

TE Connectivity Ltd. (TEL)

\$91.07 (As of 08/04/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

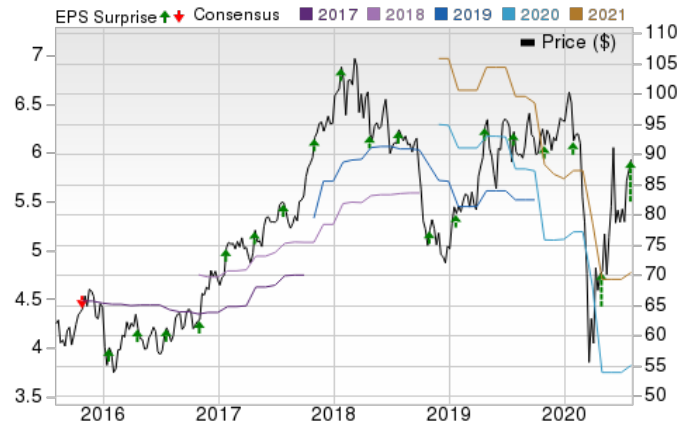
Growth: C

Momentum: A

Summary

TE Connectivity reported fiscal third quarter results wherein both earnings and revenues surpassed the estimates. The company witnessed strong momentum across data centers which aided growth in its Communications Solutions segment. Further, strengthening momentum of Industrial Solutions in China remained positive. Additionally, the company's global manufacturing strategy is acting as a tailwind. We believe solid execution of the company's strategic plans especially cost reduction and footprint consolidation initiatives are likely to remain key catalysts. However, uncertainties related to coronavirus pandemic remain concerns. Further, sluggishness in the Transportation and Industrial segments are overhangs. Also, slowdown in the global auto-production is a headwind. The stock has underperformed the industry on a year-to-date basis.

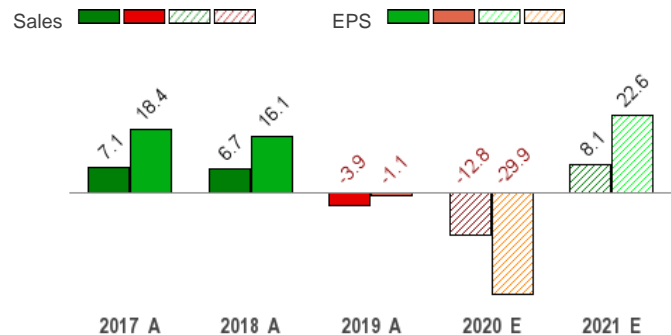
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$101.00 - \$48.62
20 Day Average Volume (sh)	1,786,963
Market Cap	\$30.1 B
YTD Price Change	-5.0%
Beta	1.34
Dividend / Div Yld	\$1.92 / 2.1%
Industry	Electronics - Miscellaneous Components
Zacks Industry Rank	Top 49% (124 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.5%
Last Sales Surprise	6.8%
EPS F1 Est- 4 week change	3.9%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	20.6
P/E F1	23.4
PEG F1	2.3
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,957 E	3,231 E	3,250 E	3,145 E	12,675 E
2020	3,168 A	3,195 A	2,548 A	2,820 E	11,728 E
2019	3,347 A	3,412 A	3,389 A	3,300 A	13,448 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.00 E	\$1.20 E	\$1.27 E	\$1.26 E	\$4.77 E
2020	\$1.21 A	\$1.29 A	\$0.59 A	\$0.79 E	\$3.89 E
2019	\$1.29 A	\$1.42 A	\$1.50 A	\$1.33 A	\$5.55 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 08/04/2020. The reports text is as of 08/05/2020.

Overview

TE Connectivity based in Schaffhausen, Switzerland, manufactures and designs products that connect and protect the flow of power and data inside millions of products used by consumers and industries. The company partners with customers in a broad array of industries ranging from consumer electronics, energy, and healthcare to automotive, aerospace and communication networks.

