

Sensata Technologies (ST)

\$37.93 (As of 06/16/20)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/28/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: A

Summary

Sensata operates in a highly competitive environment and is exposed to foreign exchange woes that could affect its cash flow position in the near future. The company's business is susceptible to seasonality factors that might dent its profitability. It remains under constant pressure to develop innovative products and address the dynamic customer requirements in the global arena. It faces intense competition from low-cost suppliers based in China. Severe market volatility due to COVID-19 pandemic has hampered business operations. Consequently, it has withdrawn the financial guidance for 2020. Price and availability of raw materials are subject to trade barriers and supply chain disruptions. However, accretive subscriber base, cost-effective operations and pricing flexibility are the key drivers for Sensata's long-term growth strategy.

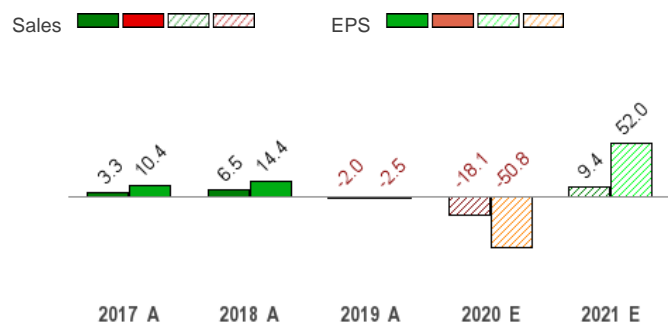
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$54.72 - \$18.25
20 Day Average Volume (sh)	1,442,335
Market Cap	\$6.0 B
YTD Price Change	-29.6%
Beta	1.63
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Instruments - Control
Zacks Industry Rank	Bottom 7% (236 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.2%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/04/2020
Earnings ESP	17.2%

P/E TTM	11.7
P/E F1	21.7
PEG F1	2.0
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	787 E	760 E	793 E	810 E	3,090 E
2020	774 A	588 E	697 E	757 E	2,825 E
2019	871 A	884 A	850 A	847 A	3,451 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.69 E	\$0.68 E	\$0.71 E	\$0.64 E	\$2.66 E
2020	\$0.53 A	\$0.15 E	\$0.44 E	\$0.61 E	\$1.75 E
2019	\$0.85 A	\$0.93 A	\$0.90 A	\$0.89 A	\$3.56 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 06/16/2020. The reports text is as of 06/17/2020.

Overview

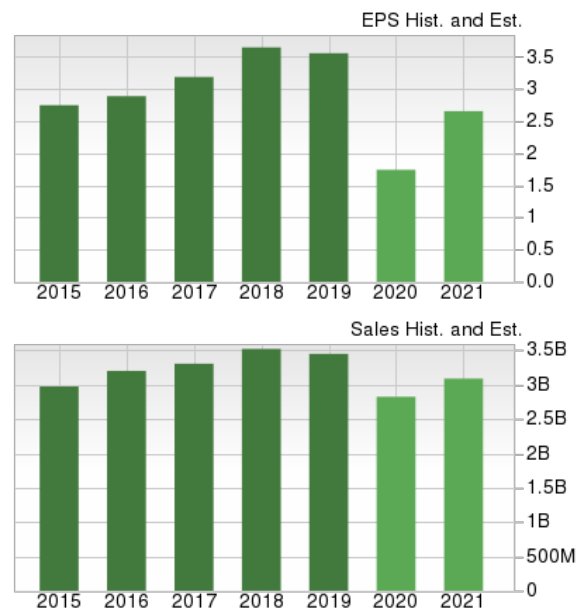
Headquartered in Attleboro, Massachusetts, Sensata Technologies is a global industrial technology company that develops, manufactures and sells innovative sensor-based solutions. Markedly, it is considered as one of the leading suppliers of electrical protection and power management solutions. With an industry rich experience of more than 100 years, the company has its business centers in 11 countries, including Japan, China, Korea and Malaysia, and operates under 14 other brand names apart from Sensata.

