

Standard Motor (SMP)

\$38.66 (As of 05/05/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: C

Summary

Standard Motors enjoys a strong competitive advantage due to brand recognition and sizeable customer base. The buyout of Pollak has bolstered Standard Motors' growth opportunities and will lead to various commercial and operational synergies going forward. The firm's healthy balance sheet with low leverage is a major positive. However, contracting customer orders amid coronavirus woes are likely to dent the company's near-term sales and earnings. Amid COVID-19 uncertainty, Standard Motor has also suspended dividend and stock buyback program. Cash flow woes and escalating expenses are likely to mar margins further. As such, investors are advised to wait for a better entry point.

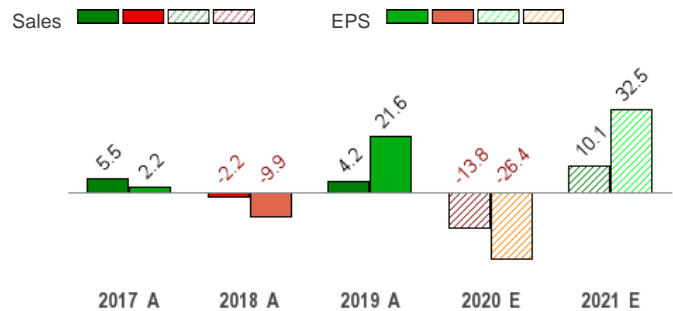
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.85 - \$35.51
20 Day Average Volume (sh)	88,168
Market Cap	\$862.6 M
YTD Price Change	-27.4%
Beta	0.72
Dividend / Div Yld	\$1.00 / 2.6%
Industry	Automotive - Replacement Parts
Zacks Industry Rank	Bottom 19% (204 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-34.0%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	13.1
P/E F1	17.0
PEG F1	1.5
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	275 E	267 E	287 E	251 E	1,080 E
2020	254 A	227 E	263 E	237 E	981 E
2019	284 A	305 A	308 A	241 A	1,138 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.81 E	\$0.78 E	\$0.86 E	\$0.63 E	\$3.02 E
2020	\$0.43 A	\$0.22 E	\$0.69 E	\$0.52 E	\$2.28 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 05/05/2020. The reports text is as of 05/06/2020.

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.

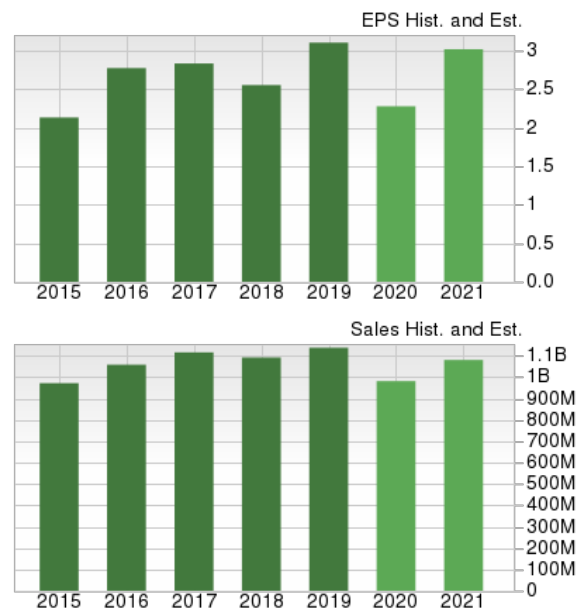
Presently, the company has two primary operating segments.

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 0.52), gives it enough financial flexibility to tap on growth opportunities. In the first quarter of 2020, long-term debt decreased to \$111,000 from \$129,000 recorded as of Dec 31, 2019. Moreover, the company's times interest earned ratio of 18.2 is favorable to the industry ratio of 0.09.
- ▲ 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 will drive the firm's Engine Management unit sales and is also likely to lead to various commercial and operational synergies going forward.
- ▲ 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 is likely to boost Standard Motor's prospects.