TE Connectivity reports under the following three segments –

Transportation Solutions (58.2% of total fiscal 2019 revenues): The segment caters to the needs of automotive, commercial transportation and sensors end markets. It offers sensor solutions and automotive connectivity solutions and products. Its electronic components comprising, connectors, wire and cable, circuit protection devices, heat shrink tubing and molded parts. It also provides application tooling and custom-engineered solutions for the aerospace, defense and marine markets.

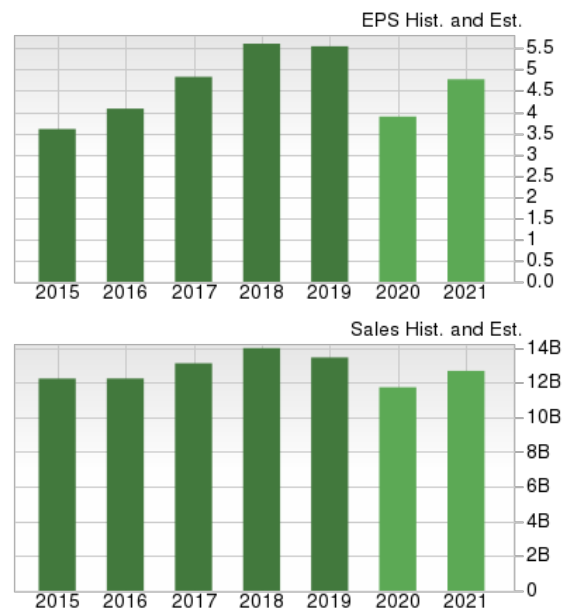
Industrial Solutions (29.4%): The segment caters to growing demand for the company's products in the end markets – industrial equipment, energy, and aerospace, defense, oil and gas. TE Connectivity supplies electronic components, including connectors, relays, circuit protection devices, antennas and heat shrink tubing for industrial machinery, consumer devices, data communications and household appliance markets. Further, it also offers intelligent building and rail products.

Communication Solutions (12.4%): The segment offers data and devices, appliances. Also, it is a leader in developing, manufacturing, installing, and maintaining some of the world's most advanced sub-sea fiber optic communications systems. This segment caters to demands of appliances, and data and devices end-markets.

Further, the company generates revenues by operating in three organized geographic regions – Europe/Middle East/Africa (EMEA), Asia-Pacific and Americas.

TE Connectivity had approximately 78,000 employees worldwide as of the end of fiscal year 2019. Out of this total employee strength, there were 25,000 employed in Americas, 22,000 in Asia-Pacific and 31,000 in EMEA region.

Notably, the company sells products via direct sales channels and third-party distributors in 150 countries.



Reasons To Buy:

- ▲ TE Connectivity's long-term growth strategy rests on market expansion through focus on harsh environment applications, efforts to reduce fixed cost for margin expansion, and execute a balanced capital allocation strategy to conduct bolt-on acquisitions and return capital back shareholders— to stoke growth. Moreover, continued progress on strategic priorities and solid execution along with an overarching business model are expected to continue benefiting TE Connectivity.
- ▲ TE Connectivity is the market leader in the connectivity and sensor business, armed with a comprehensive portfolio. About 80% of TE Connectivity's revenues are driven by harsh environment applications. Over the past five years, the company's harsh business applications have had experienced mid-single digit growth, driving top-line growth. This apart, the sensor business is anticipated to see strong design win momentum, fuelled by the growth of automotive space and contribute significantly to the top-line growth of the company. Going forward, the company believes that this business will provide ample opportunities of margin expansion. In a nutshell, TE Connectivity expects its harsh-environment application business to perform well, mainly supported by secular trends like increased safety features, autonomous driving systems, higher emission standards and infotainment.
- ▲ TE Connectivity's Industrial business has ample room for growth. The company expects industrial solutions to grow on an organic basis, driven by the continued strength of industrial equipment and aerospace segments. In a bid to further focus more on gaining industrial leadership, the company has been continuously making efforts. Moreover, the sale of its subsea communications business (SubCom), which used to be sluggish, is allowing the company to focus more on its industrial pertaining solutions.
- ▲ In order to strengthen its core business, TE Connectivity constantly looks for strategic acquisitions, particularly in sensor and harsh weather management segments. Over the past year, strategic acquisitions have given TE a leading position in solutions for the minimally-invasive medical market, fortified its portfolio of industrial connectors and bolstered our offering of sensors for the auto market. Hence, the company is taking measures to broaden offerings through acquisitions to maximize its growth potential.

