

TransDigm Group Inc. (TDG)

\$307.75 (As of 04/21/20)

Price Target (6-12 Months): **\$269.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)
5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: F

Summary

TransDigm business is sensitive to flight hours of customer planes, size and age of the worldwide aircraft fleet and customers' profitability. Its unfavorable leverage ratios and high debt levels may discourage safe-bet investors in choosing this stock going ahead. TransDigm had a notable long-term debt of \$18 billion as of Sep 30, 2019, compared with \$16.5 billion at the end of Sep 30, 2019. Its trailing 12-month P/E ratio is higher than that of its industry's. Moreover, in the past three months, its shares have underperformed its industry. However, TransDigm has been enjoying significant growth opportunities in the defense space on account of the expansionary budgetary policy adopted by the U.S. administration and other developing nations in past couple of years.

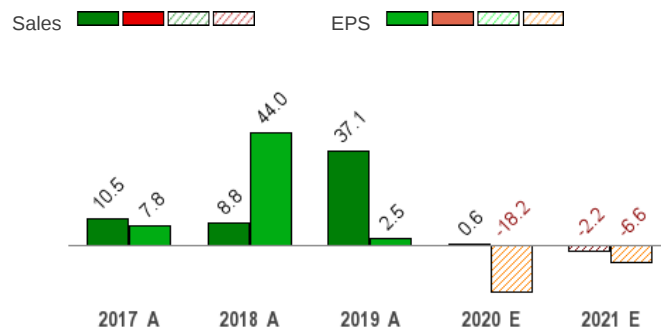
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$673.51 - \$200.06
20 Day Average Volume (sh)	946,552
Market Cap	\$17.0 B
YTD Price Change	-43.5%
Beta	1.51
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 38% (157 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.1%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	-26.4%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	16.1
P/E F1	20.6
PEG F1	1.7
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,139 E
2020	1,465 A	1,395 E	1,161 E	1,236 E	5,256 E
2019	993 A	1,196 A	1,658 A	1,541 A	5,223 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$13.95 E
2020	\$4.93 A	\$4.08 E	\$2.57 E	\$2.57 E	\$14.94 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 04/21/2020. The reports text is as of 04/22/2020.

Overview

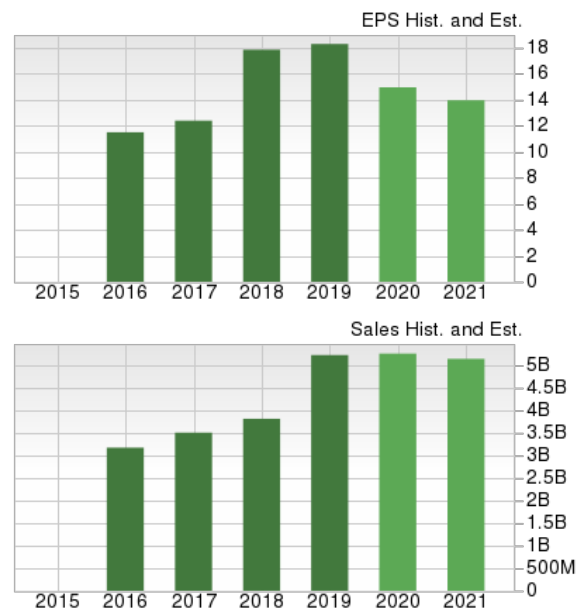
Incepted in 1993, TransDigm is a leading global designer, producer and supplier of highly engineered aerospace components that are used in commercial and military aircraft. The company, through its well-diversified business, offers a broad range of products to its customers. TransDigm currently has four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

- ▼ TransDigm had a notable long-term debt of \$18 billion as of Sep 30, 2019, compared with \$16.5 billion at the end of Sep 30, 2019. 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 32% at the end of fiscal 2019, 9.5% at the end of fiscal 2018 and 15.4% at the end of fiscal 2017. Moreover, the company's debt leverage ratio, computed as total debt divided by EBITDA, stood at 7.25 to 1, as of Dec 28, 2019. Such unimpressive leverage ratios and debt levels may discourage safe-bet investors in choosing this stock going ahead. Moreover, in the past three months, its shares have underperformed its industry. Its shares declined 50.8% compared to the industry's 47.1% fall.
- ▼ 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 16.96. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is also higher than the industry's average of 11.79.

