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Apr 03, 2020

Tenneco Inc.(TEN)

$2.95 (As of 04/02/20)

Price Target (6-12 Months): **$2.50**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/27/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: C | Momentum: C	

Summary

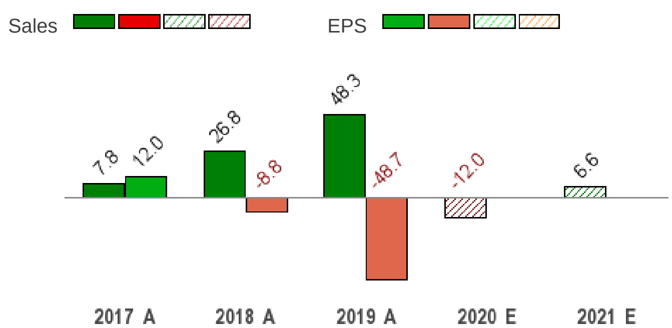
Challenging market conditions, resulting in weak vehicle production volumes, have been weighing on Tenneco. The coronavirus pandemic has crippled the auto industry, and will lead to decline in sales and production, hurting the automotive parts manufacturer. Amid the coronavirus outbreak, the company has withdrawn its first quarter and full year 2020 financial guidance considering the uncertainty due to the coronavirus pandemic and its subsequent negative effects on customer demand. High cost of raw materials and increasing SG&A expenses are clipping the firm's margins, and the trend is likely to continue. Elevated leverage of the firm further limits growth. The delay of DRiV spinoff from the remaining Powertrain Technology business of Tenneco is also acting as a spoilsport. As such, the stock is viewed as a risky bet.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$26.09 - $2.50
20 Day Average Volume (sh)	2,305,210
Market Cap	$169.4 M
YTD Price Change	-77.5%
Beta	2.59
Dividend / Div Yld	$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 15% (216 out of 254)
Last EPS Surprise	-33.3%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	-103.6%
Expected Report Date	05/14/2020
Earnings ESP	-25.8%
P/E TTM	0.9
P/E F1	NA
PEG F1	NA
P/S TTM	0.0

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	4,186 E	4,012 E	4,096 E	4,222 E	16,384 E
2020	3,854 E	3,505 E	3,940 E	4,063 E	15,364 E
2019	4,484 A	4,504 A	4,319 A	4,143 A	17,450 A

EPS Estimates

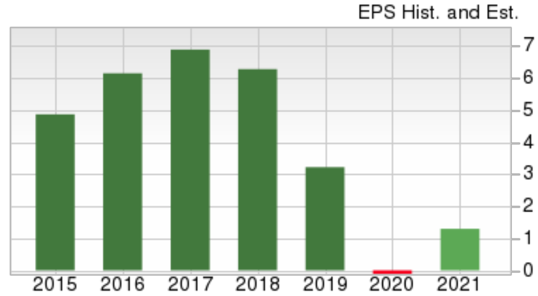
	Q1	Q2	Q3	Q4	Annual*
2021	$0.01 E	-$0.47 E	$0.78 E	$1.00 E	$1.30 E
2020	-$0.62 E	-$0.50 E	$0.58 E	$0.43 E	-$0.11 E
2019	$0.52 A	$1.20 A	$1.23 A	$0.28 A	$3.22 A

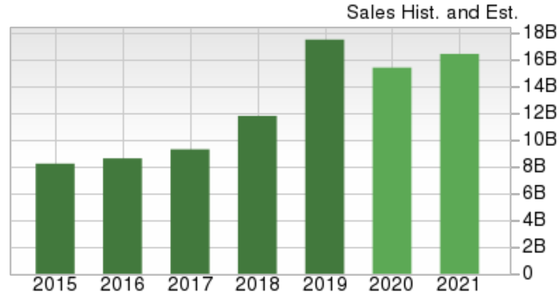
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/02/2020. The reports text is as of 04/03/2020.

Overview

Tenneco Inc., headquartered in Lake Forest, IL, is a leading designer, manufacturer and supplier of clean air, powertrain and ride performance products and systems caters to light vehicle, commercial truck, off-highway, industrial and aftermarket customers. The company's products can be used in light vehicle, commercial truck, off-highway, industrial and aftermarket customers. Few of Tenneco's brands are- Monroe, Champion, Ohlins, MOOG, Walker, Fel-Pro, Wagner, Ferodo, Rancho, Thrush, National, and Sealed Power, among others.





