

TE Connectivity Ltd. (TEL)

\$100.32 (As of 01/14/20)

Price Target (6-12 Months): **\$105.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

TE Connectivity is currently benefiting from solid momentum in the industrial segment. Moreover, it is gaining traction in the areas of aerospace, defense, marine and medical applications which in turn is helping the adoption rate of industrial solutions. Further, growing adoption of sensors in industrial and auto applications is a tailwind. Additionally, the company's expanding content in engineered solutions is a positive. We believe sustained execution of the company's strategic plans is likely to aid business growth in the near term. However, slowdown in the global auto-production is hurting its Transportation segment. Further, inventory destocking is an overhang for the company's Communications unit. Also, supply chain adjustments remain headwinds. Notably, the stock has underperformed its industry over a year.

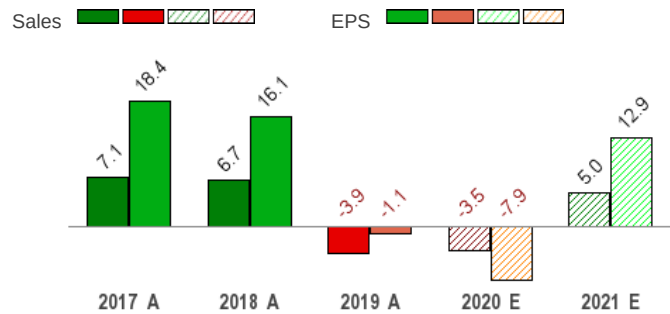
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$100.78 - \$74.84
20 Day Average Volume (sh)	1,296,858
Market Cap	\$33.7 B
YTD Price Change	4.7%
Beta	1.14
Dividend / Div Yld	\$1.84 / 1.8%
Industry	Electronics - Miscellaneous Components
Zacks Industry Rank	Bottom 19% (207 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.5%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	18.1
P/E F1	19.6
PEG F1	1.9
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,263 E	3,402 E	3,493 E	3,469 E	13,630 E
2020	3,111 E	3,267 E	3,351 E	3,327 E	12,983 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	\$1.32 E	\$1.43 E	\$1.50 E	\$1.47 E	\$5.77 E
2020	\$1.14 E	\$1.25 E	\$1.35 E	\$1.36 E	\$5.11 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 01/14/2020. The reports text is as of 01/15/2020.

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.

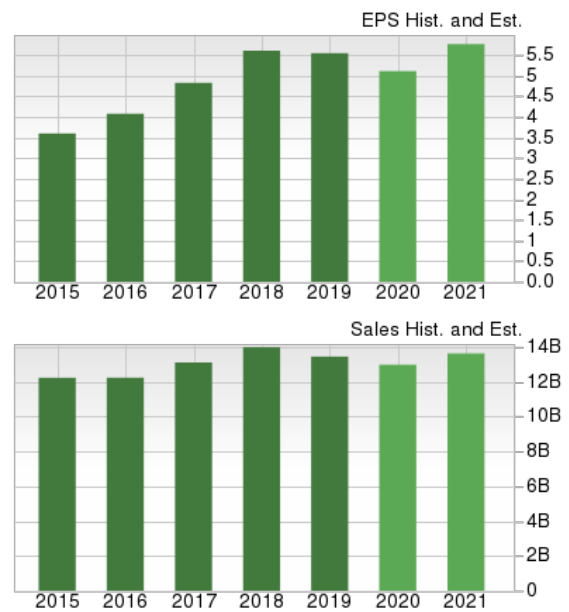
Industrial Solutions (29.4%): The segment caters to growing demand for the company's products in the end markets – industrial equipment, energy, and aerospace, defense, oil and gas. TE Connectivity supplies electronic components, including connectors, relays, circuit protection devices, antennas and 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 three pillars — drives above market expansion through focus on harsh environment applications; leverage on "TEOA continuous improvement" system to expand margin and reduce fixed cost; and execute a balanced capital allocation strategy to conduct bolt-on acquisitions and return capital back shareholders— to stoke growth. Overall, strong demand in end markets, along with its overarching business model, continued progress on strategic priorities and solid execution continues to benefit TE Connectivity's sales.
- ▲ 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. It sold its subsea communications business (SubCom), which used to be sluggish since the last year. This will allow the company to focus more on its industrial pertaining solutions.