TE Connectivity's harsh-environment application business and industrial solutions are positives. Secular trends in autonomous driving systems and infotainment areas are tailwinds.

Reasons To Sell:

- ▼ The sluggishness in oil and gas markets and its derivative impact on industrial market will likely act as strong headwinds for TE Connectivity. Also, low prices in oil & gas are reducing sales in industrial equipment business as well as areas like factory equipments and rail. Helicopter demand has also been impacted negatively, which can prove to be a drag on the company's aerospace business. Also, a major portion of the company's net sales is invoiced in currencies other than the U.S. dollar and management expects non-U.S. dollar revenue to represent a significant and likely increased portion of future net revenue. Therefore, when the U.S. Dollar strengthens in relation to the currencies of the countries where TE Connectivity sells its products, the dollar reported revenue and income will decrease.
- ▼ TE Connectivity also has a leveraged balance sheet. As of Jun 26, 2020, the company's net debt was \$3.6 billion compared with \$3.5 billion as of Mar 31, 2020. Accumulating high debt levels might restrict sufficient cash flow generation which is needed to meet future debt obligations. Moreover, this may keep the company away from accessing the debt market and refinancing at suitable rates. Further, the company's debt-to-total capital was 31.1% as of Jun 26, 2020 which increased from 29% as of Mar 31, 2020.
- ▼ TE Connectivity operates in a highly competitive market for electronic components and expects that both direct and indirect competition will increase in the future. Notably, the company faces stiff competition from Amphenol and Molex in all its reporting segments. The competition is across product lines from other companies ranging in size from large, diversified manufacturers to small, highly specialized manufacturers. In the recent times, the electronic components industry has become increasingly concentrated and globalized and the major competitors have significant financial resources and technological capabilities. A number of these competitors compete on the basis of price and in some cases enjoy lower production costs for certain products. Therefore, increased competition results in price reductions, reduced margins, or loss of market share, any of which has an adverse affect on the results of operations, financial position, and cash flows.

Sluggishness in oil and gas markets and its derivative impact on other industrial markets are acting as strong headwinds for TE Connectivity.

Last Earnings Report

TE Connectivity's Q3 Earnings & Revenues Beat Estimates

TE Connectivity reported third-quarter fiscal 2020 adjusted earnings of 59 cents per share, beating the Zacks Consensus Estimate by 40.5%.

However, the bottom line declined 60.7% on a year-over-year basis and 54.3% sequentially.

Net sales in the reported quarter were \$2.5 billion, which surpassed the Zacks Consensus Estimate of \$2.4 billion. However, the figure slumped 24.8% from the year-ago quarter and 20.2% from the previous quarter.

The year-over-year decline can be attributed to weakness across the key end-markets, which affected performance of Transportation and Industrial segments in the reported quarter. Moreover, coronavirus-induced disruptions remained concerns.

Further, the company's total orders came in at \$2.4 billion during the quarter under review, which declined 29.1% sequentially.

Nevertheless, the company's global manufacturing strategy and solid growth in data center market remained positives.

Additionally, strong performance by Communications segment in the fiscal third quarter was a tailwind.

However, uncertainties related coronavirus pandemic remain concerns.

Nevertheless, continued solid execution of the company's strategic plans especially cost reduction and footprint consolidation initiatives are key catalysts.

Top-Line in Detail

TE Connectivity operates in three organized segments.

Transportation Solutions: The company generated sales worth \$1.3 billion (49.3% of net sales) in the reported quarter, down 36.2% on a year-over-year basis. This can be attributed to weakness in auto production globally, which resulted in a year-over-year decline of 44% in automotive sales. Further, sluggishness in commercial transportation led to year-over-year fall of 27% in sales from this particular space. Additionally, TE Connectivity experienced 3% decrease in the sensors business year over year.

