Aug 21, 2020

SYNNEX Corporation (SNX)

$123.24 (As of 08/20/20)

Price Target (6-12 Months): **$129.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/15/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: A | Momentum: C	

Summary

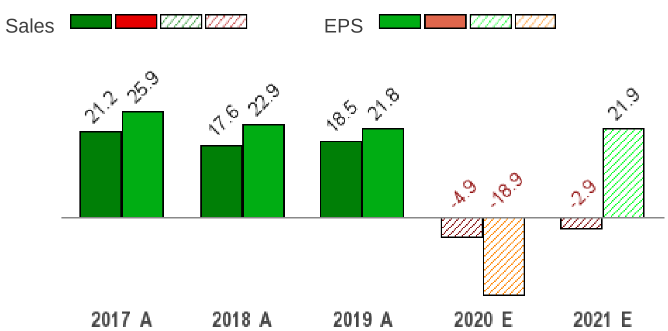
SYNNEX's Concentrix business is benefiting from the coronavirus-led work-and-learn-from-home wave which is driving demand for offsite-working and learning hardware and software. Moreover, acquisitions and partnerships are helping expand its product portfolio. Additionally, the split of its Technology Solutions and Concentrix businesses into two publicly-traded entities will add shareholder value and enhance the company's competitive position. Nonetheless, supply-chain and logistics services disruptions due to the coronavirus crisis hurt SYNNEX's quarterly performance. Moreover, additional, including an increase in the allowance for doubtful accounts and staffing costs, was an overhang. Adverse foreign-exchange volatility is another concern. Shares have underperformed the industry on a year-to-date basis.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$153.07 - $52.06**
20 Day Average Volume (sh)	**247,531**
Market Cap	**$6.3 B**
YTD Price Change	**-4.3%**
Beta	**1.50**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Business - Software Services**
Zacks Industry Rank	**Top 27% (69 out of 252)**
Last EPS Surprise	**258.8%**
Last Sales Surprise	**8.3%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**09/22/2020**
Earnings ESP	**0.0%**
P/E TTM	**9.7**
P/E F1	**11.5**
PEG F1	**1.1**
P/S TTM	**0.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	4,945 E	5,048 E	5,229 E	5,783 E	21,938 E
2020	5,264 A	5,533 A	5,720 E	6,068 E	22,585 E
2019	5,249 A	5,723 A	6,204 A	6,581 A	23,757 A

EPS Estimates

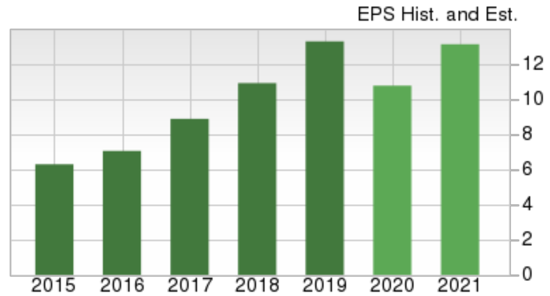
	Q1	Q2	Q3	Q4	Annual*
2021	$2.75 E	$2.74 E	$3.18 E	$4.04 E	$13.10 E
2020	$3.26 A	$1.83 A	$2.31 E	$3.30 E	$10.75 E
2019	$2.84 A	$2.86 A	$3.30 A	$4.26 A	$13.26 A

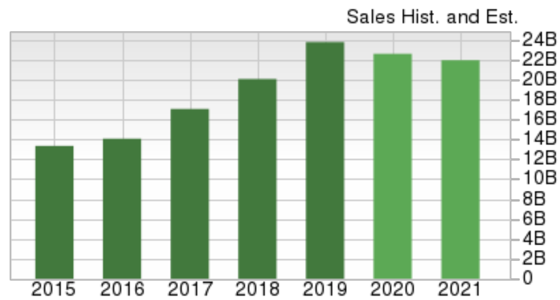
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/20/2020. The reports text is as of 08/21/2020.

Overview

Fremont, CA-based SYNNEX, founded in 1980, is a leading business process services company.





The company provides a comprehensive range of distribution, logistics and integration services for the technology industry and outsourced services focused on customer engagement to a broad range of enterprises.

SYNNEX reported revenues of $23.76 billion in fiscal 2019.

The company has two reportable business segments: Technology Solutions and Concentrix.

The Technology Solutions segment distributes peripherals, IT systems including data center server and storage solutions, system components, software, networking, communications, security equipment, consumer electronics or CE and complementary products.

Systems design and integration solutions are also part of Technology Solutions segment. Technology Solutions revenues were $19.1 billion. It generated 80% of revenues in fiscal 2019.