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

Risks

- TransDigm's products holds a significant position in the U.S. defense aerospace market. Impressively, the company's defense business witnessed solid 11% year over year revenue growth in the fiscal first quarter. 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.
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Last Earnings Report

TransDigm Q1 Earnings Beat Estimates, Sales Up Y/Y

TransDigm Group reported first-quarter fiscal 2020 adjusted earnings of \$4.93 per share, which surpassed the Zacks Consensus Estimate of \$4.56 by 8.1%. Moreover, the bottom line improved 28.1% from the prior-year quarter figure of \$3.85.

Including one-time items, the company reported GAAP earnings of 83 cents per share compared with \$3.05 in the year-ago quarter. The year-over-year bottom-line decline can be attributed to payments made in the quarter under review.

Sales

Net sales amounted to \$1,465 million, reflecting year-over-year growth of 47.5% from the prior-year quarter. The top line also outpaced the Zacks Consensus Estimate of \$1,458 million by 0.5%. Meanwhile, organic sales improved 8.7%.

Acquisition sales from the Esterline takeover contributed \$385 million to total sales.

Financial Position

TransDigm ended first-quarter fiscal 2020 with cash and cash equivalents of \$4,194 million, up from \$1,467 million as of Sep 30, 2019.

At the end of the reported quarter, the company's long-term debt summed \$17.95 billion, up from \$16.47 billion as of Sep 30, 2019.

Cash from operating activities amounted to \$433 million as of Dec 28, 2019, compared with \$330 million as of Dec 29, 2018.

Fiscal 2020 Outlook

TransDigm trimmed part of its fiscal 2020 financial guidance. Net sales are still anticipated in the range of \$6,175-\$6,325 million. The Zacks Consensus Estimate for the same is pegged at \$6,280 million, which lies above the mid-point of the company's guided range.

EBITDA is also reiterated in the range of \$2,775-\$2,875 million. Adjusted earnings per share are still expected in the range of \$19.8-\$21.2. The Zacks Consensus Estimate for the same is pegged at \$20.83, which lies above the mid-point of the company's guided range.

However, the company has slashed GAAP earnings from the prior range of \$16.30-\$17.79 to \$14.20-\$15.60.

Net income from continuing operations is still anticipated between \$1,000 million and \$1,080 million.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	0.95%
EPS Surprise	8.11%
Quarterly EPS	4.57
Annual EPS (TTM)	19.71

Recent News

On **April 2, 2020**, TransDigm Group announced cost mitigation efforts as a result of disruption in the aerospace and travel industries as a result of the COVID-19 virus. As an additional action to reduce costs, TransDigm's senior management team will substantially reduce their cash compensation for the balance of 2020.

Valuation

TransDigm Group's shares are down 43.5% in the year to date period and down 32.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 44.6% and 29.9% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are down 38.6% and 27.5%, respectively.

The S&P 500 index is down 10.9% in the year to date period and down 1.7% in the past year.

The stock is currently trading at 20.3X forward 12-month earnings, which compares to 19.3X for the Zacks sub-industry, 18.8X for the Zacks sector and 19.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32X and as low as 11.7X, with a 5-year median of 22.3X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$269 price target reflects 17.2X 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	20.27	19.25	18.81	19.52
	5-Year High	31.97	19.86	20.94	19.52
	5-Year Low	11.69	12.99	14.17	15.19
	5-Year Median	22.32	17.09	16.97	17.45
P/S F12M	Current	2.65	0.77	1.12	3.2
	5-Year High	5.58	1.29	1.49	3.44
	5-Year Low	2.07	0.77	0.92	2.54
	5-Year Median	4.12	1.01	1.17	3.01
EV/EBITDA TTM	Current	11.66	7.07	10.59	10.51
	5-Year High	20.25	12.02	14.99	12.87
	5-Year Low	10.22	6.26	7.39	8.28
	5-Year Median	16.67	8.78	10.42	10.78