Known as the pioneer in mission critical solutions, Sensata has a diversified portfolio of personalized and unique sensor-rich applications from automotive braking systems to aircraft flight controls that are utilized ubiquitously. These sensors are specifically designed to address complex engineering and operating performance requirements that help customers solve significant challenges in industrial, heavy vehicle and off-road as well as aerospace industries. With more than 1.1 billion of Sensata devices shipped annually across the globe, the company focuses on producing equipment that are cleaner, safer, connected and efficient.

Notably, Sensata classifies its reporting segments into Performance Sensing (73.4% of total revenues in first-quarter fiscal 2020) and Sensing Solutions (26.6%).

Performance Sensing: This segment is primarily involved in the production of pressure sensors and are used in mission-critical systems and subsystems of automobiles as well as off-road equipment. Considered as one of the largest manufacturer of sensors and sensor-based solutions in key markets, it caters to a wide array of customers ranging from construction and agriculture OEMs to various aftermarket distributors.

Sensing Solutions: This segment is considered to be a major player in industrial sensing, electrical and power protection industries globally. It is engaged in the production and development of a broad portfolio of control and application-specific sensor devices that are used in factory automation and water management markets. It caters to a wide range of customers ranging from Tier 1 aerospace and compressor suppliers to commercial and industrial manufacturers in medical, telecom, semiconductor and material handling industries.



Reasons To Sell:

- ▼ Sensata offers its services in a highly-competitive environment and utilizes a broad range of raw materials for the manufacture of products in both Performance Sensing and Sensing Solutions segment. In the last reported quarter, Performance Sensing revenues declined 11.1% to \$568.7 million from \$640 million in the year-ago quarter due to end-market production decline and foreign exchange setbacks. Also, Sensing Solutions revenues declined 10.8% to \$205.6 million from \$230.5 million in the year-ago quarter mainly due to the negative impact of COVID-19 pandemic. The price and availability of the raw materials are subject to significant volatility, which includes trade barriers, tariffs, foreign exchange fluctuations and interruptions in production facilities by suppliers. This, in turn, raises the price of such products, which makes it difficult for the company to acquire new customers and retain the existing relationships. Notably, cost of goods sold witnessed a CAGR of 10.3% from 2013 to 2019. Hence, a considerable change in price can apparently increase its operating costs and affect its scale of operations.
- ▼ Sensata's business is susceptible to seasonality factors as well as numerous global and local risks that could potentially lower revenues and affect profitability. The markets in which Sensata operates are primarily impacted by dynamic technological advancements. As a result, the company is under constant pressure to continually design, develop, manufacture and sell innovative products as well as modify existing products to address the rapidly changing customer requirements in the global arena. Also, Sensata constantly evaluates the strategic fit of specific businesses that may result in numerous acquisitions and divestitures. However, these restructuring options might affect the operational activities and thereby threaten its financial condition. Notably, Sensata operates in markets that are highly susceptible to competitive pressures and are under constant threat by low-cost suppliers, primarily based in China. Consequently, any change in prices might result in reduced demand of Sensata's products globally. Owing to its international exposure, the company is exposed to foreign exchange fluctuations that could negatively impact its cash flow position. Further, its high debt-load could also restrict the company from making further strategic acquisitions and limit its ability to repurchase shares, thereby affecting its financial condition in the days to come.
- ▼ Due to global uncertainty owing to coronavirus pandemic, Sensata has withdrawn its 2020 guidance. The company expects second-quarter revenues to decrease significantly on a sequential basis. The Zacks Consensus Estimate for the company's current-year earnings has been revised 59.2% downward in the past year to \$1.75, while that for the next year declined 39.5% over the same time frame, thereby reinforcing negative investor sentiments.
- ▼ As of Mar 31, 2020, the company had \$803 million in cash and equivalents with \$3,220.4 million of long-term debt compared with the respective tallies of \$774 million and \$3,249 million at the end of the prior quarter. The management has temporarily suspended the share repurchase program in a bid to improve Sensata's financial flexibility. Also, to continue its business operations amid COVID-19 pandemic, the company leveraged revolving credit facility to enhance its liquidity position. However, the stock looks more leveraged than the sub-industry. Sensata currently has a debt-to-capital ratio of 0.56 compared with 0.51 of the sub-industry. This shows that the company has a debt-laden balance sheet and is unlikely to clear its debt in the near future due to disruptions caused by COVID-19 pandemic. The times interest earned has decreased steadily over the past few quarters to 2.8 at present relative to 3.7 for the sub-industry. This shows that the company is less likely to clear its debt.