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.
- ▼ As TE Connectivity operates in various economies globally, weak economic conditions considerably impact its revenues. Financial markets in certain foreign countries, especially in China, have been experiencing economic inconsistencies. Going forward, TE Connectivity believes that industrial, data & devices, and communications businesses will be heavily hit by the weakness in Chinese economy. Additionally, though TE Connectivity's ongoing restructuring and acquisition activities bode well for the long term, they tend to push up operating expenses and curb the quarterly results in the near term.
- ▼ 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 Q4 Earnings & Revenues Beat Estimates

TE Connectivity reported fourth-quarter fiscal 2019 adjusted earnings of \$1.33 per share, beating the Zacks Consensus Estimate by 2 cents. Notably, the figure met the higher end of management's guidance.

However, the bottom line declined 1.5% on a year-over-year basis.

Net sales in the reported quarter were \$3.3 billion, which surpassed the Zacks Consensus Estimate of \$3.27 billion. Further, the figure matched the higher end of the guided range. However, the figure declined 6% from the year-ago quarter.

This can be attributed to weakness in the key end-markets. Further, weak performance by Transportation and Communication segments of the company impacted the top line. Moreover, declining orders remains an overhang.

The company's total orders came in at \$3.2 billion during the reported quarter.

Nevertheless, continued solid execution of the company's strategic plans especially cost reduction initiatives in order to generate strong cash flow, is likely to aid it in winning shareholders' confidence. Further, the company is expanding content in engineered solutions.

Top-Line in Detail

TE Connectivity operates in three organized segments.

Transportation Solutions: The company generated \$1.89 billion of sales (57.5% of net sales) in the reported quarter, down 5.8% 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 6% in automotive sales. Further, its commercial transportation business was down 9% from the year-ago quarter. However, the company witnessed improved performance by its sensor business, which was up 1% year over year.

Industrial Solutions: This segment yielded sales of \$1.01 billion (30.7% of net sales), which remained flat year over year. The company witnessed 7% decline in its industrial equipment business on a year-over-year basis. Further, growth in energy solutions in North America and China was offset by softness in Europe. Energy was down 2% from the year-ago quarter.

However, TE Connectivity experienced solid momentum in aerospace, defense and marine field where it witnessed 12% growth year over year. Further, it gained traction across medical applications during the reported quarter.

Communications Solutions: This segment generated sales of \$390 million (11.8% of net sales), decreasing 19% year over year. This can be attributed to inventory destocking, which resulted in a decline of 18% in data & devices and 21% in appliances solutions on a year-over-year basis.

Operating Details

Per the company, gross margin came in 31.9%, contracting 180 bps from the year-ago quarter.

We note that R&D expenses were \$159 million, down 7% from the prior-year quarter. Further, selling, general, and administrative expenses came in at \$372 million, down 10.1% year over year.

However, acquisition and integration expenses totaled \$6 million, up 20% from the year-ago quarter. Further, restructuring costs increased significantly from \$22 million in the year-ago quarter to \$71 million in the reported quarter.

Consequently, adjusted operating margin came in at 16.3%, contracting 70 bps from the prior-year quarter.

Balance Sheet & Cash Flow

As of Sep 27, 2019, TE Connectivity's cash and cash equivalents of \$927 million, higher than \$546 million as of Jun 28, 2019.

Long-term debt was \$3.39 billion, down from \$3.43 billion in the previous quarter.

The company generated \$878 million of cash from operation in the fiscal fourth quarter, compared with \$691 million in the fiscal third quarter.

Further, free cash flow of \$688 million was generated in the reported quarter. Additionally, TE Connectivity paid out \$332 million to shareholders through share repurchases and dividend payments.

Guidance

For fiscal first-quarter 2020, the company expects net sales in the range of \$3 billion to \$3.2 billion.

Adjusted earnings per share are projected in the band of \$1.10-\$1.16 for the first quarter.

For fiscal 2020, TE Connectivity anticipates net sales between \$12.7 billion and \$13.3 billion.

Further, adjusted earnings for fiscal 2020 are expected between \$4.85 and \$5.25 per share.

Quarter Ending 09/2019

Report Date	Oct 30, 2019
Sales Surprise	0.88%
EPS Surprise	1.53%
Quarterly EPS	1.33
Annual EPS (TTM)	5.54

Recent News

On **Nov 6, 2019**, TE Connectivity announced a quarterly dividend of 46 cents per share for the shareholders of the record as of Nov 22, 2019 which will be paid on Dec 6, 2019.

Valuation

TE Connectivity shares are up 11.4% in the six-month period and 27.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 12.8% and 14.6% in the six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 30.6% and 33.1%, respectively.

The S&P 500 index is up 9.9% in the six-month period and 24.5% in the past year.

