

TransDigm Group Inc. (TDG)

\$633.33 (As of 01/16/20)

Price Target (6-12 Months): **\$672.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/07/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: D

Summary

TransDigm products holds a significant position in the U.S. defense aerospace market. Consistent improvement in revenue passenger miles has been boosting the commercial aerospace industry, which in turn should benefit TransDigm. The company also strives to strengthen its position in highly-engineered proprietary aerospace components' niche markets through strategic acquisitions. In a year's time, its shares outperformed its industry. Yet, its business is sensitive to the flight hours of its customers planes, the size and age of the worldwide aircraft fleet and customers profitability. Additionally, its unfavorable leverage ratios and high debt levels may discourage safe-bet investors in choosing this stock going ahead. Its trailing 12-month P/E ratio is higher than that of its industry's.

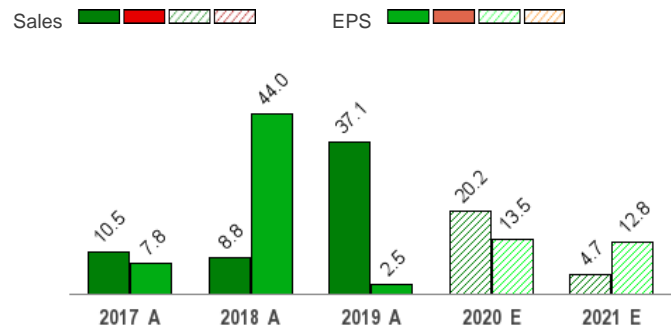
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$638.95 - \$341.75
20 Day Average Volume (sh)	289,266
Market Cap	\$33.9 B
YTD Price Change	13.1%
Beta	0.96
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 21% (201 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.6%
Last Sales Surprise	-7.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/04/2020
Earnings ESP	4.3%
P/E TTM	34.0
P/E F1	30.5
PEG F1	2.6
P/S TTM	6.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,574 E
2020	1,458 E	1,545 E	1,634 E	1,639 E	6,276 E
2019	993 A	1,196 A	1,658 A	1,541 A	5,223 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.78 E	\$5.58 E	\$6.11 E	\$6.68 E	\$23.40 E
2020	\$4.53 E	\$4.98 E	\$5.74 E	\$5.88 E	\$20.74 E
2019	\$3.85 A	\$4.21 A	\$4.95 A	\$5.62 A	\$18.27 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 01/16/2020. The reports text is as of 01/17/2020.

Overview

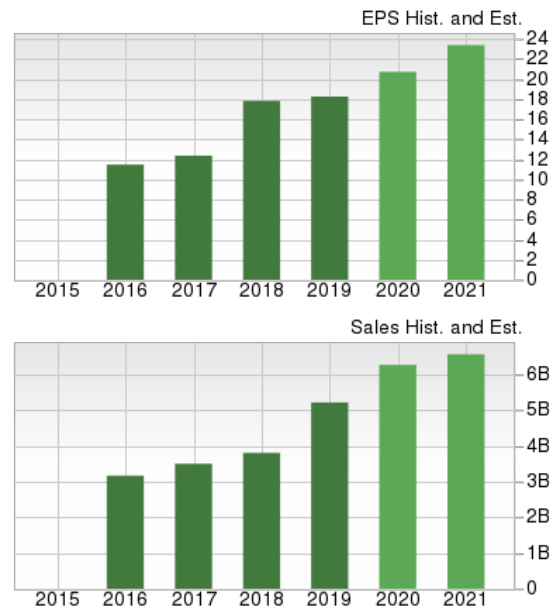
Incepted in 1993, TransDigm is a leading global designer, producer and supplier of highly engineered aerospace components that are used in commercial and military aircraft. The company, through its well-diversified business, offers a broad range of products to its customers. TransDigm currently has four reportable segments:

Airframe: This segment produces systems and components like engineered latching and locking devices, security components and systems, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered interior surfaces and related components, military personnel parachutes and cargo delivery systems. These are used in non-power airframe applications utilizing airframe and cabin structure technologies. It contributed 44.6% to the company's total sales in fiscal 2019.