As of Dec 31, 2019, Tenneco operates 210 manufacturing facilities, with around 81,000 employees across the globe.

Tenneco has the following operating segments:

Clean Air (40.8% of revenues in 2019) – The segment offers products that reduce emissions. Being a leading supplier, Tenneco's clean air systems have advanced technologies to benefit the changing environmental standards. The unit has 17 facilities in North and South America, 20 in Europe, and 27 in the Asia Pacific. Further, Tenneco operates 16 production hubs through joint ventures in the Asia Pacific region.

Ride Performance (15.8%) – The unit produces shock absorbers and struts, NVH performance materials that reduce noise, vibration and harshness, and suspension systems. The segment has 10 hubs in North and South America, seven in Europe and South Africa, and eight in the Asia Pacific.

Powertrain (25.2%) – The unit produces pistons, piston rings, piston pins, cylinder liners, valvetrain products and valve seats, among others required for OE applications. The unit has 85 manufacturing sites in 19 countries.

Motorparts (18.2%) – The unit offers products and systems that enhance safety, durability, and performance of vehicles. Few of the products include- chassis, braking, sealing and engine, among others.

Reasons To Sell:

- The coronavirus pandemic has crippled the auto industry, and will lead to decline in sales and production, hurting the automotive parts manufacturer. The company has temporarily suspended or decreased some operations throughout the Americas, EMEA and most of APAC regions, in line with the nationwide campaign addressing the crisis. It has also withdrawn its first quarter and full year 2020 financial guidance considering the uncertainty due to the coronavirus pandemic and its subsequent negative effects on customer demand.

High operating costs and elevated leverage are causes of concern.

- The company has been bearing the brunt of high operating expenses over the last several quarters. High cost of raw materials and increasing SG&A expenses are clipping the firm's margins, and the trend is likely to continue. Moreover, high debt-to-capital ratio of around 79% further restricts Tenneco's financial flexibility to tap on growth opportunities.

- Pricing pressure from OEMs remains a problem for Tenneco. The company largely depends on a few customers in the OEM segment, including General Motors and Ford. Moreover, operational inefficiencies related to manufacturing footprint actions, which are underway in North America and China for the Ride Performance segment, are hampering profits of Tenneco's DRiV.

- The delay of DRiV spinoff from the remaining Powertrain Technology business of Tenneco is also acting as a spoilsport. While the DRiV split is expected by mid-2020, Tenneco still believes that the current end-market conditions will likely impact the firm's ability to complete the planned spinoff within the targeted timeline. Although the company is taking incremental actions to facilitate the planned spinoff of DRiV, volatile industry environment and unfavorable market conditions are acting as deterrents.

Risks

- Tenneco's acquisition of Federal Mogul, which is a leading global supplier to OEMs and aftermarket, has bolstered the firm's scale and prospects along with generating various commercial, financial and operational synergies. The firm delivered on cost savings initiatives in 2019 and achieved $200 million run rate target of cost synergies from the Federal-Mogul transaction by the end of the year.

- After the acquisition of Federal-Mogul, Tenneco has been working on spinning off its existing merged entity in two separate businesses. Expected to occur by mid-2020, the DRiV spin-off will comprise Tenneco's existing Motorparts and Ride Performance segments. The planned spin-off will aid new Tenneco and its spin-off DRiV to focus more on the business and benefit from synergies.

- The company is executing Accelerate program to drive cost savings and strengthen cash flow performance. As a part of the program, the firm expects annual run rate cost savings of $200 million and working capital improvements of $250 million by the end of 2021. Tenneco is indulging in restructuring activities that include streamlining of operations, consolidate available capacity and resources, which will likely to reduce net costs for the company.Although it is costly undergoing thorough the process, the restructuring is likely to benefit Tenneco in the long term.

- The company's diverse business segments are likely to aid organic growth. Also, Tenneco's focus on innovation, quality and performance across all business segments is adding to its growth momentum. Tenneco's focus on cost-savings, disciplined capex reductions, and other strategic efforts are likely to enable the firm turn free cash flow positive by the year end. It expects the FCF to range within $100-$200 million in 2020.

