

## Superior Industries (SUP)

**\$3.20** (As of 02/05/20)

Price Target (6-12 Months): **\$3.50**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

### Summary

Highly-diversified customer base, significant geographic footprint and extensive array of value-added products positions Superior Industries for revenue growth. The firm's acquisition of UNIWHEELS AG in 2017 has positioned it as a leading global partner to automotive OEMs located in both North America and Europe. Superior Industries' cutting-edge R&D capabilities is aiding the firm to broaden the portfolio for premium wheel finishes. Its efforts to reduce costs and enhance its global competitive position bode well. However, the firm has revised down its full-year guidance for 2019, which has dampened investors' confidence. Elevated leverage is also a concern. Superior Industries' operation in Europe makes it vulnerable to foreign currency fluctuation. Hence, investors are recommended to wait for a better entry point.

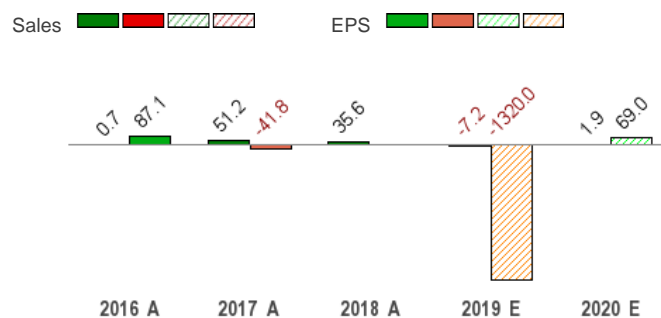
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$7.30 - \$2.26</b>
20 Day Average Volume (sh)	<b>445,881</b>
Market Cap	<b>\$80.4 M</b>
YTD Price Change	<b>-13.3%</b>
Beta	<b>2.03</b>
Dividend / Div Yld	<b>\$0.18 / 5.6%</b>
Industry	<a href="#">Automotive - Original Equipment</a>
Zacks Industry Rank	<b>Bottom 36% (163 out of 255)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>57.9%</b>
Last Sales Surprise	<b>4.8%</b>
EPS F1 Est- 4 week change	<b>0.0%</b>
Expected Report Date	<b>03/05/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>NA</b>
P/E F1	<b>NA</b>
PEG F1	<b>NA</b>
P/S TTM	<b>0.1</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	359 E	359 E	363 E	340 E	1,420 E
2019	358 A	353 A	352 A	332 E	1,394 E
2018	386 A	389 A	348 A	379 A	1,502 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.14 E	-\$0.05 E	-\$0.06 E	-\$0.06 E	-\$0.22 E
2019	-\$0.22 A	-\$0.06 A	-\$0.08 A	-\$0.35 E	-\$0.71 E
2018	\$0.15 A	\$0.25 A	-\$0.29 A	-\$0.16 A	-\$0.05 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 02/05/2020. The reports text is as of 02/06/2020.

## Overview

Founded in 1957, Superior Industries International Inc. is one of the world's largest designers and manufacturers of aluminum road wheels for the automotive industry. In first-quarter 2015, the company shifted its headquarters from Van Nuys, CA, to Southfield, MI. It has wheel manufacturing facilities in the United States and Mexico.

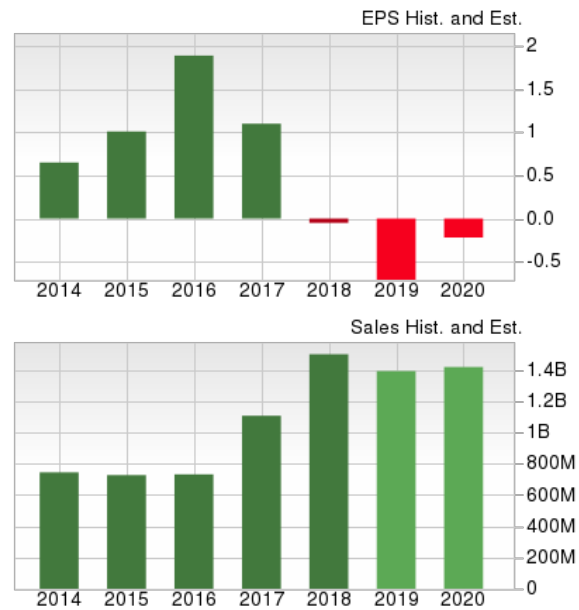
The company employs around 8,000 employees, who are engaged in nine manufacturing facilities in North America and Europe. It has a combined annual manufacturing capacity of around 21 million wheels.