The Concentrix segment offers a portfolio of technology-enabled strategic solutions and end-to-end business services focused on customer engagement, process optimization, technology innovation, front and back-office automation and business transformation to clients in 10 identified industry verticals. Revenues from the Concentrix segment were $4.7 billion, representing 20% of the total revenue base in fiscal 2019.

The company has significant operations in North and South America, Asia-Pacific and Europe. It recognized 28% of revenues from international operations.

As of November 30, 2018, SYNNEX had approximately 229,000 full-time employees.

SYNNEX faces competition in Technology Solutions segment from Arrow Electronics, Ingram Micro, ScanSource and Tech Data.

In Concentrix segment, competitors include Accenture, Conduent, Genpact, Globant and SITEL Worldwide Corporation among others.

Reasons To Buy:

SYNNEX is gaining traction from new business wins and its inorganic growth strategy.

- SYNNEX is riding high on strong growth in product areas, such as PCs, networking and cloud plus software-related solutions, which is contributing to revenue acceleration of Technology Solutions business. From a customer standpoint, strength in SMB vertical is a tailwind.

- SYNNEX is benefiting from the coronavirus-led work-and-learn-from-home wave which is driving demand for offsite-working and learning hardware and software. In a May 12 business update, SYNNEX stated that enhanced capabilities of its Concentrix division are facilitating its clients to transition to remote-working facilities is boosting the company's revenues and earnings.

- The company is looking to boost organic growth with strategic acquisitions that complements and expands its existing capabilities. The integration of Convergys in 2018 is helping it add scale, diversify its revenue base and widen its service delivery footprint. Convergys contributed nearly $439.4 million in revenues during fiscal 2018. The takeover of Westcon-Comstor Americas business in 2017 strengthened the company's presence in the security, UCC and networking markets, solidified position in North America by adding complementary OEM vendors and reseller customers and broadened base into Latin America as well.

- SYNNEX boasts a sturdy cash-flow generating ability. The company had generated cash flow of $349.3 million during fiscal 2019 compared with $250 million in fiscal 2018. In the first quarter of fiscal 2020, the company had generated $58 million of cash flow from operational activities. Although the company has a significant amount of debt on its balance sheet, the robust cash flow enabled it to service its debt efficiently. Furthermore, to preserve cash amid the current coronavirus-led business uncertainties, SYNNEX has suspended quarterly cash dividend from the second quarter of fiscal 2020.

Reasons To Sell:

Adverse impact from business disruptions due to coronavirus-led global lockdown, high-debt level and rising competition are major concerns for SYNNEX.

- SYNNEX's near-term business prospect looks gloomy as coronavirus continues to disrupt global economic and business activities. Organizations are pushing back their big and expensive technology purchases to preserve cash in an effort to stay afloat during this turbulent macroeconomic environment. Due to the current unpredictable market situation, the company hasn't provided guidance for the second quarter, which makes us slightly cautious about its near-term growth prospect.

- SYNNEX's acquisition strategy exposes it to integration risks. Notably, buyouts negatively impacted the company's balance sheet by denting its high level of goodwill and net intangible assets, which comprised 26% of the total assets as of May 31, 2020. The takeover moves also affected SYNNEX's capital position as high indebtedness raises its investment risk in the to-be-acquired company. At the end of the second-quarter fiscal 2020, net debt amounted to $1.54 billion. Such high-debt levels worsen leverage risks and interest costs, which might erode the company's profits.

- SYNNEX conducts substantial operations in China. The economic, political and social events in the country poses potential risk to the company as it can hamper its business and operating results. In this regard, the US-China trade war is a major woe.

- SYNNEX generates significant amount of revenues from international operations and expects this trend to continue. Consequently, adverse fluctuations in foreign currency exchange rates are likely to remain a major overhang on revenue growth.

- SYNNEX also has a leveraged balance sheet. The company's total debt (long-term including current maturities) has increased significantly in the last five years to $2.65 billion as of May 31, 2020 from $625 million as of May 31, 2016. Also, SYNNEX's current total debt to total capital ratio of 0.42 is significantly higher than the industry average of 0.15. Moreover, the times interest earned ratio of 5.2 is way lower than the industry average of 19.4. Additionally, the total debt level of $2.65 billion as of May 31, 2020 is more than cash and cash equivalents of $1.11 billion. This makes us increasingly cautious about the company's liquidity position and debt serving capabilities.