Last Earnings Report

Tenneco Delivers Dismal Q4 Show

Quarter Ending	12/2019
Report Date	Feb 20, 2020
Sales Surprise	3.92%
EPS Surprise	-33.33%
Quarterly EPS	0.28
Annual EPS (TTM)	3.23

Tenneco posted fourth-quarter 2019 adjusted earnings per share of 28 cents, missing the consensus mark of 42 cents and declining 78.4% year over year. Revenues totaled $4,143 million, missing the Zacks Consensus Estimate of $4,204 million. The top line also declined from $4,278 million recorded in fourth-quarter 2018.

Segmental Highlights

The Clean Air division's revenues were $1,743 million compared with the year-earlier figure of $1,655 million. Adjusted EBITDA totaled $142 million in the quarter under review, down from $151 million in the year-ago quarter.

Revenues in the Ride Performance division came in at $641 million compared with $684 million recorded in the year-ago quarter. Adjusted EBITDA totaled $34 million in the quarter under review, down 33.3% year over year.

The Powertrain division's revenues summed $1,018 million, down from $1,112 million recorded in the corresponding quarter of 2018. Adjusted EBITDA totaled $82 million in the quarter under review, down 39.3% year over year.

The Motorparts division's revenues were $741 million, which fell from $827 million generated in fourth-quarter 2018. Adjusted EBITDA totaled $103 million in the quarter under review, down from $118 million recorded in fourth-quarter 2018.

Financial Position

Tenneco had cash and cash equivalents of $564 million as of Dec 31, 2019. Long-term debt was $5.37 billion, with a debt-to-capital ratio of 78.7%.

Outlook

Per IHS Markit, global light vehicle production is expected to fall 4% in 2020, and impact the company's revenues and earnings. The firm expects unfavorable foreign currency translations to negatively impact revenues by 1% year over year. For full-year 2020, the company expects revenues in the range of $16.7-$17.1 billion. Further, adjusted EBITDA is projected at $1.3-$1.45 billion. Adjusted free cash flow is anticipated in the band of $100-$200 million.

First-quarter revenues are forecast between $3.95 billion and $4.15 billion. Adjusted EBITDA is anticipated in the range of $240-$280 million. Amid the coronavirus outbreak in China, Tenneco expects $150-million impact on value-add revenues and $50 million on EBITDA.

Recent News

Tenneco Withdraws ’20 Guidance on Coronavirus Scare

On **Apr 3**, Tenneco announced that it is withdrawing its first quarter and full year 2020 financial guidance considering the uncertainty due to the coronavirus pandemic and its subsequent negative effects on customer demand.The company also reported that it has temporarily suspended or decreased some operations throughout the Americas, EMEA and most of APAC regions. Further, the company has planned to cut down the capex guidance to less than $400 million. This decrease in capex is lower than the previously stated 2020 guidance of $610-650 million and 2019 expenditures, which were greater than $700 million.

Valuation

Tenneco’s shares are down 77.5% and 87.7% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Automotive sector are down 35.9% and 28.6%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 33.2% and 23.1%, respectively.

The S&P 500 index is down 23.2% in the year-to-date period and 14.3% in the past year.

The stock is currently trading at 0.94X forward 12-month earnings, which compares to 11.41X for the Zacks sub-industry, 9.19X for the Zacks sector and 15.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.44X and as low as 0.94X, with a 5-year median of 7.94X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our $2.50 price target reflects 0.79X F12M.

The table below shows summary valuation data for TEN:

Valuation Multiples - TEN

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	0.94	11.41	9.19	15.37
	5-Year High	12.44	13.4	11.75	19.34
	5-Year Low	0.94	8.52	8.23	15.18
	5-Year Median	7.94	11.58	9.86	17.44
EV/EBITDA TTM	Current	3.61	4.7	8.52	9.15
	5-Year High	7.27	8.66	11.34	12.88
	5-Year Low	3.43	4.37	6.97	8.27
	5-Year Median	5.55	6.58	9.28	10.78
P/S F12M	Current	0.01	0.46	0.49	2.7
	5-Year High	0.44	0.81	0.76	3.43
	5-Year Low	0.01	0.46	0.49	2.54
	5-Year Median	0.31	0.64	0.61	3

As of 04/02/2020

Industry Analysis **Zacks Industry Rank:** Bottom 15% (216 out of 254)

