

Standard Motor (SMP)

\$50.42 (As of 02/14/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Shares of Standard Motors have outperformed the broader industry over the past year. The buyout of Pollak has bolstered Standard Motors' growth opportunities. In addition to driving revenues of the firm's Engine Management unit, the acquisition will also generate operational and commercial synergies going forward. Increasing orders from both Temperature Control and Engine Management segments are likely to boost Standard Motors' overall sales and earnings. However, plant shifts, and elevated distribution and labor costs, owing to strong surge of volume, are likely to hamper Standard Motor's gross margin in 2019. A challenging macroeconomic environment is weighing on the prospects of the firm. Hence, investors are recommended to wait for a better entry point.

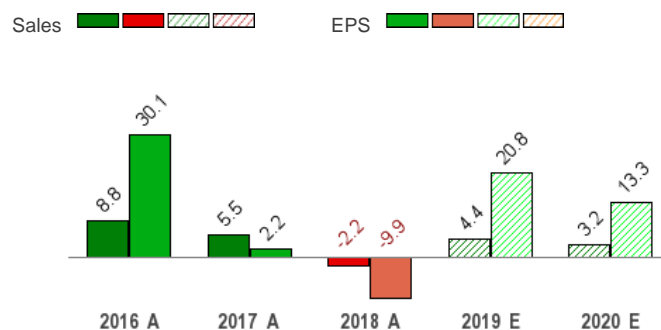
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$55.85 - \$42.03
20 Day Average Volume (sh)	82,004
Market Cap	\$1.1 B
YTD Price Change	-5.3%
Beta	1.01
Dividend / Div Yld	\$1.00 / 2.0%
Industry	Automotive - Replacement Parts
Zacks Industry Rank	Bottom 35% (166 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.9%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	16.6
P/E F1	14.5
PEG F1	1.3
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	300 E	310 E	313 E	254 E	1,177 E
2019	284 A	305 A	308 A	243 E	1,140 E
2018	262 A	287 A	297 A	247 A	1,092 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.79 E	\$0.95 E	\$1.10 E	\$0.69 E	\$3.49 E
2019	\$0.57 A	\$0.92 A	\$1.02 A	\$0.57 E	\$3.08 E
2018	\$0.46 A	\$0.74 A	\$0.83 A	\$0.52 A	\$2.55 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 02/14/2020. The reports text is as of 02/17/2020.

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.

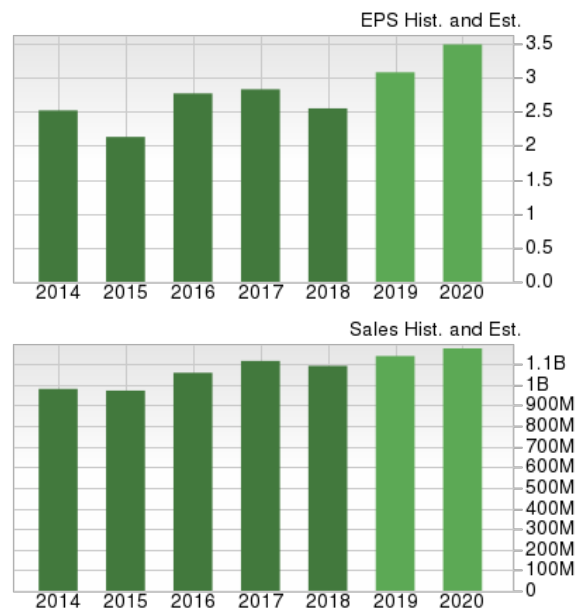
Presently, the company has two primary operating segments.

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 \$648.3 million in net sales or 59% of consolidated net sales in 2018.

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 \$148.4 million in net sales or 14% of consolidated net sales in 2018.

