

Superior Industries (SUP)

\$1.28 (As of 04/03/20)

Price Target (6-12 Months): **\$1.50**

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: F

Summary

Superior Industries posted loss in fourth-quarter 2019, while the sales missed estimates. Highly-diversified customer base, significant geographic footprint and extensive array of value-added products positions the company for revenue growth. The firm's acquisition of UNIWHEELS AG has positioned it as a leading global partner to automotive OEMs located in both North America and Europe. Its cutting-edge R&D capabilities is aiding the firm to broaden the portfolio for premium wheel finishes. However, the company scrapped its fiscal 2020 guidance as it anticipates that the impact of coronavirus will weigh on operations and results. 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	\$6.30 - \$0.90
20 Day Average Volume (sh)	406,921
Market Cap	\$32.2 M
YTD Price Change	-65.3%
Beta	2.40
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 19% (204 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	77.1%
Last Sales Surprise	-6.5%
EPS F1 Est- 4 week change	-60.0%
Expected Report Date	05/14/2020
Earnings ESP	0.0%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	292 E	225 E	324 E	332 E	1,173 E
2020	295 E	259 E	328 E	334 E	1,215 E
2019	358 A	353 A	352 A	310 A	1,373 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					-\$0.80 E
2020	-\$0.32 E	-\$0.25 E	-\$0.08 E	\$0.00 E	-\$0.64 E
2019	-\$0.22 A	-\$0.06 A	-\$0.08 A	-\$0.08 A	-\$0.45 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 04/03/2020. The reports text is as of 04/06/2020.

Overview

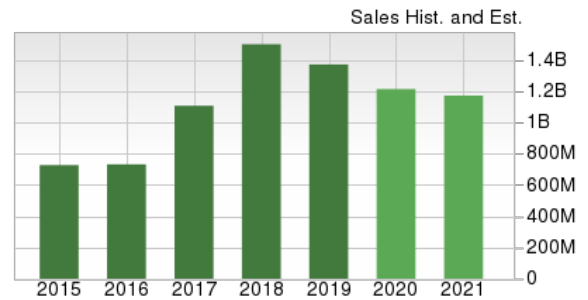
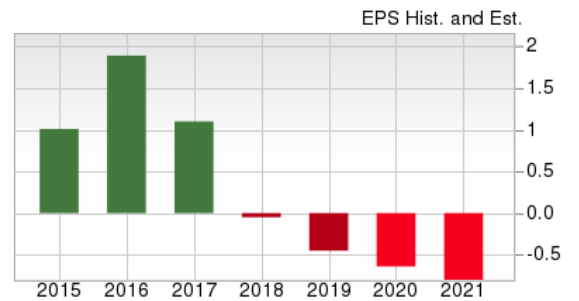
Founded in 1957, Superior Industries International Inc. is one of the world's largest designers and manufacturers of aluminum road wheels for the automotive industry. In first-quarter 2015, the company shifted its headquarters from Van Nuys, CA, to Southfield, MI. It has wheel manufacturing facilities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

The company employs around 8,400 employees, who are engaged in eight manufacturing facilities in North America and Europe. It has a combined annual manufacturing capacity of around 20 million wheels.

Superior Industries' aluminum road wheels are sold to original equipment manufacturers (OEMs). In fact, the OEM aluminum wheels account for about 92% 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 (51.3% of sales in 2019) and Europe (48.7%). It supplies approximately 17% and 13% of the aluminum wheels installed on passenger cars and light-duty trucks in North America and Europe, respectively. 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.



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 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. In 2019, the company's selling, general and administrative expenses came in at \$63.9 million, down 17.8% from 2018.

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

Reasons To Sell:

- ▼ As of Dec 31, the company's net debt was \$553 million, representing debt-to-capital ratio of 68.72%. The company's elevated leverage restricts its financial flexibility to tap onto growth opportunities.
 - ▼ The coronavirus pandemic has crippled the auto industry, and will lead to decline in sales and production, hurting the automotive manufacturer. Superior Industries scrapped its fiscal 2020 guidance as it anticipates that the impact of the pandemic will weigh on operations and results.
 - ▼ 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.
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The company's elevated leverage of 68.72% restricts its financial flexibility to tap onto growth opportunities.

Last Earnings Report

Superior Industries Reports Q4 Loss Narrower Than Expected

Superior Industries reported adjusted fourth-quarter 2019 loss of 8 cents, narrower than the Zacks Consensus Estimate of a loss of 35 cents. The narrower-than-expected loss resulted from higher-than-expected shipments and revenues in European markets. The loss per share also narrowed 50%, year on year.