Power & Control: This segment develops products like mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, and lifting devices and cargo loading and handling systems. These are used in controlling power of the aircraft utilizing electronic, fluid, power and mechanical motion control technologies. It contributed 52.4% to the company's total sales in fiscal 2019.

Non-aviation: This segment's products include seat belts and safety restraints for ground transportation applications, mechanical/electro-mechanical actuators and controls for space applications, and refueling systems for heavy equipment used in mining, construction and other industries. It contributed 3% to the company's total sales in fiscal 2019.

Esterline: Esterline Technologies became a reportable segment of TransDigm, post its acquisition in March 2019. Notably, Esterline includes a collection of approximately 20 reporting units that primarily develop, produce and market products for the aerospace and defense industry. However, the company is yet to include this segment in its core business.



Reasons To Buy:

- ▲ The commercial aerospace industry is witnessing increased revenue passenger miles (RPMs) since 2010, which resulted in steady growth in this industry throughout 2019. Also, growth in the large commercial OEM sector (aircraft with 100 or more seats) with order announcements by Boeing and Airbus leading to planned increases in aircraft production (except for 737 Max) has been boosting this industry. As a result of these traits, TransDigm has been experiencing solid top-line growth, which can be expected to continue in the near term as well. Notably, the industry consensus expects increase in production rate for commercial airframes as well as RPM growth to continue in 2020. Anticipating these growth trends to continue, the company's management projects its commercial aftermarket revenues to grow annually in the mid-single-digit to high single-digit percent range, while commercial OEM revenue growth is estimated in the low single-digit to mid-single-digit percent range for fiscal 2020.

Increased revenue passenger miles should boost TransDigm's revenue growth. Expansionary defense budget will aid its defense business.

- ▲ Apart from serving the commercial aerospace market, TransDigm's products also holds a significant position in the U.S. defense aerospace market. Impressively, the company witnessed a solid 14% annual revenue growth in fiscal 2019 for its defense business backed by strong bookings growth since last year. Moreover, TransDigm has been enjoying significant growth opportunities in the defense space on account of the expansionary budgetary policy adopted by the U.S. administration as well as other developing nations in past couple of years.

For instance, the U.S. fiscal 2020 defense budget includes a massive spending plan of \$57.7 billion on aircraft. This should enable Boeing and other military aircraft producers to acquire significant defense contracts from the Pentagon, which in turn, should benefit equipment suppliers like Transdigm. Backed by the higher-than-expected defense sales growth in fiscal 2019, management projects its fiscal 2020 defense revenues to grow in the mid-single-digit figure compared with the previous year.

- ▲ While frequent contract wins boost TransDigm's organic growth, the company strives to strengthen its position in highly-engineered proprietary aerospace components' niche markets through strategic acquisitions. As of Sep 30, 2019, the company successfully acquired approximately 85 businesses or product lines since its formation in 1993. In March 2019, TransDigm completed its largest acquisition by buying Esterline Technologies Corporation for \$4 billion. This deal has significantly expanded TransDigm's platform of proprietary and sole-source products for the aerospace and defense industries, strengthening its position both in the Original Equipment Manufacturing (OEM) and aerospace aftermarket.

Notably, the company's organic sales during fiscal 2019 grew 10.5%, whereas acquisition sales contributed \$1,010.5 million, primarily from Esterline Technologies. Such an acquisition strategy must have boosted investors' confidence in this stock. Evidently, in a year's time shares of the company have gained 99.1% compared with its industry's 43.1% growth.

Reasons To Sell:

- ▼ TransDigm had a notable long-term debt of \$16.5 billion as of Sep 30, 2019, compared with \$12.5 billion at the end of Sep 30, 2018. Interestingly, the company has been witnessing a trend in relation to its rising long-term debt over the past few years. The company's long-term debt rose 15.4% at the end of fiscal 2017 and 9.5% at the end of fiscal 2018. Moreover, the company's debt leverage ratio, computed as total debt divided by EBITDA, stands at 7.0, as of Sep 30, 2019. Such unimpressive leverage ratios and debt levels may discourage safe-bet investors in choosing this stock going ahead.
- ▼ TransDigm's business is sensitive to the number of flight hours that its customers' planes spend in air, the size and age of the worldwide aircraft fleet and customers' profitability. Its business is also directly affected by changes in RPMs, the size and age of the worldwide aircraft fleet and changes in the profitability of the commercial airline industry (to a lesser extent). These items are, in turn, affected by the general economic conditions and any unfavorable fluctuations in them can hurt the company's growth trajectory.
- ▼ Although the company has outperformed its industry in the past year, a comparative analysis of its historical P/E ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/E ratio of 33.51. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 23.62.

