

Tenneco Inc.(TEN)

\$4.28 (As of 05/04/20)

Price Target (6-12 Months): **\$4.50**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: D

Summary

Tenneco's acquisition of Federal Mogul has bolstered the firm's scale and prospects along with generating various commercial, financial and operational synergies. Also, Tenneco's focus on innovation, quality and performance across all business segments is adding to its growth momentum. However, 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 The company has withdrawn its first quarter and full year 2020 financial guidance considering the uncertainty due to the coronavirus pandemic and its subsequent negative effects on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.

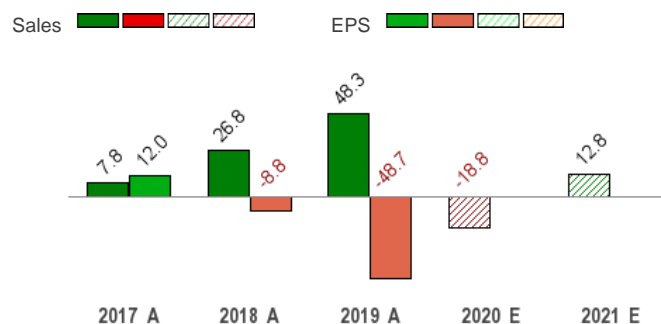
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.23 - \$2.21
20 Day Average Volume (sh)	2,292,616
Market Cap	\$245.9 M
YTD Price Change	-67.3%
Beta	2.76
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 19% (206 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-33.3%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	-576.3%
Expected Report Date	05/08/2020
Earnings ESP	-9.3%
P/E TTM	1.3
P/E F1	NA
PEG F1	NA
P/S TTM	0.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,081 E	3,571 E	4,023 E	4,306 E	15,986 E
2020	3,677 E	2,634 E	3,828 E	4,033 E	14,172 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	\$0.13 E	-\$2.20 E	\$0.59 E	\$1.17 E	\$0.44 E
2020	-\$0.95 E	-\$2.77 E	\$0.19 E	\$0.16 E	-\$3.37 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 05/04/2020. The reports text is as of 05/05/2020.

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.

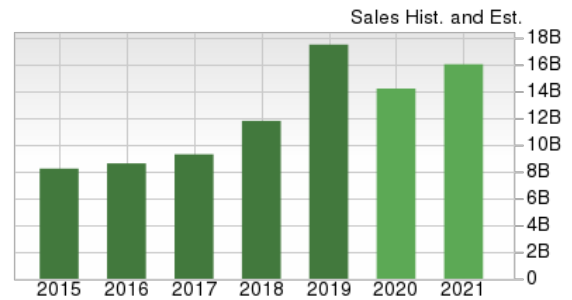
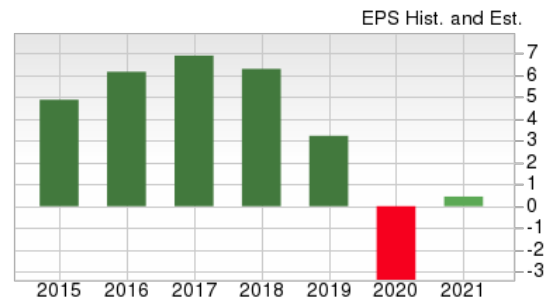
Tenneco has the following operating segments:

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 Buy:

- ▲ 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.

Tenneco's focus on innovation, quality and performance across all business segments is adding to its growth momentum.

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.
- ▼ 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, as of Dec 31, 2019, the company's long-term debt amounted to \$5.37 billion, up from \$5.34 billion as of Dec 31, 2018. Its total debt-to-capital ratio stands at 0.77, higher than its industry's 0.43. A high total debt-to-capital ratio often indicates that a firm may not be able to generate enough cash to satisfy its debt obligations. Moreover, the company's times interest earned ratio of 0.0038 is unfavorable to the industry ratio of 0.09.
- ▼ 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.

High operating costs and elevated leverage are causes of concern.

Last Earnings Report

Tenneco Delivers Dismal Q4 Show

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.

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

Valuation

Tenneco's shares are down 79.7% 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 20.9% and 6.2%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 24% and 13%, respectively.

The S&P 500 index is down 11.7% in the year-to-date period and 3.3% in the past year.

The stock is currently trading at 0.02X forward 12-month sales, which compares to 0.6X for the Zacks sub-industry, 0.66X for the Zacks sector and 3.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.44X and as low as 0.01X, with a 5-year median of 0.31X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$4.50 price target reflects 0.02X F12M.