Superior Industries' aluminum road wheels are sold to original equipment manufacturers (OEMs). In fact, the OEM aluminum wheels account for about 93% of its sales.

Aluminum wheels are primarily sold for vehicle models manufactured by BMW-Mini, Daimler AG Company (Mercedes-Benz, AMG and Smart), Fiat Chrysler, Ford, General Motors, Honda, Jaguar-Land Rover, Mazda, Nissan, Renault, Peugeot, PSA, Subaru, Suzuki, Toyota, VW Group (Volkswagen, Audi, Skoda, Porsche and Bentley), and Volvo. The company also sells aluminum wheels to the Europe aftermarket under the brands ATS, RIAL, ALUTEC and ANZIO.

Its principal markets are North America and Europe. Also, the company has a global presence and diversified customer base, comprising North America, Europe and Asia OEMs. It also designs a variety of products for the automotive aftermarket, including custom road wheels and accessories.

On May 30, 2017, Superior Industries acquired 92.3% outstanding shares of Uniwheels for around \$703 million. Subsequently, in August, Superior Industries again purchased shares worth \$10.5 million, which brought its total ownership of Uniwheels to 93.5%.



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## Reasons To Buy:

- ▲ Boasting of highly-diversified customer base, significant geographic footprint and extensive array of value-added products, Superior Industries is primed for revenue growth. The firm's acquisition of UNIWHEELS AG in 2017 has positioned it as a leading global partner to automotive OEMs located in both North America and Europe. The company expects the buyout to result into \$15 million in annual run-rate synergies by 2020.
- ▲ In order to bolster its strategic position, Superior Industries is investing in new manufacturing processes with finer finishes which have a higher value. The company is committed to serve global customer base by introducing innovative technologies. The strategy is in sync with market trends and the requirements of the customers. Superior Industries' cutting-edge R&D capabilities is aiding the firm to broaden and expand the portfolio for premium wheel finishes.
- ▲ The firm's margin enhancement efforts in different operating markets bode well. The company's reduction of its manufacturing operation in Fayetteville is likely to reduce overhead. In Mexico, the firm is putting emphasis on improving foundry capabilities inside its plant, while also implementing targeted plans to reduce attrition. Superior Industries is likely to improve its sales mix with program launches likely on larger SUVs and higher priced vehicles. Robust demand from OEMs for complex wheel technologies and designs should boost sales over the coming years.
- ▲ Superior Industries' efforts to reduce costs and enhance its global competitive position bode well. The company plans to reduce costs through better operational and procurement practices as well as more rigorous factory maintenance to improve equipment reliability. Year-to-date, the company's selling, general and administrative expenses came in at \$46.7million, down 23% y/y.

Boasting of highly-diversified customer base, significant geographic footprint and extensive array of value-added products, Superior Industries is primed for revenue growth.

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### Reasons To Sell:

- ▼ As of Sep 30, the company's net debt was \$709 million, representing debt-to-capital ratio of 68.4%. The company's elevated leverage restricts its financial flexibility to tap onto growth opportunities. Moreover, the firm's suspension of quarterly dividend to repay its debt is also likely to dampen the investors' confidence.
- ▼ The company has revised down its full-year guidance amid the 40-day labor strike at General Motors, which is one of the major customers of Superior Industries. Superior Industries now projects unit shipments in the band of 19.5-19.7 million compared with the prior guidance of 19.5-19.9 million. Net sales is projected to lie between \$1.39 million and \$1.42 million compared with the prior range of \$1.39-\$1.44 billion.
- ▼ Superior Industries' operation in Europe makes it vulnerable to foreign currency fluctuation. A weaker euro to the U.S. dollar exchange rate is affecting the margins of the company. Also, lower aluminum prices are other headwinds.
- ▼ The firm's major OEM customers are constantly demanding concessions in the form of lower prices. If the company gives in to the demand for higher annual price reductions and is unable to offset the impact of such price reductions through technology improvements and cost reductions, its results of operations and financial condition could be adversely affected. The slowing auto sales amid economic slowdown also remains a concern.