Reasons To Sell:

- ▼ Coronavirus has rattled the auto industry with factory closures, low demand and sales and supply chain disruptions. Tremendous uncertainty from the shutdown of economic activity across the United States is likely to hit the near-term prospects of Standard Motor. Amid the gloomy scenario, customer orders had witnessed around 30-40% decline in April. The challenging scenario is likely to persist and dent the company's sales and earnings in the upcoming quarter.
- ▼ Bringing in unpleasant news for the investors, Standard Motor, which has increased its payout for 11 straight years since Great Recession, suspended its quarterly dividends, thanks to coronavirus-led uncertainty and financial crisis. Notably, the firm's cash flow is also coming under pressure. It recorded negative cash flow of \$33 million in the first quarter of 2020, as against positive cash flow of \$34 million in the prior quarter. Net cash used in operating activities were also higher than the prior-year quarter. The firm has also suspended its stock buyback program.
- ▼ Plant shifts, and elevated distribution and labor costs, owing to strong surge of volume, are likely to hamper Standard Motor's gross margin in 2020. As it is, tariffs woes in China and economic slowdown are putting pressure on carmakers. Resultantly, Standard Motor's business conditions are likely to get 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.

Coronavirus woes are likely to dent the near-term sales and earnings of the firm. The firm has also suspended payout and buyback program amid the challenging scenario.

Last Earnings Report

Standard Motor Q1 Earnings & Sales Decline Y/Y

Standard Motor reported adjusted earnings of 43 cents per share in first-quarter 2020, in line with the Zacks Consensus Estimate. However, the bottom line came in higher than the prior-year quarter's 57 cents per share. Dismal performance of both its major segments — Engine Management and Temperature Control — acted as dampeners.

First-quarter earnings from continuing operations were \$9.6 million compared with \$13.1 million recorded in the prior-year quarter. Total revenues decreased to \$254.3 million, missing the Zacks Consensus Estimate of \$256 million. The tally also came in lower than the year-ago figure of \$283.8 million.

Gross profit decreased to \$70.4 million from the year-ago quarter's \$77.9 million. Operating income slid to \$14.3 million from \$17.9 million recorded in the year-ago quarter.

Segmental Results

During the March quarter, revenues from the Engine Management segment fell 5.6% year on year to \$201.1 million. Operating income was \$21.6 million compared with \$22.3 million in the prior-year quarter. Lower pipeline orders and weak sales amid the COVID-19 pandemic affected the segment's performance.

Revenues in the Temperature Control segment decreased 25.3% year over year to \$51.4 million. The segment incurred an operating loss of \$348,000 against operating income of \$2.05 million in first-quarter 2019.

Revenues in the All Other segment decreased to \$2.54 million from the \$2.83 million recorded in the prior-year quarter. The segment reported an operating loss of \$6.7 million, wider than loss of \$6.4 million in corresponding quarter of 2019.

Financial Position

Standard Motor had cash and cash equivalents of \$13.3 million as of Mar 31, 2020, compared with \$10.4 million as of Dec 31, 2019. Long-term debt was \$111,000 compared with \$129,000 recorded as of Dec 31, 2019. Net cash used in operating activities totaled \$32.8 million. Capex during the quarter amounted to \$4.4 million.

Cost-Cut Actions Amid COVID-19

In a bid to boost financial flexibility amid coronavirus-led uncertainty, the firm has drawn down an additional \$75 million from its bank credit line. Standard Motor has also suspended its quarterly payouts and stock buyback programs. It also intends to tighten discretionary capex and anticipates achieving substantial savings from the above-mentioned cost-cut efforts. The company would slash 25% salary of its top executives and board of directors.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	-0.71%
EPS Surprise	0.00%
Quarterly EPS	0.43
Annual EPS (TTM)	2.96

Valuation

Standard Motor's shares are down 27.4% in the year-to-date period and down 20.4% over the trailing 12-month period. Stocks in the Automotive - Replacement Parts industry and the Zacks Auto sector are down 30.1% and 13%, respectively, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 25.7% and 5.2%, respectively.

The S&P 500 index is down 11.7% in the year-to-date period and down 1.7% in the past year.