Last Earnings Report

SYNNEX Q2 Earnings & Revenues Beat Estimates

Quarter Ending	05/2020
Report Date	**Jun 25, 2020**
Sales Surprise	**8.27%**
EPS Surprise	**258.82%**
Quarterly EPS	**1.83**
Annual EPS (TTM)	**12.65**

SYNNEX delivered non-GAAP earnings of $1.83 per share for second-quarter fiscal 2020, which fell 36% from the year-ago quarter. However, the figure beat the Zacks Consensus Estimate of 51 cents.

Revenues dropped to $5.53 billion from $5.72 billion in the year-ago quarter. The revenues beat the Zacks Consensus Estimate of $5.11 billion.

The lower-than-expected top-line performance was mainly due to the coronavirus outbreak, which disrupted the company's operations.

Further, the company is moving toward its previous announcement of splitting SYNNEX Technology Solutions and Concentrix into two publicly-traded companies. Management believes that this strategic action would help add shareholder value and enhance the company's competitive edge. The transaction is expected to be completed in the second half of 2020.

Quarterly Details

SYNNEX's Technology Solutions revenues decreased 2% year over year to $4.5 billion.

Concentrix business revenues decreased 8% year over year to $1.1 billion. Foreign exchange headwinds impacted revenues of this segment by 2%.

In the reported quarter, non-GAAP operating income was down 33.8% to $161.5 million. Also, non-GAAP operating margin contracted 134 basis points (bps) on a year-over-year basis to 2.92%.

Non-GAAP operating income for Technology Solutions was $98 million, down 21% from the year-ago quarter. COVID-19-related additional expenses of approximately $37 million for the Technology Solutions segment, including an increase in the allowance for doubtful accounts and staffing costs, was an overhang.

For the Concentrix segment, non-GAAP operating income was $63 million, falling 47% year over year, primarily due to the COVID-19-related additional expenses of $52 million.

Balance Sheet & Cash Flow

SYNNEX ended the fiscal first quarter with cash and cash equivalents of nearly $1.11 billion compared with $296.2 million at the end of first-quarter fiscal 2020.

The company's board of directors has approved a share repurchase program of up to $400 million of its common stock for up to three years. This will come into effect from Jul 1, replacing the previous three-year program.

Guidance

For the third quarter of fiscal 2020, revenues are expected between $5.5 billion and $5.9 billion.

Non-GAAP net income is expected to be in the range of $103.9-$129.9 million. Moreover, the company also expects non-GAAP earnings between $2 and $2.50 per share.

Recent News

On Jul 7, Synnex announced that it is enhancing the SYNNEX Westcon Secure Networking Program to by adding more offerings to its portfolio of tools and resources.

On Jun 5, SYNNEX revealed that Acunetix, the pioneer in automated web application security software, has selected it as a distribution partner in the United States.

On Jun 5, SYNNEX announced an agreement with Lubrizol to distribute its innovative powder thermoplastic polyurethane (TPU) suitable for 3D printing for end-use applications that require skin contact.

On Jun 3, SYNNEX announced a strategic agreement with CI Security. Per the agreement, SYNNEX would be able to expand its security services line card by adding CI Security's Critical Insight MDR solution, as well as a menu of professional services such as penetration testing and risk assessments.

On May 28, SYNNEX revealed that it has successful renewed its U.S. accounts receivable securitization facility worth $650 million.

On May 12, SYNNEX provided second-quarter fiscal 2020 non-GAAP earnings guidance range of $0.00-$1.00 per share.

On Mar 13, SYNNEX announced the launch of SYNNEX COLLABSolv. The product is designed to provide increased and specialized support to SYNNEX customers working to address modern collaboration needs and the rise of the anytime, anywhere work culture in the U.S. and Canada.

On Feb 5, SYNNEX announced the launch of SYNNEX Stellr in the Canadian IT channel.

Valuation

Shares of SYNNEX have declined 4.3% in the year so far, but have gained 42.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have increased 18.9% and 23%, respectively, in the year-to-date (YTD) period. Over the past year, the Zacks sub-industry and the sector have gained 26.1% and 37.7%, respectively.

The S&P 500 Index has gained 5.1% YTD while has gained 16.1% in the past year.

The stock is currently trading at 9.9X forward 12-month earnings, which compares to 25.96X for the Zacks sub-industry, 26.71X for the Zacks sector and 22.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.84X and as low as 4.67X with a 5-year median of 11.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $129 price target reflects 10.4X forward 12-month earnings.