The aluminum-wheel manufacturer reported revenues of \$310 million, missing the Zacks Consensus Estimate of \$332 million. The top line also came in lower than the year-ago figure of \$379 million. This downside resulted mainly from lower volumes, including the impact of the General Motors (GM) strike as well as lower aluminum price.

Quarter Details

During the fourth quarter, the company's wheel unit shipments decreased 14% year over year to 4.5 million. This downside primarily stemmed from shipment declines in North America and Europe due to lower year-over-year production, including the impact of the UAW labor strike at GM. Shipments in Europe came in at 2.3 million, down from the 2.5 million recorded in fourth-quarter 2018. In North America, the shipments were 2.18 million, lower than the year-ago figure of 2.64 million.

Sales in the European market came in at \$159.6 million, lower than the \$185.1 million recorded in the year-ago quarter. Sales in the North American market totaled \$150.7 million, down from the prior-year period's \$193.7 million.

The company reported operating loss of \$92 million as against operating profit of \$19 million in the year-ago quarter. Selling, general and administrative expenses in the quarter were \$17 million, flat year over year.

Net cash provided by operating activities summed \$61 million in the December-end quarter, down from the year-ago quarter's \$92 million. Capital expenditure amounted to \$16.7 million.

During the quarter, Superior Industries paid dividends of \$3 million and purchased \$3 million of shares from minority equity holders of Superior Industries Europe AG. As of Dec 31, 2019, the company's net debt was \$553 million, representing debt-to-capital ratio of 68.72%.

2020 Outlook

For full-year 2020, Superior Industries projects unit shipments of 18.4-19 million. Net sales are projected between \$1.33 billion and \$1.39 billion, and cash flow from operations is projected at \$125-\$145 million. Adjusted EBITDA is expected in the range of \$170-\$190 million and capex is expected to be around \$75 million.

Quarter Ending **12/2019**

Report Date	Feb 28, 2020
Sales Surprise	-6.45%
EPS Surprise	77.14%
Quarterly EPS	-0.08
Annual EPS (TTM)	-0.44

Recent News

Superior Announces Measures to Combat Coronavirus

On **Apr 2**, Superior Industries announced a variety of measures to fight against the uncertainty caused by the coronavirus pandemic. The non-employee board members will forgo all cash compensation, while all executives and all other salaried employees will take a 20% reduction in base salary from Apr 1, 2020 through May 31, 2020.

The company has temporarily laid off most of its manufacturing workforce in line with facility closures and suspended all its discretionary spending amid the Covid-19 crisis.

Superior Industries Draws Down \$160M from U.S. Revolving Credit Line

On **Mar 23**, Superior Industries drew down its \$160 million U.S. revolving credit line and drew €48 million on its €60 million European revolving credit line, addressing the uncertainty caused by shutdowns due to coronavirus pandemic. Both revolving credit facilities mature in May 2022.

Valuation

Superior Industries' shares are down 65.3% in the year-to-date period and down 78.1% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Auto-Tires-Trucks sector are down 38.1% and 29% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 36.5% and 24.1%, respectively.

The S&P 500 index is down 22.6% in the year-to-date period and up 14.2% in the past year.

The stock is currently trading at 0.02X forward 12-month sales, which compares 0.44X for the Zacks sub-industry, 0.49X for the Zacks sector and 2.72X for the S&P 500 index.

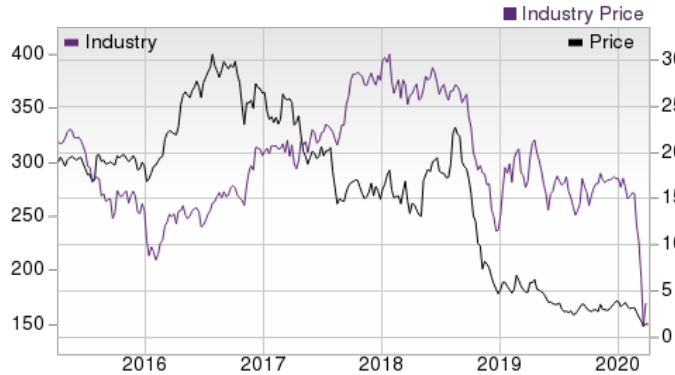
Over the past five years, the stock has traded as high as 1.11X and as low as 0.02X, with a 5-year median of 0.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$1.50 price target reflects 0.02X forward 12-month sales.