Industrial Solutions: This segment generated sales of \$865 million (33.9% of net sales), which fell 13.9% year over year. This was primarily due to sluggishness in the commercial aerospace that led to decline of 23% year over year in sales generated from aerospace, defence and marine market in the reported quarter.

Further, the company witnessed a decline of 14% in the industrial equipment sales from the year-ago quarter. Although the company performed sluggishly in North America and Europe, it delivered growth in China.

Moreover, delays in elective procedures due to ongoing pandemic led to year-over-year decline of 9% in medical sales. Additionally, energy sales fell 2% from the year-ago quarter due to sluggishness in North American region, which did offset growth in Europe and China.

Communications Solutions: This segment generated sales of \$428 million (16.8% of net sales), improving 2.9% year over year. Although the company witnessed 11% decline in appliances, it witnessed year-over-year improvement of 13% in data centers, which remained a major positive.

Operating Details

Per management, gross margin came in at 27.7%, contracting 500 basis points (bps) from the year-ago quarter.

We note that R&D expenses were \$146 million, which declined 7.6% year over year. Further, selling, general, and administrative expenses were \$321 million, down 9.8% year over year. Further, acquisition and integration expenses totaled \$8 million, declining 11.1% from the year-ago quarter.

However, restructuring costs increased 46.3% from the year-ago quarter to \$98 million in the reported quarter.

Consequently, adjusted operating margin came in at 9.4%, contracting from 17.6% in the prior-year quarter.

Balance Sheet & Cash Flow

As of Jun 26, 2020, TE Connectivity's cash and cash equivalents were \$474 million, lower than \$796 million as of Mar 27, 2020.

Long-term debt was \$3.4 billion, down from \$3.7 billion in the previous quarter.

The company generated \$380 million of cash from operations in the reported quarter, down from \$481 million in the prior quarter.

Further, free cash flow of \$280 million was generated in the reported quarter. Additionally, TE Connectivity paid out \$241 million to shareholders during the reported quarter.

Guidance

The company anticipates net sales to be up 10% sequentially in fourth-quarter fiscal 2020. Improving Transportation segment is likely to drive the

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	6.82%
EPS Surprise	40.48%
Quarterly EPS	0.59
Annual EPS (TTM)	4.42

top line.

Recent News

On **May 5, 2020**, TE Connectivity's Board of Directors approved a quarterly dividend of 48 cents per share for the shareholders of the record as of May 22 payable on Jun 5.

On **Mar 12, 2020**, TE Connectivity acquired 71.87% stake in First Sensor which a sensor technology company. The acquisition is expected to add strength to the company's sensor business.

Valuation

TE Connectivity shares are down 4.3% in the year-to-date period but up 3.1% over the trailing 12-month period. While stocks in the Zacks sub-industry are down 3.3%, the same in the Zacks Computer & Technology sector are up 20.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector is up 7% and 37.4%, respectively.

The S&P 500 index is up 2.6% in the year-to-date period and 15.1% in the past year.

The stock is currently trading at 19.68X forward 12-month earnings, which compares to 21.59X for the Zacks sub-industry, 26.31X for the Zacks sector and 22.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.8X and as low as 9.73X, with a 5-year median of 15.63X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$98 price target reflects 21.18X forward 12-month earnings.

The table below shows summary valuation data for TEL

Valuation Multiples - TEL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.68	21.59	26.31	22.6
	5-Year High	20.8	21.59	26.31	22.6
	5-Year Low	9.73	13.9	16.72	15.25
	5-Year Median	15.63	17.09	19.47	17.55
P/S F12M	Current	2.4	1.68	4.07	3.61
	5-Year High	2.56	1.87	4.07	3.61
	5-Year Low	1.33	0.94	2.32	2.53
	5-Year Median	2.09	1.45	3.14	3.04
EV/EBITDA TTM	Current	8.6	8.23	13.62	12.8
	5-Year High	24.75	16.52	13.62	12.85
	5-Year Low	6	5.45	7.59	8.24
	5-Year Median	11.81	8.69	10.89	10.89