Increased debt may keep TransDigm's operating results under pressure. A comparative analysis of the company's historical P/E ratio reflects a relatively gloomy picture

Last Earnings Report

TransDigm Q4 Earnings Beat Estimates, Revenues Up Y/Y

TransDigm Group reported fourth-quarter fiscal 2019 adjusted earnings of \$5.62 per share, which surpassed the Zacks Consensus Estimate of \$4.85 by 15.9%. Moreover, the bottom line increased 26.6% from \$4.44 per share a year ago.

Barring one-time items, the company reported GAAP earnings of \$4.08 per share compared with \$4.14 in the year-ago quarter.

Quarter Ending **09/2019**

Report Date	Nov 19, 2019
Sales Surprise	-7.31%
EPS Surprise	10.63%
Quarterly EPS	5.62
Annual EPS (TTM)	18.63

Sales

Net sales amounted to \$1,541.3 million, reflecting a surge of 46.9% from \$1,049.4 million in the prior-year quarter. However, the reported figure missed the Zacks Consensus Estimate of \$1,663 million by 7.3%.

Organic sales grew 8% year over year. Acquisition sales contributed \$407.6 million, primarily coming from Esterline Technologies Corporation.

Financial Position

TransDigm ended the fourth quarter of fiscal 2019 with cash and cash equivalents of \$1,467.5 million, down from \$2,073 million as of Sep 30, 2018. At the end of the reported quarter, the company's long-term debt summed \$16.47 billion, up from \$12.5 billion as of Sep 30, 2018.

Cash from operating activities amounted to \$1,015.5 million as of Sep 30, 2019, compared with \$1,022.2 million as of Sep 30, 2018.

Fiscal 2020 Outlook

TransDigm issued its fiscal 2020 financial guidance. Net sales are now anticipated to be \$6,175-\$6,325 million. The Zacks Consensus Estimate for the same is pegged at \$6,300 million, which lies above the mid-point of the company's guided range.

EBITDA is anticipated to be \$2,775-\$2,875 million. Adjusted earnings per share are now expected to be \$19.8-\$21.2.

Net income from continuing operations is anticipated to be \$1,000-\$1,080 million.

Recent News

On **Dec 20, 2019**, TransDigm Group announced that it has completed the divestiture of Souriau-Sunbank Connection Technologies (Souriau-Sunbank) to Eaton Corporation in a transaction valued at approximately \$920 million.

Souriau-Sunbank was acquired by TransDigm in March 2019 as part of the Esterline Technologies acquisition and is a leading global supplier of highly-engineered interconnect solutions for harsh environments serving customers primarily in aerospace, defense and space end markets. The business is headquartered in Versailles, France and generated revenues of \$363 million for the trailing 12-month period ended June 30, 2019.

Following successful completion of the divestiture, TransDigm Group also announced that its board of directors has authorized and declared a special cash dividend of \$32.50 on each outstanding share of common stock and cash dividend equivalent payments on options granted under its stock option plans.

Valuation

TransDigm Group's shares are up 45.2% in the last six months period and up 99.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 16.3% and 8.3% in the last six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 43.1% and 23.6%, respectively.

The S&P 500 index is up 11.5% in the last six months period and up 24.9% in the past year.