The table below shows summary valuation data for TEN:

Valuation Multiples - TEN					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.02	0.6	0.66	3.2
	5-Year High	0.44	0.81	0.76	3.44
	5-Year Low	0.01	0.47	0.5	2.54
	5-Year Median	0.31	0.63	0.61	3.01
EV/EBITDA TTM	Current	3.66	5.03	9.25	10.37
	5-Year High	7.27	8.66	11.34	12.86
	5-Year Low	3.43	4.16	6.85	8.28
	5-Year Median	5.5	6.54	9.25	10.78
P/B TTM	Current	0.15	1.91	1.45	3.77
	5-Year High	7.26	3.4	2.16	4.55
	5-Year Low	0.08	1.5	1.13	2.84
	5-Year Median	4.41	2.67	1.73	3.64

As of 05/04/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (206 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Allison Transmission Holdings, Inc. (ALSN)	Neutral	3
American Axle & Manufacturing Holdings, Inc. (AXL)	Neutral	3
Johnson Controls International plc (JCI)	Neutral	4
Meritor, Inc. (MTOR)	Neutral	3
BorgWarner Inc. (BWA)	Underperform	4
Cummins Inc. (CMI)	Underperform	4
Lear Corporation (LEA)	Underperform	5
Magna International Inc. (MGA)	Underperform	5

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	TEN	X Industry	S&P 500	AXL	MGA	MTOR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	A	-	-	C	A	A
Market Cap	245.94 M	519.48 M	19.65 B	447.63 M	11.05 B	1.35 B
# of Analysts	5	2	14	5	6	3
Dividend Yield	0.00%	0.00%	2.19%	0.00%	4.38%	0.00%
Value Score	A	-	-	B	A	A
Cash/Price	2.01	0.25	0.06	1.12	0.11	0.37
EV/EBITDA	4.88	4.70	11.76	15.95	3.29	3.92
PEG Ratio	NA	1.71	2.48	NA	3.29	NA
Price/Book (P/B)	0.15	0.91	2.63	0.45	0.99	3.18
Price/Cash Flow (P/CF)	0.21	3.62	10.38	0.62	3.15	3.69
P/E (F1)	NA	18.81	18.81	NA	19.20	28.10
Price/Sales (P/S)	0.01	0.28	2.02	0.07	0.28	0.34
Earnings Yield	-78.74%	4.24%	5.07%	-41.16%	5.20%	3.54%
Debt/Equity	3.32	0.51	0.73	3.68	0.28	2.84
Cash Flow (\$/share)	20.57	3.46	7.01	6.39	11.58	5.05
Growth Score	C	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	0.25%	8.45%	10.87%	-5.13%	8.45%	26.99%
Proj. EPS Growth (F1/F0)	-204.60%	-43.82%	-8.14%	-200.86%	-68.57%	-82.64%
Curr. Cash Flow Growth	63.88%	-4.22%	5.88%	-19.99%	-7.06%	15.83%
Hist. Cash Flow Growth (3-5 yrs)	18.83%	5.32%	8.55%	13.70%	3.82%	19.94%
Current Ratio	1.33	1.60	1.25	1.81	1.26	1.64
Debt/Capital	77.47%	38.52%	44.07%	78.65%	21.57%	73.94%
Net Margin	-1.80%	2.14%	11.00%	-7.42%	4.48%	10.29%
Return on Equity	14.65%	13.56%	16.43%	13.56%	16.65%	64.86%
Sales/Assets	1.30	1.25	0.55	0.90	1.46	1.36
Proj. Sales Growth (F1/F0)	-18.78%	-13.15%	-1.76%	-31.35%	-26.05%	-36.00%
Momentum Score	D	-	-	F	D	F
Daily Price Chg	-12.65%	-0.33%	-0.01%	-5.49%	-1.38%	-3.12%
1 Week Price Chg	27.94%	4.96%	0.53%	16.39%	5.23%	18.69%
4 Week Price Chg	50.17%	13.76%	6.66%	28.16%	12.61%	27.06%
12 Week Price Chg	-54.81%	-27.43%	-20.38%	-58.49%	-28.12%	-23.64%
52 Week Price Chg	-79.68%	-31.40%	-13.44%	-70.09%	-32.78%	-18.64%
20 Day Average Volume	2,292,616	188,165	2,567,149	2,469,348	1,135,410	860,847
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-49.62%
(F1) EPS Est 4 week change	-576.31%	-17.89%	-6.96%	-604.32%	-47.80%	-58.11%
(F1) EPS Est 12 week change	-195.48%	-65.71%	-13.90%	-178.50%	-70.50%	-75.88%
(Q1) EPS Est Mthly Chg	-287.15%	-16.80%	-13.62%	-451.81%	-281.97%	-308.82%

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	A
Growth Score	C
Momentum Score	D
VGM Score	A

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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