The table below shows summary valuation data for SNX

Valuation Multiples - SNX

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.90	25.96	26.71	22.83
	5-Year High	17.84	27.14	26.71	22.83
	5-Year Low	4.67	7.29	16.72	15.25
	5-Year Median	11.60	21.69	19.61	17.58
P/S F12M	Current	0.29	10.99	4.15	3.71
	5-Year High	0.34	11.32	4.15	3.71
	5-Year Low	0.15	6.88	2.32	2.53
	5-Year Median	0.26	8.71	3.14	3.05
EV/EBITDA TTM	Current	6.18	52.02	13.61	12.81
	5-Year High	10.56	53.50	13.61	12.85
	5-Year Low	4.53	32.95	7.59	8.25
	5-Year Median	7.79	42.53	10.93	10.91

As of 08/20/2020

Industry Analysis **Zacks Industry Rank:** Top 27% (69 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
KLA Corporation **(KLAC)**	Outperform	2
Accenture PLC **(ACN)**	Neutral	3
Arrow Electronics, Inc. **(ARW)**	Neutral	2
Avnet, Inc. **(AVT)**	Neutral	3
Cisco Systems, Inc. **(CSCO)**	Neutral	3
Cognizant Technology Solutions Corporation **(CTSH)**	Neutral	3
Genpact Limited **(G)**	Neutral	3
International Business Machines Corporation **(IBM)**	Neutral	4

Industry Comparison Industry: Business - Software Services

Industry Peers

	SNX	X Industry	S&P 500	ACN	ARW	AVT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	A	-	-	C	A	A
Market Cap	6.35 B	6.35 B	23.46 B	150.67 B	5.81 B	2.65 B
# of Analysts	4	4	14	11	4	4
Dividend Yield	0.00%	0.00%	1.65%	1.35%	0.00%	3.13%
Value Score	A	-	-	C	A	A
Cash/Price	0.17	0.14	0.07	0.04	0.03	0.17
EV/EBITDA	6.48	10.44	13.34	20.51	23.86	10.09
PEG Ratio	1.11	3.13	3.00	3.10	1.64	1.00
Price/Book (P/B)	1.65	4.65	3.12	9.14	1.22	0.71
Price/Cash Flow (P/CF)	5.97	22.52	12.60	26.55	7.03	4.90
P/E (F1)	11.52	33.54	21.61	31.01	11.56	17.95
Price/Sales (P/S)	0.27	2.92	2.44	3.38	0.21	0.15
Earnings Yield	8.71%	2.99%	4.43%	3.22%	8.65%	5.59%
Debt/Equity	0.69	0.27	0.76	0.17	0.44	0.45
Cash Flow ($/share)	20.63	1.73	6.93	8.91	10.65	5.48
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	20.77%	13.57%	10.44%	11.11%	5.11%	-10.31%
Proj. EPS Growth (F1/F0)	-18.97%	-2.74%	-5.53%	3.67%	-14.27%	-2.92%
Curr. Cash Flow Growth	54.78%	11.37%	5.20%	8.06%	-14.43%	-30.02%
Hist. Cash Flow Growth (3-5 yrs)	25.83%	14.18%	8.52%	9.75%	1.86%	-5.16%
Current Ratio	1.52	1.55	1.33	1.37	1.45	2.78
Debt/Capital	40.83%	22.77%	44.50%	14.36%	30.64%	31.06%
Net Margin	2.03%	4.53%	10.13%	11.11%	1.41%	-0.18%
Return on Equity	17.29%	9.86%	14.67%	31.51%	11.39%	4.05%
Sales/Assets	1.99	0.87	0.51	1.35	1.74	2.10
Proj. Sales Growth (F1/F0)	-4.94%	0.00%	-1.54%	2.52%	-7.31%	-7.24%
Momentum Score	C	-	-	F	B	D
Daily Price Chg	-1.76%	0.18%	-0.59%	0.84%	-1.72%	-2.37%
1 Week Price Chg	-1.81%	-1.73%	1.09%	-0.57%	2.18%	-2.91%
4 Week Price Chg	-0.77%	1.02%	1.91%	6.44%	8.73%	1.17%
12 Week Price Chg	13.85%	14.47%	6.82%	17.33%	10.29%	-2.72%
52 Week Price Chg	42.79%	14.63%	1.47%	20.51%	8.61%	-36.44%
20 Day Average Volume	247,531	355,362	1,873,576	1,439,550	493,786	793,346
(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%	3.03%	1.79%	0.00%	9.66%	-7.86%
(F1) EPS Est 12 week change	79.83%	7.94%	3.35%	0.74%	8.51%	-7.86%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.42%	0.00%	5.94%	-46.82%

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	A
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.

Disclosures

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