The company's elevated leverage of 68.4% restricts its financial flexibility to tap onto growth opportunities.

## Last Earnings Report

### Superior Industries Reports Narrow Q3 Loss, Tweaks View

Superior Industries incurred adjusted third-quarter 2019 loss of 8 cents, narrower than the Zacks Consensus Estimate of 19 cents. The lower-than-expected loss can be attributed to higher-than-expected shipments and revenues in European markets. The loss per share also narrowed year over year by 175%.

The aluminum-wheel manufacturer reported revenues of \$352 million, beating the Zacks Consensus Estimate of \$336 million. However, the top line was higher than the year-ago figure of \$347.6 million.

#### Quarter Details

During the third quarter, the company's wheel unit shipments increased 2% year over year to 4.9 million. Higher shipments in Europe, were partly offset by lower volumes in North America amid a 40-day long strike between UAW and General Motors. Shipments in Europe came in at 2.3 million, increasing from 2 million recorded in the third quarter of 2018. The figure also outpaced the Zacks Consensus Estimate of 2.2 million.

Sales in the European market came in at \$164 million, higher than \$149.8 million recorded in the year-ago quarter, and topped the Zacks Consensus Estimate \$160 million. The increase was driven by improved product mix and higher volumes, partially offset by weaker euro. Sales in the North American market totaled \$188 million, down from \$197.8 million in the third quarter of 2018.

The company's operating profit declined from \$7.7 million to \$0.2 million in the quarter under review amid restructuring costs of \$13 million related to the Fayetteville facility. Selling, general and administrative expenses inched up to \$16.3 million from \$16 million in the year-ago quarter.

Net cash provided by operating activities totaled \$32.7 million in the third quarter, down from \$33.5 million in the year-ago quarter. Capital expenditure amounted to \$18.9 million.

During the quarter, Superior Industries suspended its quarterly dividend in a bid to reduce net debt and reinvest in business. As of Sep 30, the company's net debt was \$709 million, representing debt-to-capital ratio of 68.4%.

#### 2019 Outlook Revised

Superior Industries projects unit shipments in the band of 19.5-19.7 million compared with the prior guidance of 19.5-19.9 million. Net sales is projected to lie between \$1.39 million and \$1.42 million compared with the prior range of \$1.39-\$1.44 billion. Cash flow from operations is projected at \$135-\$155 million, up from the previous guided range of \$125-\$145 million. Capex forecast is kept intact at \$75 million.

Quarter Ending **09/2019**

Report Date	Nov 04, 2019
Sales Surprise	4.76%
EPS Surprise	57.89%
Quarterly EPS	-0.08
Annual EPS (TTM)	-0.52

## Valuation

Superior Industries' shares are down 13.3% in the year-to-date period and down 31.3% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Auto-Tires-Trucks sector are down 2.4% and up 8.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 7.2% and 23.1%, respectively.

The S&P 500 index is up 2.4% in the year-to-date period and 23.5% in the past year.

The stock is currently trading at 0.06X forward 12-month sales, which compares 0.63X for the Zacks sub-industry, 0.72X for the Zacks sector and 3.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.11X and as low as 0.04X, with a 5-year median of 0.54X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$3.50 price target reflects 0.06X forward 12-month sales.

The table below shows summary valuation data for SUP:

Valuation Multiples - SUP					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.24	2.59	1.8	4.5
	5-Year High	1.95	3.4	2.16	4.54
	5-Year Low	0.15	2.08	1.38	2.85
	5-Year Median	1.07	2.73	1.74	3.62
EV/EBITDA TTM	Current	4.37	6.05	8.7	11.95
	5-Year High	15.19	8.66	11.34	12.85
	5-Year Low	4.3	4.63	7.05	8.49
	5-Year Median	7.08	6.62	9.27	10.66
P/S F12M	Current	0.06	0.63	0.72	3.5
	5-Year High	1.11	0.81	0.76	3.5
	5-Year Low	0.04	0.49	0.5	2.54
	5-Year Median	0.54	0.65	0.62	3