As of 04/20/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (157 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Leidos Holdings, Inc. (LDOS)	Outperform	3
Air Industries Group (AIRI)	Neutral	2
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Neutral	2
Astronics Corporation (ATRO)	Neutral	3
Heico Corporation (HEI)	Neutral	3
Hexcel Corporation (HXL)	Neutral	5
Kratos Defense & Security Solutions, Inc. (KTOS)	Neutral	3
Teledyne Technologies Incorporated (TDY)	Neutral	4

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	TDG	X Industry	S&P 500	HEI	HXL	TDY
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	5	4
VGM Score	F	-	-	D	D	C
Market Cap	16.99 B	973.91 M	19.37 B	10.87 B	2.59 B	11.64 B
# of Analysts	2	3	14	5	3	2
Dividend Yield	0.00%	0.00%	2.23%	0.20%	2.19%	0.00%
Value Score	F	-	-	F	D	F
Cash/Price	0.23	0.11	0.05	0.01	0.02	0.02
EV/EBITDA	13.88	7.41	11.66	20.95	6.29	20.30
PEG Ratio	1.74	2.34	2.20	6.12	3.17	NA
Price/Book (P/B)	NA	1.75	2.61	6.01	1.81	4.27
Price/Cash Flow (P/CF)	12.44	6.75	10.30	27.18	5.87	22.90
P/E (F1)	20.60	17.87	17.85	38.78	17.87	31.80
Price/Sales (P/S)	2.90	0.73	2.04	5.19	1.13	3.68
Earnings Yield	4.72%	5.54%	5.48%	2.58%	5.61%	3.14%
Debt/Equity	-4.18	0.35	0.71	0.31	0.73	0.32
Cash Flow (\$/share)	25.44	2.02	7.01	2.97	5.29	13.88
Growth Score	C	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	18.97%	13.43%	10.92%	22.72%	10.06%	17.08%
Proj. EPS Growth (F1/F0)	-18.21%	-14.50%	-3.67%	-9.48%	-50.94%	-4.95%
Curr. Cash Flow Growth	24.18%	9.60%	5.93%	23.18%	12.73%	14.47%
Hist. Cash Flow Growth (3-5 yrs)	15.48%	4.37%	8.55%	20.26%	9.27%	11.00%
Current Ratio	1.99	2.34	1.24	3.39	2.19	1.72
Debt/Capital	NA%	31.14%	42.83%	29.68%	42.08%	24.25%
Net Margin	13.87%	6.73%	11.64%	17.68%	12.10%	12.72%
Return on Equity	-45.77%	8.64%	16.74%	21.76%	19.87%	15.67%
Sales/Assets	0.34	0.75	0.54	0.71	0.72	0.73
Proj. Sales Growth (F1/F0)	-2.47%	0.00%	-0.39%	-12.80%	-50.21%	-4.24%
Momentum Score	F	-	-	F	B	A
Daily Price Chg	-6.22%	-2.20%	-2.18%	-2.28%	-3.96%	-0.12%
1 Week Price Chg	-2.07%	0.00%	0.42%	0.74%	-8.78%	-3.00%
4 Week Price Chg	4.93%	20.00%	26.24%	21.29%	5.15%	35.53%
12 Week Price Chg	-51.36%	-31.89%	-20.02%	-33.71%	-57.86%	-14.23%
52 Week Price Chg	-32.30%	-32.30%	-12.49%	-19.71%	-54.56%	27.00%
20 Day Average Volume	946,552	221,536	3,036,163	1,015,155	1,913,106	300,918
(F1) EPS Est 1 week change	-18.94%	-4.87%	-0.14%	-3.07%	-21.89%	0.00%
(F1) EPS Est 4 week change	-26.44%	-15.45%	-6.66%	-14.60%	-51.17%	-11.91%
(F1) EPS Est 12 week change	-36.93%	-28.59%	-10.02%	-23.12%	-54.58%	-12.18%
(Q1) EPS Est Mthly Chg	-58.52%	-41.67%	-9.67%	-17.58%	-81.61%	-41.67%

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	F
Growth Score	C
Momentum Score	F
VGM Score	F

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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