

Tenneco Inc.(TEN)

\$9.34 (As of 08/10/20)

Price Target (6-12 Months): **\$9.75**

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:C

Value: C

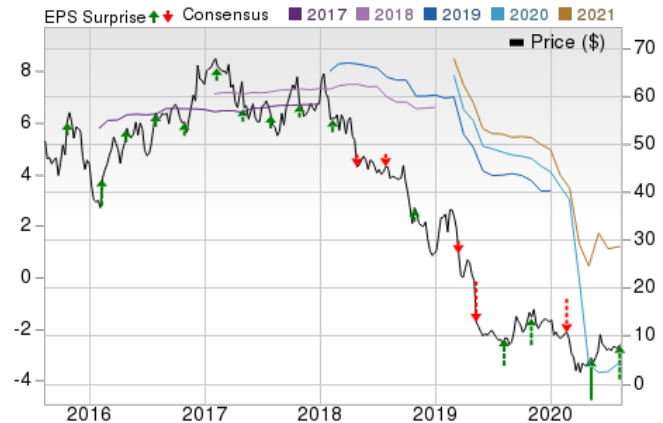
Growth: D

Momentum: A

Summary

Tenneco's acquisition of Federal Mogul has bolstered the firm's scale and prospects, along with generating various commercial and operational synergies. Also, Tenneco's focus on innovation, quality and performance across all business segments is boosting 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 The company has withdrawn the full-year 2020 financial guidance considering the uncertainty due to the pandemic and its subsequent negative impact on customer demand. The delay of DRiV spinoff from the remaining Powertrain Technology business of Tenneco is also acting as a spoilsport. Elevated leverage of the firm further limits growth. As such, investors are recommended to wait for a better entry point.

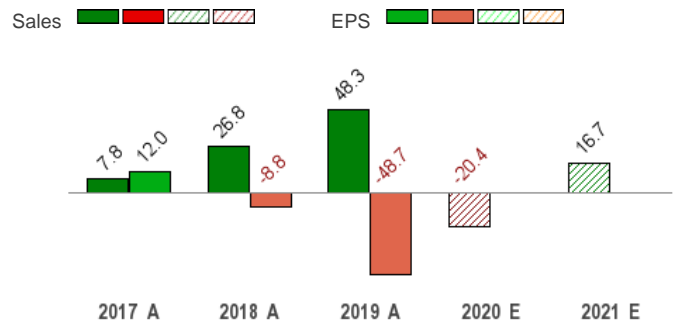
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$16.29 - \$2.21
20 Day Average Volume (sh)	1,204,937
Market Cap	\$569.3 M
YTD Price Change	-28.7%
Beta	2.82
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Top 36% (90 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	38.9%
Last Sales Surprise	19.3%
EPS F1 Est- 4 week change	14.1%
Expected Report Date	10/29/2020
Earnings ESP	-24.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,004 E	4,414 E	4,031 E	4,042 E	16,206 E
2020	3,836 A	2,637 A	3,849 E	3,914 E	13,892 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	\$0.10 E	\$0.60 E	\$0.69 E	\$0.29 E	\$1.45 E
2020	-\$0.31 A	-\$2.15 A	\$0.39 E	-\$0.12 E	-\$3.04 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

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.

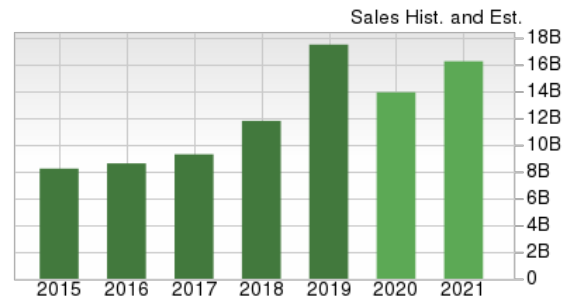
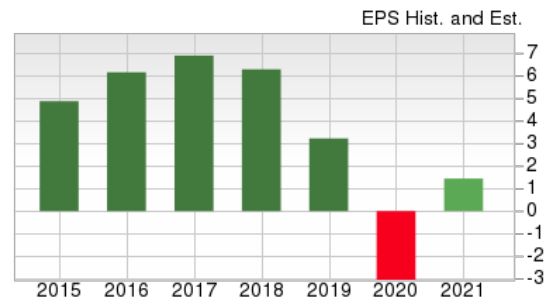
Tenneco has the following operating segments:

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 2019.
- ▲ 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 costly, the restructuring is likely to benefit Tenneco over the long term. The company has been working on spinning off its existing merged entity in two separate businesses. 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's diverse business segments are likely to stoke organic growth. Also, Tenneco's focus on innovation, quality and performance across all business segments is accelerating 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. Notably, the company had a strong liquidity position of \$1.37 billion as of Jun 30, 2020, compared with \$564 million as of Dec 31, 2019.
- ▲ 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 \$165 million and working capital improvements of \$265 million by the end of 2021. In response to the uncertainty caused by the coronavirus pandemic, Tenneco has initiated a series of cost savings throughout the enterprise, including substantial staffing adjustments, compensation cuts and drawdowns on revolving credit facilities. The focus on cost discipline is anticipated to provide an incremental \$150 million in annual run rate cost savings by the end of 2020.