Intense competitive pressures and volatile factors such as trade barriers remain major headwinds for Sensata's top-line growth. Also, higher operating costs and debt level dent its profitability.

Risks

- Being the leading provider of mission critical solutions, Sensata benefits from cost-effective operations. The company offers a streamlined set of products, which helps in eliminating redundant costs and gives greater pricing flexibility. It invests in cutting-edge technology that enables the hybrid and electric vehicles to be more efficient, cost effective, robust and safe. Markedly, Sensata's sensing solutions business has a strong product portfolio and greater scale to capitalize on attractive opportunities in the \$24.1-billion global automotive sensor market. Moreover, the company believes that its evolving portfolio and accretive customer base serve as the cornerstone for its long-term growth across a diverse set of markets.
 - Catering to a wide range of customers from Tier 1 compressor suppliers to industrial manufacturers, Sensata shares a long-standing relationship with a geographically diverse base of multinational companies and leading original equipment manufacturers. It develops mission-critical sensor-rich solutions to address both current and evolving technological needs. The company primarily relies on third-party distributors to sell its products across the globe. Sensata's strong relationships combined with robust innovation capabilities serve as its key growth drivers. With these capabilities, the company is focused on establishing and optimizing a highly-efficient global manufacturing as well as supply chain network that will aid in generating positive cash flow with an accretive customer base.
 - Sensata has successfully implemented an effective capital deployment strategy that has boosted shareholders' value and provided greater operating flexibility. With diligent execution of operations, the company has been considerably outgrowing its end markets. Moreover, its strong balance sheet position enables Sensata to effectively capture M&A cost synergies with accelerated growth in industrial, aerospace and Heavy Vehicle & Off Road (HVOR) industries. Markedly, Sensata has completed 11 acquisitions till date, which have enabled it to add new capabilities in wireless sensing and software, while generating stronger returns for shareholders. All these factors bode well for its long-term growth.
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Last Earnings Report

Sensata Q1 Earnings Miss Estimates, 2020 Guidance Withdrawn

Sensata reported tepid first-quarter 2020 financial results, wherein the top line surpassed the Zacks Consensus Estimate but the bottom line missed the same. Also, lower segmental revenues due to COVID-19 pandemic, productivity headwinds and foreign exchange woes negatively impacted Sensata's performance.

Net Income

On an adjusted basis, quarterly net income was \$83.2 million or 53 cents per share compared with \$139.3 million or 85 cents per share in the year-ago quarter. The year-over-year decline was primarily attributable to lower operating income. The bottom line missed the consensus estimate by 6 cents. On a GAAP basis, net income in the March quarter came in at \$8.4 million or 5 cents per share compared with \$85.1 million or 52 cents per share in the prior-year quarter. The drastic year-over-year decline was the result of lower operating income.

Revenues

Quarterly service revenues were \$774.3 million compared with \$870.5 million in the year-ago quarter. The 11.1% year-over-year decline was mainly due to foreign exchange fluctuations. The top line surpassed the consensus estimate of \$772 million. Further, organic revenues declined 10.4% primarily due to the adverse impact of COVID-19 pandemic.

Quarterly Segment Results

Performance Sensing revenues declined 11.1% to \$568.7 million from \$640 million in the year-ago quarter. Accounting 73.4% of total revenues, the decline was primarily attributable to end-market production decline and foreign exchange setbacks. Its operating income declined 14.2% to \$129.1 million from \$150.5 million due to lower levels of production in manufacturing facilities, higher R&D expenses and lower revenues, partially offset by savings repositioning initiatives last year.

Sensing Solutions revenues declined 10.8% to \$205.6 million from \$230.5 million in the year-ago quarter. Accounting 26.6% of total revenues, the year-over-year decline was mainly due to the negative impact of COVID-19 pandemic. Also, industrial and aerospace businesses declined 12.3% and 2% organically coupled with OEM production delays in a weaker aftermarket. Further, the segment was negatively impacted by foreign exchange headwinds. Its operating income declined 25.4% to \$55.9 million from \$75 million due to unfavorable product mix, lower revenues and productivity woes.