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:

- ▲ The company's Pollak business buyout from Stoneridge early this year enhanced Standard Motors' growth opportunities in OE, heavy duty and commercial vehicle markets, aftermarket distribution, product management, along with service areas. The transaction is driving the firm's Engine Management unit sales, and is also likely to lead to various commercial and operational synergies going forward.
- ▲ Increasing orders from both Temperature Control and Engine Management segments are likely to boost Standard Motors' overall sales and earnings. For the Temperature Control unit, it expects strong pre-season orders in 2019, which will in turn drive the top line. Further, Engine Management — except the wire and cable business — is likely to gain from pipeline orders going forward.
- ▲ Standard Motors enjoys a strong competitive advantage due to brand recognition and sizeable customer base. The company's healthy balance sheet, with a leverage of just 6.59%, gives it enough financial flexibility to tap on growth opportunities. Strong cash flow aids the company to engage in regular dividend payouts in almost every quarter.

Increasing orders from both Temperature Control and Engine Management segments are likely to boost Standard Motors' overall sales and earnings

Reasons To Sell:

- ▼ Plant shifts, and elevated distribution and labor costs, owing to strong surge of volume, are likely to hamper Standard Motor's gross margin in 2019. Although the company is passing the expenditure rise to customers through price increases of products, continuous rise in expenses may hamper the bottom line.
- ▼ 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 2019. The company anticipates an annual decline of 6-7% in net sales of wire and cable, which will partly hurt Engine Management's performance.

Declining wire and cable product line, and rising expenses are headwinds for Standard Motor.

Last Earnings Report

Standard Motor Q3 Earnings Top, Up Y/Y

Standard Motor reported adjusted earnings of \$1.02 per share in third-quarter 2019, beating the Zacks Consensus Estimate of 92 cents. Further, the bottom line comes in higher than the prior-year quarter's 83 cents per share. The Engine Management division's solid performance drove the company's earnings.

During the third quarter, earnings from continuing operations were \$22.7 million compared with the \$19.3 million recorded in the prior-year quarter. During the reported quarter, total revenues increased to \$307.7 million, surpassing the Zacks Consensus Estimate of \$305 million. The reported tally also comes in higher than the year-ago figure of \$296.6 million.

Gross profit increased to \$92.1 million from the year-ago quarter's \$87.3 million. Operating income increased to \$31.3 million from \$27.2 million recorded in the year-ago quarter.

Segmental Results

In the September-end quarter, revenues from the Engine Management segment rose 9.3% year over year to \$215.97 million. Operating income was \$30.3 million compared with the \$21.6 million witnessed in the prior-year quarter. The segment benefited from the Pollak acquisition and the company's cost-containment efforts.

Revenues in the Temperature Control segment decreased 8.1% year over year to \$88.3 million. The segment recorded operating income of \$7.5 million compared with \$8.6 million registered in the third quarter of 2018. This downside mainly resulted from the dampening impact of tariffs being passed through to customers at the company's cost.

Revenues in the All Other segment rose to \$3.45 million from \$2.97 million a year ago. The segment reported an operating loss of \$5.65 million, wider than the loss of \$3.03 million recorded in third-quarter 2018.

Financial Position

Standard Motor had cash and cash equivalents of \$13.26 million as of Sep 30, 2019, compared with \$11.13 million as of Dec 31, 2018. Other long-term debt was \$132,000 as of Sep 30, 2019, compared with \$153,000 as of Dec 31, 2018. The debt-to-capital ratio stands at 6.59%.

Dividend Update

The company's board of directors has approved a quarterly dividend of 23 cents per common share.

Quarter Ending 09/2019

Report Date	Oct 30, 2019
Sales Surprise	0.98%
EPS Surprise	10.87%
Quarterly EPS	1.02
Annual EPS (TTM)	3.03

Valuation

Standard Motor's shares are down 4.8% in the year-to-date period and up 4.4% over the trailing 12-month period. Stocks in the Automotive - Replacement Parts industry and the Zacks Auto sector are down 9.3% and up 5.9%, respectively, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 5.9% and up 16.9%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period and up 23.5% in the past year.