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

Reasons To Sell:

- ▼ Automotive parts manufacturer, Tenneco, is likely to feel the heat of the COVID-19 pandemic, which has rattled the auto industry, sending the production and sales for a toss. Such unprecedented challenges have prompted the company to withdraw its 2020 outlook. Tenneco expects revenues to decrease Y/Y in the upcoming quarter. Weak consumer sentiment amid the virus outbreak is likely to affect the firm's sales and earnings in the near future.
 - ▼ Rising debt levels are a cause of worry. As of Jun 30, 2020, the company's long-term debt amounted to \$6,629 million, up from \$5,371 million as of Dec 31, 2019. Its total debt-to-capital ratio stands at 0.9, higher than its industry's 0.45. A high total debt-to-capital ratio often indicates that a firm might be unable to generate enough cash to satisfy its debt obligations.
 - ▼ Headwinds surrounding global light vehicle production are likely to take a toll on Tenneco in third-quarter 2020. Notably, the firm saw a slump of 45% in light vehicle production in second-quarter 2020. Further, in third-quarter 2020, the company anticipates aftermarket revenue to decline 10% to 15% year-over-year, mostly outside North America. The negative impact of fuel price volatility on transportation and logistics costs, raw material costs, discretionary purchases of vehicles or aftermarket products and demand for off-highway equipment is expected to clip the firm's profitability.
 - ▼ The delay of DRiV spin-off from the remaining Powertrain Technology business of Tenneco is also acting as a spoilsport. While the DRiV split is expected by the end of 2020, Tenneco still believes the current end-market conditions will likely impact the firm's ability to complete the planned spin-off within the targeted timeline. Although the company is taking incremental actions to facilitate the planned spin-off of DRiV, volatile industry environment and unfavorable market conditions are acting as deterrents.
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Weak consumer sentiment amid the virus outbreak is likely to affect the firm's sales and earnings in the near future.

Last Earnings Report

Tenneco Q2 Loss Narrower Than Expected

Tenneco posted adjusted loss per share of \$2.15 in second-quarter 2020, narrower than the Zacks Consensus Estimate of loss of \$3.52. Higher-than-anticipated revenues from Clean Air, Powertrain and Ride Performance segments resulted in the narrower-than-expected loss.

However, the bottom-line figure compares unfavorably with the year-ago quarter's earnings of \$1.20 due to lower revenue generation across all of the company's segments.

The OEM auto supplier recorded revenues of \$2,637 million in the reported quarter, beating the Zacks Consensus Estimate of \$2,211 million. The top-line figure, however, declined from the \$4,504 million recorded in second-quarter 2019. Decline in light-vehicle production due to the coronavirus crisis hurt revenues.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	19.25%
EPS Surprise	38.92%
Quarterly EPS	-2.15
Annual EPS (TTM)	-0.95

Segmental Highlights

The Clean Air division's revenues were \$1,140 million compared with the year-earlier figure of \$1,827 million. The figure, however, surpassed the Zacks Consensus Estimate of \$862 million. Adjusted EBITDA totaled \$38 million in the quarter, down from the year-ago quarter's \$168 million.

Revenues in the Ride Performance division came in at \$336 million compared with the \$709 million recorded in the year-ago quarter. The reported figure, however, outpaced the Zacks Consensus Estimate of \$294 million. Negative adjusted EBITDA totaled \$41 million in the June-end quarter, down from positive adjusted EBITDA of \$50 million witnessed in the prior-year quarter.

The Powertrain division's revenues summed \$602 million, down from the \$1,133 million recorded in the corresponding quarter of 2019. The revenue figure, however, beat the Zacks Consensus Estimate of \$486 million. Negative adjusted EBITDA totaled \$21 million in the reported quarter, down from the year-ago quarter's positive adjusted EBITDA of \$118 million.

The Motor parts division's revenues came in at \$559 million, slumping from the \$835 million generated in second-quarter 2019. The figure also missed the Zacks Consensus Estimate of \$566million. Adjusted EBITDA totaled \$71 million in the April-June quarter, down 43.7% year over year.

Financial Position

Tenneco had cash and cash equivalents of \$1,362 million as of Jun 30, 2020, compared with \$564 million as of Dec 31, 2019. Long-term debt was \$6,629 million, up from \$5,371 million as of Dec 31, 2019.

Outlook

Tenneco suspended the 2020 guidance as it expects the pandemic's crippling impact to strain its operations in the days to come.

Tenneco expects sales to be up substantially in the third quarter compared with the second. However, sales will likely decline year on year. The organization also expects the benefit of incremental structural cost savings and continued capital management to result in sequential growth in cash from operations through the second half of 2020.

Valuation

Tenneco's shares are down 28.7% and 6.5% 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 4.8% and up 19.4%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 6.2% and 39.3%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and up 16.3% in the past year.