The stock is currently trading at 29.42X forward 12-month earnings, which compares to 20.51X for the Zacks sub-industry, 18.10X for the Zacks sector and 18.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.18X and as low as 16.97X, with a 5-year median of 22.43X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$672 price target reflects 31.21X forward 12-month earnings

The table below shows summary valuation data for TDG

Valuation Multiples - TDG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	29.42	20.51	18.1	18.97
	5-Year High	30.18	20.63	21.54	19.34
	5-Year Low	16.97	14.51	14.26	15.17
	5-Year Median	22.43	17.91	16.82	17.44
P/S F12M	Current	5.33	1.9	1.29	3.53
	5-Year High	5.58	1.9	1.39	3.53
	5-Year Low	3.04	1.09	0.8	2.54
	5-Year Median	4.14	1.42	1.06	3
EV/EBITDA TTM	Current	19.09	13.26	12.79	12.12
	5-Year High	20.25	13.26	13.24	12.86
	5-Year Low	13.75	8.95	7.28	8.48
	5-Year Median	16.57	10.27	9.94	10.67

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (201 out of 254)



Top Peers

Heico Corporation (HEI)	Outperform
Leidos Holdings, Inc. (LDOS)	Outperform
Teledyne Technologies Incorporated (TDY)	Outperform
Air Industries Group (AIRI)	Neutral
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Neutral
Astronics Corporation (ATRO)	Neutral
Hexcel Corporation (HXL)	Neutral
Kratos Defense & Security Solutions, Inc. (KTOS)	Neutral

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	TDG Neutral	X Industry	S&P 500	HEI Outperform	HXL Neutral	TDY Outperform
VGM Score	C	-	-	D	C	D
Market Cap	33.91 B	1.66 B	24.61 B	16.34 B	6.60 B	13.77 B
# of Analysts	5	3	13	4	3	2
Dividend Yield	0.00%	0.00%	1.74%	0.13%	0.87%	0.00%
Value Score	D	-	-	F	C	D
Cash/Price	0.05	0.03	0.04	0.00	0.01	0.01
EV/EBITDA	22.08	14.67	14.24	31.01	15.46	27.20
PEG Ratio	2.59	2.39	2.07	3.96	2.11	4.43
Price/Book (P/B)	NA	3.44	3.38	9.64	4.65	5.36
Price/Cash Flow (P/CF)	24.90	15.11	13.75	40.90	17.01	30.81
P/E (F1)	30.64	20.71	19.09	44.78	20.08	33.19
Price/Sales (P/S)	6.29	1.90	2.68	7.95	2.80	4.47
Earnings Yield	3.27%	4.84%	5.24%	2.23%	4.98%	3.01%
Debt/Equity	-5.71	0.37	0.72	0.33	0.79	0.33
Cash Flow (\$/share)	25.44	2.52	6.94	2.97	4.60	12.25
Growth Score	A	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	18.71%	12.34%	10.56%	20.89%	9.61%	15.23%
Proj. EPS Growth (F1/F0)	13.52%	9.79%	7.57%	17.93%	10.19%	9.17%
Curr. Cash Flow Growth	24.18%	11.25%	14.73%	23.18%	12.60%	21.28%
Hist. Cash Flow Growth (3-5 yrs)	15.48%	4.09%	9.00%	20.26%	9.63%	11.35%
Current Ratio	3.16	2.24	1.24	2.81	2.22	1.48
Debt/Capital	NA%	29.72%	42.99%	30.66%	44.03%	24.67%
Net Margin	16.06%	7.81%	11.14%	15.95%	12.73%	12.27%
Return on Equity	-58.95%	9.39%	17.16%	19.15%	21.74%	15.52%
Sales/Assets	0.34	0.75	0.55	0.71	0.76	0.74
Proj. Sales Growth (F1/F0)	16.47%	3.48%	4.16%	7.35%	8.07%	7.35%
Momentum Score	D	-	-	A	C	D
Daily Price Chg	2.21%	0.67%	0.89%	-0.08%	1.72%	0.67%
1 Week Price Chg	3.05%	0.22%	0.39%	-0.32%	-3.76%	1.53%
4 Week Price Chg	10.15%	5.85%	2.65%	5.06%	5.93%	11.08%
12 Week Price Chg	20.00%	8.14%	7.55%	0.96%	5.01%	13.18%
52 Week Price Chg	81.44%	25.63%	22.12%	53.24%	27.95%	71.03%
20 Day Average Volume	289,266	117,077	1,536,375	449,551	1,054,682	187,116
(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%	2.59%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.90%	-0.96%	-0.40%	6.58%	-0.34%	3.17%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	6.46%	NA	NA

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	D
Growth Score	A
Momentum Score	D
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.