The stock is currently trading at 13.32X forward 12-month earnings, which compares to 13.79X for the Zacks sub-industry, 17.53X for the Zacks sector and 20.36X 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 14.43X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$41 price target reflects 14.13X 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	13.32	13.79	17.53	20.36
	5-Year High	18.66	19.45	17.53	20.36
	5-Year Low	10.43	10.68	8.23	15.19
	5-Year Median	14.43	17.1	9.91	17.44
EV/EBITDA TTM	Current	7.39	10.16	9.25	10.41
	5-Year High	11.44	15.38	11.34	12.86
	5-Year Low	6.9	7.95	6.85	8.28
	5-Year Median	8.73	12.97	9.25	10.78
P/S F12M	Current	0.85	0.68	0.66	3.2
	5-Year High	1.16	1.19	0.76	3.44
	5-Year Low	0.65	0.56	0.5	2.54
	5-Year Median	0.93	1.02	0.61	3.01

As of 05/05/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AutoZone, Inc. (AZO)	Neutral	4
Continental AG (CTTAY)	Neutral	3
Dorman Products, Inc. (DORM)	Neutral	4
Genuine Parts Company (GPC)	Neutral	4
LKQ Corporation (LKQ)	Neutral	4
Aptiv PLC (APTIV)	Underperform	5
Delphi Technologies PLC (DLPH)	Underperform	3
Visteon Corporation (VC)	Underperform	3

Industry Comparison Industry: Automotive - Replacement Parts				Industry Peers		
	SMP	X Industry	S&P 500	APTIV	GPC	VC
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	5	4	3
VGM Score	F	-	-	C	A	F
Market Cap	862.63 M	862.63 M	19.65 B	16.75 B	10.90 B	1.65 B
# of Analysts	2	3	14	11	6	5
Dividend Yield	2.59%	0.00%	2.18%	1.34%	4.21%	0.00%
Value Score	D	-	-	C	D	C
Cash/Price	0.02	0.05	0.06	0.03	0.03	0.49
EV/EBITDA	7.12	10.56	11.77	11.23	11.15	7.84
PEG Ratio	1.54	1.93	2.49	3.01	10.22	NA
Price/Book (P/B)	1.74	2.48	2.64	3.25	2.95	3.30
Price/Cash Flow (P/CF)	8.96	9.87	10.48	8.55	9.19	9.33
P/E (F1)	16.93	15.31	19.10	32.96	15.34	140.12
Price/Sales (P/S)	0.78	0.78	2.00	1.20	0.56	0.58
Earnings Yield	5.90%	6.52%	4.99%	3.03%	6.52%	0.71%
Debt/Equity	0.05	0.29	0.74	1.22	0.98	1.77
Cash Flow (\$/share)	4.31	3.34	7.01	7.67	8.16	6.36
Growth Score	F	-	-	C	A	F
Hist. EPS Growth (3-5 yrs)	5.18%	5.18%	10.87%	-1.17%	5.50%	-7.17%
Proj. EPS Growth (F1/F0)	-26.61%	-10.78%	-9.07%	-58.50%	-14.06%	-84.69%
Curr. Cash Flow Growth	17.09%	12.67%	5.88%	-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	1.68	1.68	1.24	1.69	1.24	2.17
Debt/Capital	5.15%	27.59%	44.07%	54.90%	49.54%	63.93%
Net Margin	4.90%	4.90%	11.00%	16.58%	3.20%	0.74%
Return on Equity	13.63%	14.95%	16.39%	27.25%	22.79%	9.52%
Sales/Assets	1.18	0.95	0.55	1.01	1.34	1.25
Proj. Sales Growth (F1/F0)	-13.75%	-3.35%	-2.17%	-14.18%	-6.48%	-14.40%
Momentum Score	C	-	-	C	B	F
Daily Price Chg	1.18%	1.18%	0.74%	2.13%	-0.83%	-0.07%
1 Week Price Chg	-5.64%	1.11%	0.53%	4.80%	0.21%	18.18%
4 Week Price Chg	-5.45%	8.13%	6.47%	22.69%	8.13%	27.65%
12 Week Price Chg	-24.61%	-25.61%	-20.68%	-27.69%	-21.64%	-29.11%
52 Week Price Chg	-20.31%	-24.31%	-10.95%	-17.36%	-24.31%	-4.87%
20 Day Average Volume	88,168	156,495	2,492,530	1,883,202	932,555	359,179
(F1) EPS Est 1 week change	-18.31%	-5.16%	0.00%	0.00%	-5.32%	-14.47%
(F1) EPS Est 4 week change	-33.96%	-17.31%	-7.39%	-45.61%	-12.86%	-89.08%
(F1) EPS Est 12 week change	-34.81%	-25.24%	-14.21%	-59.88%	-18.27%	-95.35%
(Q1) EPS Est Mthly Chg	-77.32%	-29.24%	-13.52%	-113.95%	-16.98%	-1,810.71%

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	D
Growth Score	F
Momentum Score	C
VGM Score	F

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.