Other Details

Total operating expenses were \$715.7 million compared with \$727.9 million in the prior-year quarter, primarily due to lower cost of revenue. Adjusted operating income was \$136.7 million, down 27.5% from \$188.6 million. The year-over-year decline was due to higher incentive compensation costs, higher design and development efforts to reinforce Megatrend growth initiatives, increased costs to safeguard employees and lower revenues due to end-market downfall caused by COVID-19 pandemic. Adjusted gross profit in the quarter declined 17.2% to \$243.9 million due to lower revenues. Adjusted EBITDA totaled \$164.3 million compared with \$218.5 million a year ago.

Cash Flow & Liquidity

In first three months of 2020, Sensata generated \$98.5 million of net cash from operating activities compared with \$112.7 million in the prior year period. Free cash flow came in at \$69 million compared with \$71 million in the year-ago quarter. As of Mar 31, 2020, the company had \$803 million in cash and equivalents with \$3,220.4 million of net long-term debt. As part of its share repurchase program, Sensata purchased nearly 0.9 million shares for a total consideration of \$35.2 million. However, on Apr 2, 2020, the management took the decision of temporarily suspending the share repurchase program in a bid to improve Sensata's financial flexibility.

2020 Guidance Withdrawn

In view of the macroeconomic uncertainties pertaining to the COVID-19 pandemic, Sensata has withdrawn the financial guidance for full year 2020. Moreover, based on the current market scenario, revenues for second-quarter of 2020 are likely to witness a major downfall. Economic indicators predict that auto OEMs in North America and Europe will shut down their production activities for an average of four to five weeks. However, the company has undertaken several cost-saving initiatives to enhance its financial flexibility amid the coronavirus pandemic. Notably, Sensata has been efficiently managing its working capital for daily operations and leveraged revolving credit facility to enhance its liquidity position. It has also minimized its capital expenditures and discretionary spend to keep a track on its operating expenses. With these positive undertakings, Sensata remains committed to align its costs with normalized demand levels in order to serve the requirements of its customers amid these trying times.

Quarter Ending **03/2020**

Report Date	Apr 29, 2020
Sales Surprise	0.29%
EPS Surprise	-10.17%
Quarterly EPS	0.53
Annual EPS (TTM)	3.25

Recent News

On Apr 3, 2020, Sensata announced that in response to the COVID-19 pandemic, the company has withdrawn its guidance, stated previously, for first-quarter and full year 2020 earnings. The industrial technology company, further communicated that it will not be able to quantify its business impact amid this hour of crisis. However, apart from ensuring the safety of the employees, Sensata intends to undertake necessary steps to ramp down production volumes and reduce operating costs to enhance its financial flexibility.

On Mar 20, 2020, Sensata announced that it has appointed two new board members — Steven Sonnenberg and Lorraine Bolsinger to the Board of Directors. With years of expertise on M&A and finance across various markets, Steven and Lorraine's inclusion, effective from Mar 23, has enabled the company to enhance shareholder value with the help of its long-term strategy.

On Mar 9, 2020, Sensata announced that it had rung the opening bell at the New York Stock Exchange to commemorate the company's 10-year anniversary of being publicly traded on the world's largest stock exchange. Acknowledged as a significant milestone in Sensata's history, the auspicious occasion was attended by the company's CEO — Jeffrey Cote — along with select teams, recognized for their leadership excellence across various business units.

Valuation

Sensata's shares are down 18.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 19.4%, while stocks in the Zacks Computer and Technology sector are up 20.7% in the same time frame.

The S&P 500 index is up 5.1% in the past year.

The stock is currently trading at 2.35X trailing 12-month book value, which compares to 2.66X for the Zacks sub-industry, 5.55X for the Zacks sector and 4.19X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 6.87X and as low as 1.43X, with a 5-year median of 3.57X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$32 price target reflects 13.62X trailing 12-month book value.