The stock is currently trading at 14.25X forward 12-month earnings, which compares to 14.82X for the Zacks sub-industry, 11.51X for the Zacks sector and 19.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.66X and as low as 10.66X, with a 5-year median of 14.46X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$53 price target reflects 14.97X 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	14.25	14.82	11.51	19.35
	5-Year High	18.66	19.45	11.75	19.35
	5-Year Low	10.66	13.73	8.23	15.18
	5-Year Median	14.46	17.23	9.93	17.47
EV/EBITDA TTM	Current	9.45	11.87	8.97	12.31
	5-Year High	11.4	15.3	11.25	12.85
	5-Year Low	7.01	11.18	6.9	8.47
	5-Year Median	8.74	13.07	9.2	10.7
P/S F12M	Current	0.96	0.79	0.7	3.58
	5-Year High	1.16	1.19	0.76	3.58
	5-Year Low	0.65	0.71	0.5	2.54
	5-Year Median	0.93	1.05	0.62	3

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (166 out of 255)



Top Peers

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

Industry Comparison Industry: Automotive - Replacement Parts				Industry Peers		
	SMP Neutral	X Industry	S&P 500	APTIV Neutral	GPC Neutral	VC Neutral
VGM Score	A	-	-	C	A	B
Market Cap	1.13 B	1.23 B	24.61 B	22.55 B	14.02 B	2.34 B
# of Analysts	2	2.5	13	12	5	6
Dividend Yield	1.98%	0.00%	1.78%	1.00%	3.16%	0.00%
Value Score	B	-	-	C	B	B
Cash/Price	0.01	0.02	0.04	0.02	0.03	0.20
EV/EBITDA	10.91	14.77	14.06	13.12	12.09	7.40
PEG Ratio	1.31	1.31	2.09	1.59	3.51	1.56
Price/Book (P/B)	2.29	3.45	3.29	5.62	3.82	4.01
Price/Cash Flow (P/CF)	13.68	13.68	13.65	11.51	13.14	8.86
P/E (F1)	14.45	16.94	19.21	17.70	16.13	17.16
Price/Sales (P/S)	0.99	0.99	2.70	1.57	0.73	0.80
Earnings Yield	6.92%	5.92%	5.19%	5.65%	6.20%	5.83%
Debt/Equity	0.06	0.29	0.71	1.07	0.98	0.82
Cash Flow (\$/share)	3.69	2.89	6.92	7.67	7.34	9.44
Growth Score	A	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	4.11%	4.11%	10.85%	-1.17%	4.99%	0.96%
Proj. EPS Growth (F1/F0)	13.31%	9.45%	7.17%	3.92%	5.72%	67.07%
Curr. Cash Flow Growth	-6.84%	24.26%	8.56%	-5.77%	26.30%	-4.21%
Hist. Cash Flow Growth (3-5 yrs)	2.96%	10.75%	8.36%	-1.25%	5.65%	-14.37%
Current Ratio	1.69	1.69	1.23	1.31	1.26	1.69
Debt/Capital	5.24%	31.94%	42.91%	51.74%	49.51%	45.11%
Net Margin	4.35%	4.35%	11.81%	6.90%	4.14%	2.66%
Return on Equity	14.40%	14.79%	16.86%	32.61%	23.20%	13.88%
Sales/Assets	1.25	1.02	0.54	1.09	1.38	1.37
Proj. Sales Growth (F1/F0)	3.26%	3.68%	3.85%	2.98%	1.78%	7.69%
Momentum Score	C	-	-	C	A	B
Daily Price Chg	-2.06%	-0.51%	0.06%	-2.43%	-0.51%	-4.70%
1 Week Price Chg	4.69%	1.93%	2.47%	2.76%	1.93%	0.55%
4 Week Price Chg	-3.63%	-4.45%	0.59%	-3.16%	-5.03%	-6.89%
12 Week Price Chg	0.14%	-4.84%	6.98%	-0.75%	-5.94%	-7.35%
52 Week Price Chg	4.15%	-11.71%	16.62%	10.88%	-8.72%	3.72%
20 Day Average Volume	82,004	127,806	2,020,569	1,329,560	604,215	241,011
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.05%	-8.59%	0.00%	-1.18%
(F1) EPS Est 12 week change	-0.85%	-0.17%	-0.17%	-10.23%	-0.19%	0.21%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.24%	-26.43%	1.92%	3.51%

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	A
Momentum Score	C
VGM Score	A

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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