As of 02/05/2020

## Industry Analysis Zacks Industry Rank: Bottom 36% (163 out of 255)



## Top Peers

Commercial Vehicle Group, Inc. (CVGI)	Neutral
Dana Incorporated (DAN)	Neutral
Dorman Products, Inc. (DORM)	Neutral
Titan International, Inc. (TWI)	Neutral
Wabco Holdings Inc. (WBC)	Neutral
Arconic Inc. (ARNC)	Underperform
Meritor, Inc. (MTOR)	Underperform
EnPro Industries (NPO)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	SUP Neutral	X Industry	S&P 500	ARNC Underperform	CVGI Neutral	DORM Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>B</b>	<b>A</b>	<b>D</b>
Market Cap	80.41 M	784.25 M	24.26 B	13.53 B	161.71 M	2.49 B
# of Analysts	1	3	13	2	2	4
Dividend Yield	5.63%	0.00%	1.75%	0.26%	0.00%	0.00%
<b>Value Score</b>	<b>A</b>	-	-	<b>B</b>	<b>A</b>	<b>C</b>
Cash/Price	0.61	0.12	0.04	0.13	0.25	0.02
EV/EBITDA	6.12	4.81	14.19	11.63	3.50	12.36
PEG Ratio	NA	1.15	2.04	NA	0.76	1.57
Price/Book (P/B)	0.24	1.31	3.31	2.96	1.16	3.22
Price/Cash Flow (P/CF)	0.69	5.02	13.70	8.98	2.60	14.95
P/E (F1)	NA	11.59	19.17	13.08	7.64	19.68
Price/Sales (P/S)	0.06	0.45	2.67	0.95	0.17	2.46
Earnings Yield	-6.88%	8.17%	5.22%	7.65%	13.18%	5.08%
Debt/Equity	1.82	0.41	0.71	1.07	1.25	0.04
Cash Flow (\$/share)	4.65	3.65	6.92	3.48	1.99	5.08
<b>Growth Score</b>	<b>A</b>	-	-	<b>B</b>	<b>A</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	1.61%	8.47%	10.80%	-6.23%	40.49%	10.36%
Proj. EPS Growth (F1/F0)	69.01%	5.91%	7.35%	13.27%	-39.73%	35.71%
Curr. Cash Flow Growth	-5.32%	5.67%	10.12%	20.37%	103.17%	22.59%
Hist. Cash Flow Growth (3-5 yrs)	17.82%	9.98%	8.55%	-9.54%	32.34%	12.76%
Current Ratio	1.83	1.56	1.20	1.42	2.25	3.71
Debt/Capital	55.44%	35.95%	42.91%	51.50%	55.48%	3.91%
Net Margin	0.74%	3.38%	11.79%	3.31%	3.82%	9.96%
Return on Equity	0.94%	14.34%	17.21%	20.28%	27.58%	14.23%
Sales/Assets	1.00	1.30	0.54	0.80	2.07	1.05
Proj. Sales Growth (F1/F0)	1.89%	0.00%	4.15%	1.97%	-8.77%	5.52%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>D</b>	<b>C</b>	<b>B</b>
Daily Price Chg	-2.14%	1.24%	1.40%	2.56%	3.61%	3.38%
1 Week Price Chg	-12.09%	-3.65%	-2.60%	2.89%	-9.11%	-7.88%
4 Week Price Chg	-6.16%	-1.98%	1.96%	1.76%	-16.23%	0.15%
12 Week Price Chg	12.68%	-0.76%	6.04%	5.97%	-25.54%	6.55%
52 Week Price Chg	-37.38%	-1.93%	16.68%	70.63%	-29.41%	-11.33%
20 Day Average Volume	445,881	152,572	1,966,046	4,380,431	183,248	138,503
(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%	-1.67%	0.00%	0.00%
(F1) EPS Est 12 week change	-3.13%	-3.88%	-0.08%	-2.69%	-10.60%	-0.15%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-12.50%	NA	0.00%

## 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	D
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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