The table below shows summary valuation data for ST

Valuation Multiples - ST					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	2.35	2.66	5.55	4.19
	5-Year High	6.87	4.84	5.72	4.56
	5-Year Low	1.43	1.9	3.16	2.83
	5-Year Median	3.57	3.47	4.34	3.66
P/E F12M	Current	17.52	20.93	24.85	22.09
	5-Year High	20.07	20.93	24.85	22.11
	5-Year Low	6.48	12.28	16.72	15.23
	5-Year Median	12.99	15.72	19.28	17.49
P/S F12M	Current	2.02	2.11	3.78	3.44
	5-Year High	2.96	2.42	3.78	3.44
	5-Year Low	1.05	1.53	2.32	2.53
	5-Year Median	2.24	2.02	3.11	3.02

As of 06/16/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (236 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Badger Meter, Inc. (BMI)	Neutral	3
Roper Technologies, Inc. (ROP)	Neutral	3
Thermon Group Holdings, Inc. (THR)	Neutral	2
Woodward, Inc. (WWD)	Neutral	3
Allied Motion Technologies, Inc. (AMOT)	Underperform	5
Transcat, Inc. (TRNS)	Underperform	5
Watts Water Technologies, Inc. (WTS)	Underperform	3
Xylem Inc. (XYL)	Underperform	3

Industry Comparison Industry: Instruments - Control				Industry Peers		
	ST	X Industry	S&P 500	BMI	WTS	WWD
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	C	-	-	B	C	A
Market Cap	5.96 B	346.94 M	22.00 B	1.86 B	2.76 B	4.92 B
# of Analysts	8	2	14	2	8	5
Dividend Yield	0.00%	0.00%	1.92%	1.06%	1.12%	0.41%
Value Score	C	-	-	D	D	A
Cash/Price	0.14	0.09	0.06	0.04	0.09	0.02
EV/EBITDA	10.31	11.36	12.79	20.85	11.49	11.22
PEG Ratio	1.96	3.57	3.00	NA	3.57	1.62
Price/Book (P/B)	2.35	2.47	3.04	5.55	2.86	2.58
Price/Cash Flow (P/CF)	7.15	14.18	11.81	26.13	14.93	10.71
P/E (F1)	21.64	29.58	21.70	40.38	28.55	22.13
Price/Sales (P/S)	1.78	1.58	2.34	4.35	1.73	1.68
Earnings Yield	4.61%	3.38%	4.33%	2.48%	3.51%	4.52%
Debt/Equity	1.28	0.38	0.77	0.00	0.31	0.46
Cash Flow (\$/share)	5.30	2.22	7.01	2.45	5.48	7.38
Growth Score	D	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	7.81%	12.72%	10.87%	13.64%	13.92%	17.00%
Proj. EPS Growth (F1/F0)	-50.98%	-29.17%	-10.58%	-1.55%	-29.55%	-26.80%
Curr. Cash Flow Growth	-3.40%	4.02%	5.46%	3.00%	5.03%	26.08%
Hist. Cash Flow Growth (3-5 yrs)	5.87%	6.08%	8.55%	8.54%	6.29%	13.42%
Current Ratio	3.17	3.34	1.29	3.50	2.09	2.25
Debt/Capital	56.14%	27.39%	45.06%	0.00%	23.48%	31.30%
Net Margin	6.14%	4.58%	10.53%	11.26%	8.31%	9.48%
Return on Equity	20.13%	13.62%	16.06%	14.76%	14.59%	18.93%
Sales/Assets	0.49	0.83	0.55	1.02	0.93	0.73
Proj. Sales Growth (F1/F0)	-18.12%	-5.82%	-2.59%	0.64%	-11.66%	-13.36%
Momentum Score	A	-	-	D	A	D
Daily Price Chg	0.93%	1.25%	1.81%	1.39%	1.39%	0.16%
1 Week Price Chg	-11.06%	-7.76%	-7.25%	-6.97%	-12.02%	-9.65%
4 Week Price Chg	5.45%	5.56%	8.30%	8.49%	5.68%	31.77%
12 Week Price Chg	38.23%	6.33%	28.43%	27.41%	3.95%	36.81%
52 Week Price Chg	-18.78%	-4.05%	-3.34%	11.42%	-8.09%	-29.49%
20 Day Average Volume	1,442,335	84,217	2,618,631	127,517	153,180	610,632
(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%	0.00%	0.00%	0.97%	-2.76%
(F1) EPS Est 12 week change	-47.37%	-33.30%	-14.98%	-9.77%	-33.30%	-31.05%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	6.39%	-13.79%

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	A
VGM Score	C

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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