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Top 49% (124 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Amphenol Corporation (APH)	Outperform	2
Applied Materials, Inc. (AMAT)	Neutral	4
Broadcom Inc. (AVGO)	Neutral	2
Eastman Chemical Company (EMN)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3
MACOM Technology Solutions Holdings, Inc. (MTSI)	Neutral	2
STMicroelectronics N.V. (STM)	Neutral	2
Belden Inc (BDC)	Underperform	5

Industry Comparison Industry: Electronics - Miscellaneous Components				Industry Peers		
	TEL	X Industry	S&P 500	AMAT	APH	MTSI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	2	2
VGM Score	B	-	-	A	B	C
Market Cap	30.06 B	121.55 M	22.75 B	59.43 B	32.35 B	2.80 B
# of Analysts	8	2	14	10	8	8
Dividend Yield	2.11%	0.00%	1.76%	1.36%	0.92%	0.00%
Value Score	B	-	-	B	C	F
Cash/Price	0.02	0.13	0.07	0.10	0.04	0.09
EV/EBITDA	12.26	8.19	13.09	15.49	18.07	-11.51
PEG Ratio	2.30	2.95	2.95	1.25	4.34	NA
Price/Book (P/B)	3.29	1.89	3.16	6.59	6.74	10.25
Price/Cash Flow (P/CF)	11.87	12.44	12.32	18.50	21.98	40.57
P/E (F1)	23.64	31.84	21.81	17.00	32.62	45.35
Price/Sales (P/S)	2.46	1.22	2.46	3.85	3.99	5.66
Earnings Yield	4.27%	2.29%	4.40%	5.88%	3.06%	2.20%
Debt/Equity	0.37	0.17	0.76	0.69	0.78	2.50
Cash Flow (\$/share)	7.67	0.72	6.94	3.51	4.93	1.03
Growth Score	C	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	9.32%	10.95%	10.46%	31.78%	11.31%	-48.55%
Proj. EPS Growth (F1/F0)	-29.84%	-27.39%	-7.16%	25.46%	-11.13%	418.53%
Curr. Cash Flow Growth	-2.61%	-15.46%	5.47%	-35.58%	-1.02%	-30.98%
Hist. Cash Flow Growth (3-5 yrs)	3.85%	8.80%	8.55%	13.90%	10.51%	-8.89%
Current Ratio	1.43	2.30	1.32	2.67	2.59	4.74
Debt/Capital	27.08%	15.44%	44.36%	40.78%	43.95%	71.40%
Net Margin	-0.81%	3.36%	10.25%	18.89%	13.56%	-11.20%
Return on Equity	15.06%	7.84%	14.67%	37.13%	23.39%	2.57%
Sales/Assets	0.63	0.81	0.51	0.78	0.72	0.44
Proj. Sales Growth (F1/F0)	-12.79%	0.00%	-1.71%	14.10%	-3.45%	7.36%
Momentum Score	A	-	-	A	A	B
Daily Price Chg	1.43%	0.00%	0.42%	-0.25%	0.96%	-1.41%
1 Week Price Chg	2.06%	0.40%	0.14%	6.12%	1.31%	15.97%
4 Week Price Chg	12.67%	3.67%	4.97%	4.29%	12.68%	20.37%
12 Week Price Chg	27.53%	11.91%	15.30%	23.92%	28.66%	41.00%
52 Week Price Chg	2.78%	1.02%	2.34%	39.97%	24.24%	112.75%
20 Day Average Volume	1,786,963	29,728	2,082,836	5,656,815	1,480,579	696,407
(F1) EPS Est 1 week change	4.36%	0.00%	0.00%	0.00%	1.37%	91.30%
(F1) EPS Est 4 week change	3.86%	0.00%	0.93%	0.00%	11.07%	91.30%
(F1) EPS Est 12 week change	3.86%	-3.33%	0.78%	1.90%	11.07%	91.30%
(Q1) EPS Est Mthly Chg	-1.42%	0.00%	0.17%	0.00%	15.16%	101.69%

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	B
Growth Score	C
Momentum Score	A
VGM Score	B

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

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