The stock is currently trading at 0.04X forward 12-month sales, which compares to 0.68X for the Zacks sub-industry, 0.87X for the Zacks sector and 3.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.43X and as low as 0.01X, with a 5-year median of 0.29X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$9.75 price target reflects 0.04X F12M.

The table below shows summary valuation data for TEN:

Valuation Multiples - TEN					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.04	0.68	0.87	3.66
	5-Year High	0.43	0.78	0.87	3.66
	5-Year Low	0.01	0.43	0.49	2.53
	5-Year Median	0.29	0.61	0.61	3.05
EV/EBITDA TTM	Current	5.08	7.36	15.8	12.62
	5-Year High	7.27	8.37	15.99	12.84
	5-Year Low	3.4	3.92	6.82	8.24
	5-Year Median	5.3	6.3	9.33	10.9
P/B TTM	Current	0.88	2.59	2.92	4.67
	5-Year High	7.15	3.14	2.98	4.67
	5-Year Low	0.09	1.44	1.13	2.83
	5-Year Median	4.19	2.51	1.71	3.74

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Top 36% (90 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Johnson Controls International plc (JCI)	Outperform	1
Allison Transmission Holdings, Inc. (ALSN)	Neutral	3
American AxleManufacturing Holdings, Inc. (AXL)	Neutral	3
BorgWarner Inc. (BWA)	Neutral	3
Cummins Inc. (CMI)	Neutral	1
Lear Corporation (LEA)	Neutral	3
Magna International Inc. (MGA)	Neutral	2
Meritor, Inc. (MTOR)	Neutral	3

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	TEN	X Industry	S&P 500	AXL	MGA	MTOR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	C	-	-	D	C	C
Market Cap	569.31 M	855.21 M	23.56 B	855.21 M	15.11 B	1.84 B
# of Analysts	6	2	14	4	6	2
Dividend Yield	0.00%	0.00%	1.71%	0.00%	3.16%	0.00%
Value Score	C	-	-	B	C	B
Cash/Price	1.55	0.18	0.07	1.10	0.08	0.16
EV/EBITDA	6.21	5.66	13.39	15.93	4.54	5.29
PEG Ratio	NA	2.48	2.92	NA	13.51	NA
Price/Book (P/B)	1.63	1.63	3.18	4.30	1.52	4.57
Price/Cash Flow (P/CF)	0.45	5.05	12.69	1.18	4.37	5.05
P/E (F1)	NA	28.12	22.16	NA	44.53	28.01
Price/Sales (P/S)	0.04	0.48	2.55	0.17	0.48	0.56
Earnings Yield	-32.55%	1.73%	4.33%	-19.47%	2.25%	3.57%
Debt/Equity	18.99	0.49	0.77	17.91	0.38	2.96
Cash Flow (\$/share)	20.57	2.75	6.94	6.39	11.58	5.05
Growth Score	D	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	-7.51%	4.10%	10.41%	-11.75%	-0.40%	22.00%
Proj. EPS Growth (F1/F0)	-194.41%	-60.25%	-6.51%	-190.90%	-81.21%	-76.18%
Curr. Cash Flow Growth	63.88%	-5.27%	5.26%	-19.99%	-7.06%	15.83%
Hist. Cash Flow Growth (3-5 yrs)	18.83%	6.06%	8.55%	13.70%	3.82%	19.94%
Current Ratio	1.61	1.68	1.34	1.56	1.27	1.88
Debt/Capital	95.06%	40.41%	44.59%	94.71%	27.48%	74.75%
Net Margin	-9.45%	-0.81%	10.13%	-26.04%	-0.57%	8.63%
Return on Equity	-7.09%	2.42%	14.59%	-13.47%	5.84%	35.42%
Sales/Assets	1.17	1.10	0.51	0.76	1.25	1.12
Proj. Sales Growth (F1/F0)	-20.15%	-15.68%	-1.54%	-30.20%	-24.92%	-32.08%
Momentum Score	A	-	-	F	D	B
Daily Price Chg	14.32%	1.34%	0.91%	5.59%	2.95%	5.81%
1 Week Price Chg	10.26%	4.96%	2.30%	1.27%	6.48%	5.89%
4 Week Price Chg	37.35%	9.42%	8.54%	9.74%	10.62%	33.46%
12 Week Price Chg	80.66%	28.63%	13.68%	13.70%	27.23%	30.65%
52 Week Price Chg	-6.51%	2.52%	3.71%	5.74%	1.97%	33.81%
20 Day Average Volume	1,204,937	198,542	2,015,804	1,790,274	718,701	740,379
(F1) EPS Est 1 week change	9.34%	0.00%	0.00%	-6.51%	5.25%	0.00%
(F1) EPS Est 4 week change	14.12%	0.00%	1.67%	1.01%	5.74%	1.49%
(F1) EPS Est 12 week change	18.21%	-3.61%	2.27%	-10.71%	-17.03%	3.41%
(Q1) EPS Est Mthly Chg	18.69%	0.00%	0.67%	-43.00%	-8.80%	-7.14%

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	D
Momentum Score	A
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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