The table below shows summary valuation data for SUP:

Valuation Multiples - SUP					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.02	0.44	0.49	2.72
	5-Year High	1.11	0.81	0.76	3.43
	5-Year Low	0.02	0.44	0.49	2.54
	5-Year Median	0.32	0.64	0.61	3
EV/EBITDA TTM	Current	4.24	4.35	8.37	9.2
	5-Year High	15.23	8.62	11.34	12.88
	5-Year Low	3.36	4.21	6.97	8.27
	5-Year Median	6.58	6.56	9.28	10.79
P/B TTM	Current	0.12	1.55	1.18	3.31
	5-Year High	1.95	3.4	2.16	4.55
	5-Year Low	0.09	1.48	1.13	2.84
	5-Year Median	1.02	2.69	1.73	3.63

As of 04/03/2020

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



Top Peers

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

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	SUP Neutral	X Industry	S&P 500	CVGI Neutral	DORM Underperform	MTOR Underperform
VGM Score	A	-	-	A	D	F
Market Cap	32.16 M	451.72 M	16.73 B	41.35 M	1.53 B	915.74 M
# of Analysts	1	3	13	2	4	3
Dividend Yield	0.00%	0.00%	2.53%	0.00%	0.00%	0.00%
Value Score	A	-	-	B	D	B
Cash/Price	2.31	0.18	0.06	0.80	0.04	0.10
EV/EBITDA	12.20	3.87	10.55	3.33	11.32	3.28
PEG Ratio	NA	1.08	1.71	1.20	1.17	NA
Price/Book (P/B)	0.12	0.91	2.28	0.32	1.99	2.38
Price/Cash Flow (P/CF)	0.26	2.96	8.96	1.27	13.67	2.45
P/E (F1)	-2.03	8.41	14.34	12.00	14.06	6.70
Price/Sales (P/S)	0.02	0.23	1.78	0.05	1.54	0.22
Earnings Yield	-50.00%	10.90%	6.84%	8.33%	7.11%	14.93%
Debt/Equity	2.37	0.53	0.70	1.42	0.04	2.35
Cash Flow (\$/share)	5.01	3.19	7.01	1.04	3.44	5.05
Growth Score	A	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	-3.48%	9.76%	10.95%	37.74%	7.93%	27.23%
Proj. EPS Growth (F1/F0)	-42.22%	-13.97%	1.08%	-78.43%	26.13%	-51.57%
Curr. Cash Flow Growth	8.11%	-4.22%	5.92%	-46.58%	-32.85%	15.83%
Hist. Cash Flow Growth (3-5 yrs)	18.89%	4.58%	8.55%	3.44%	1.13%	19.94%
Current Ratio	1.85	1.61	1.24	2.40	3.42	1.20
Debt/Capital	59.31%	39.44%	42.29%	58.65%	3.70%	70.12%
Net Margin	-7.04%	2.50%	11.69%	2.14%	8.45%	5.65%
Return on Equity	6.00%	14.04%	16.74%	14.52%	11.43%	71.38%
Sales/Assets	0.97	1.30	0.54	1.98	0.99	1.51
Proj. Sales Growth (F1/F0)	-11.49%	-3.99%	1.56%	-13.29%	3.93%	-21.05%
Momentum Score	F	-	-	B	C	F
Daily Price Chg	0.79%	-2.12%	-1.59%	-4.35%	-4.70%	-5.35%
1 Week Price Chg	27.62%	8.76%	12.26%	-12.29%	-9.44%	19.93%
4 Week Price Chg	-45.06%	-31.06%	-22.86%	-64.52%	-18.16%	-37.04%
12 Week Price Chg	-62.02%	-43.01%	-30.01%	-78.00%	-37.79%	-51.45%
52 Week Price Chg	-78.31%	-44.15%	-23.87%	-84.32%	-48.54%	-43.42%
20 Day Average Volume	406,921	222,986	4,256,776	372,986	304,928	1,659,761
(F1) EPS Est 1 week change	0.00%	0.00%	-0.04%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-60.00%	-12.76%	-4.29%	-83.70%	-1.55%	-32.73%
(F1) EPS Est 12 week change	-269.23%	-18.03%	-5.40%	-83.70%	-13.35%	-34.32%
(Q1) EPS Est Mthly Chg	-127.27%	-28.77%	-5.90%	NA	-6.41%	-63.64%

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	F
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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