Top Peers

Allison Transmission Holdings, Inc. **(ALSN)**	Neutral
BorgWarner Inc. **(BWA)**	Neutral
Johnson Controls International plc **(JCI)**	Neutral
Lear Corporation **(LEA)**	Neutral
American Axle & Manufacturing Holdings, Inc. **(AXL)**	Underperform
Cummins Inc. **(CMI)**	Underperform
Magna International Inc. **(MGA)**	Underperform
Meritor, Inc. **(MTOR)**	Underperform

Industry Comparison Industry: Automotive - Original Equipment

				Industry Peers		
	TEN Underperform	**X Industry**	**S&P 500**	**AXL** Underperform	**MGA** Underperform	**MTOR** Underperform
VGM Score	B	-	-	B	A	F
Market Cap	169.37 M	451.72 M	17.16 B	365.11 M	8.96 B	967.48 M
# of Analysts	5	3	13	5	6	3
Dividend Yield	0.00%	0.00%	2.5%	0.00%	5.41%	0.00%
Value Score	A	-	-	A	A	B
Cash/Price	2.28	0.18	0.06	1.25	0.13	0.10
EV/EBITDA	4.81	3.98	10.80	15.58	2.39	3.38
PEG Ratio	NA	0.99	1.74	0.67	1.15	NA
Price/Book (P/B)	0.10	0.79	2.33	0.37	0.81	2.52
Price/Cash Flow (P/CF)	0.14	2.96	9.11	0.51	2.56	2.59
P/E (F1)	NA	7.72	14.73	5.44	7.68	7.08
Price/Sales (P/S)	0.01	0.23	1.81	0.06	0.23	0.23
Earnings Yield	-3.73%	11.22%	6.71%	18.27%	13.01%	14.13%
Debt/Equity	3.32	0.53	0.70	3.68	0.28	2.35
Cash Flow ($/share)	20.57	3.19	7.01	6.39	11.58	5.05
Growth Score	C	-	-	C	B	F
Hist. EPS Growth (3-5 yrs)	0.25%	9.76%	10.92%	-5.13%	8.45%	27.23%
Proj. EPS Growth (F1/F0)	-103.35%	-13.97%	1.02%	-63.33%	-36.34%	-51.57%
Curr. Cash Flow Growth	63.88%	-4.22%	5.93%	-19.99%	-7.06%	15.83%
Hist. Cash Flow Growth (3-5 yrs)	18.83%	4.58%	8.55%	13.70%	2.26%	19.94%
Current Ratio	1.33	1.61	1.24	1.81	1.26	1.20
Debt/Capital	77.47%	39.44%	42.33%	78.65%	21.57%	70.12%
Net Margin	-1.80%	2.50%	11.67%	-7.42%	4.48%	5.65%
Return on Equity	14.65%	14.04%	16.70%	13.56%	16.65%	71.38%
Sales/Assets	1.30	1.30	0.54	0.90	1.46	1.51
Proj. Sales Growth (F1/F0)	-10.53%	-3.99%	1.54%	-15.77%	-14.24%	-21.05%
Momentum Score	C	-	-	F	F	F
Daily Price Chg	-5.45%	0.00%	1.45%	-2.42%	-1.40%	6.16%
1 Week Price Chg	60.97%	8.76%	12.29%	26.85%	23.78%	19.93%
4 Week Price Chg	-55.57%	-29.03%	-21.33%	-43.83%	-35.50%	-33.49%
12 Week Price Chg	-71.25%	-41.38%	-28.56%	-66.04%	-45.18%	-48.71%
52 Week Price Chg	-87.67%	-43.35%	-22.55%	-79.28%	-43.35%	-40.23%
20 Day Average Volume	2,305,210	222,986	4,257,668	3,067,490	1,996,664	1,659,761
(F1) EPS Est 1 week change	0.00%	0.00%	-0.04%	0.00%	-17.05%	0.00%
(F1) EPS Est 4 week change	-103.58%	-12.76%	-4.30%	-60.56%	-39.61%	-32.73%
(F1) EPS Est 12 week change	-102.64%	-18.03%	-5.47%	-72.18%	-40.84%	-34.32%
(Q1) EPS Est Mthly Chg	-151.88%	-28.77%	-5.91%	-82.56%	-61.63%	-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.

Value Score	A
Growth Score	C
Momentum Score	C
VGM Score	B

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.

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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