4.36%	10.25%	13.63%	-1.06%	-1.25%
Return on Equity	11.63%	12.73%	14.72%	10.10%	21.67%	2.42%
Sales/Assets	1.13	0.90	0.52	0.85	1.27	1.08
Proj. Sales Growth (F1/F0)	-5.38%	-7.10%	-1.79%	-16.51%	-10.45%	-18.30%
Momentum Score	C	-	-	F	B	D
Daily Price Chg	1.72%	1.67%	0.27%	2.53%	0.79%	4.24%
1 Week Price Chg	17.10%	2.16%	0.14%	-5.47%	1.70%	-0.55%
4 Week Price Chg	11.18%	7.08%	2.96%	1.64%	3.90%	5.08%
12 Week Price Chg	19.35%	19.35%	10.90%	19.50%	19.57%	20.16%
52 Week Price Chg	6.57%	0.65%	2.35%	-1.57%	0.87%	24.63%
20 Day Average Volume	134,459	138,684	2,043,624	1,493,089	679,403	219,951
(F1) EPS Est 1 week change	13.41%	0.12%	0.00%	-9.46%	0.24%	-4.27%
(F1) EPS Est 4 week change	13.41%	1.67%	0.82%	-3.44%	2.71%	-75.29%
(F1) EPS Est 12 week change	13.41%	0.94%	0.59%	-46.88%	-11.28%	-234.56%
(Q1) EPS Est Mthly Chg	36.23%	4.50%	0.25%	3.58%	7.65%	-4.37%

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	C
Momentum Score	C
VGM Score	B

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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