The stock is currently trading at 18.91X forward 12-month earnings, which compares to 22.35X for the Zacks sub-industry, 22.84X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.91X and as low as 12.1X, with a 5-year median of 15.65X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$105 price target reflects 19.81X 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	18.91	22.35	22.84	18.96
	5-Year High	18.91	22.35	22.84	19.34
	5-Year Low	12.1	13.72	16.87	15.17
	5-Year Median	15.65	16.48	19.24	17.44
P/S F 12M	Current	2.55	2.1	3.68	3.52
	5-Year High	2.56	2.1	3.68	3.52
	5-Year Low	1.54	0.92	2.3	2.54
	5-Year Median	2.07	1.4	3.01	3
EV/EBITDA TTM	Current	13.58	11.67	12.41	12.12
	5-Year High	24.6	15.8	12.6	12.86
	5-Year Low	8.23	5.46	7.68	8.48
	5-Year Median	12.45	8.88	10.52	10.67

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (207 out of 254)



Top Peers

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

Industry Comparison Industry: Electronics - Miscellaneous Components				Industry Peers		
	TEL Neutral	X Industry	S&P 500	AMAT Outperform	APH Neutral	MTSI Neutral
VGM Score	C	-	-	D	C	-
Market Cap	33.70 B	218.15 M	24.31 B	57.07 B	32.47 B	1.81 B
# of Analysts	9	2	13	10	8	5
Dividend Yield	1.83%	0.00%	1.76%	1.35%	0.91%	0.00%
Value Score	C	-	-	D	D	F
Cash/Price	0.03	0.12	0.04	0.06	0.03	0.10
EV/EBITDA	13.45	9.60	14.08	15.03	17.60	-8.29
PEG Ratio	1.90	1.92	2.06	2.02	2.87	8.05
Price/Book (P/B)	3.19	1.93	3.33	7.01	7.71	5.76
Price/Cash Flow (P/CF)	13.08	12.93	13.62	17.79	22.33	26.50
P/E (F1)	19.53	21.02	18.86	16.52	27.59	108.57
Price/Sales (P/S)	2.51	1.25	2.65	3.91	3.91	3.62
Earnings Yield	5.09%	4.54%	5.27%	6.05%	3.63%	0.91%
Debt/Equity	0.32	0.17	0.72	0.57	0.84	2.18
Cash Flow (\$/share)	7.67	1.01	6.94	3.51	4.90	1.03
Growth Score	C	-	-	D	B	F
Hist. EPS Growth (3-5 yrs)	11.41%	17.79%	10.56%	39.24%	13.78%	-37.02%
Proj. EPS Growth (F1/F0)	-7.87%	9.32%	7.52%	24.14%	8.32%	186.90%
Curr. Cash Flow Growth	-2.61%	4.62%	14.88%	-35.58%	21.82%	-30.98%
Hist. Cash Flow Growth (3-5 yrs)	3.85%	11.21%	9.00%	13.90%	14.17%	-8.89%
Current Ratio	1.57	2.33	1.23	2.30	1.99	5.33
Debt/Capital	24.31%	16.90%	42.99%	36.46%	45.71%	68.57%
Net Margin	13.71%	6.31%	11.14%	18.52%	14.15%	-77.29%
Return on Equity	18.20%	10.99%	17.16%	35.13%	28.19%	-10.69%
Sales/Assets	0.69	0.90	0.55	0.77	0.80	0.39
Proj. Sales Growth (F1/F0)	-2.96%	2.82%	4.18%	13.98%	3.60%	-3.23%
Momentum Score	D	-	-	C	D	-
Daily Price Chg	2.45%	0.00%	0.08%	0.87%	0.36%	1.30%
1 Week Price Chg	2.83%	0.05%	0.39%	0.42%	0.21%	1.27%
4 Week Price Chg	5.10%	1.77%	1.93%	2.57%	2.43%	0.29%
12 Week Price Chg	6.81%	9.14%	6.50%	19.95%	10.51%	27.61%
52 Week Price Chg	29.75%	13.64%	22.56%	84.74%	35.00%	64.92%
20 Day Average Volume	1,296,858	34,641	1,571,506	5,254,516	798,803	262,677
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	NA
(F1) EPS Est 4 week change	-0.02%	0.00%	0.00%	0.00%	-0.07%	NA
(F1) EPS Est 12 week change	-12.06%	-9.08%	-0.52%	14.21%	-0.67%	100.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.19%	0.00%

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	C
Growth Score	C
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.

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