

Tenneco Inc.(TEN)

\$4.48 (As of 05/15/20)

Price Target (6-12 Months): **\$4.75**

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:D

Value: C

Growth: D

Momentum: D

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 The company has withdrawn the full-year 2020 financial guidance considering the uncertainty due to the pandemic and its subsequent negative impact on customer demand.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.

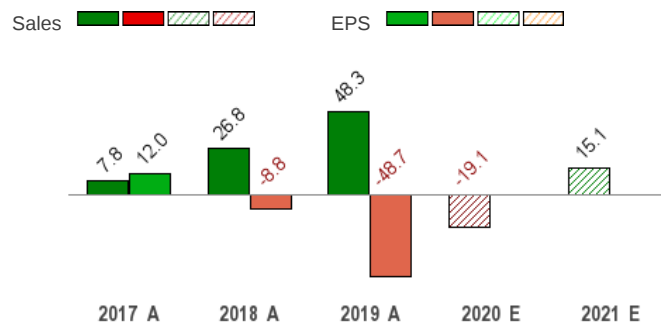
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$16.29 - \$2.21
20 Day Average Volume (sh)	2,101,766
Market Cap	\$273.1 M
YTD Price Change	-65.8%
Beta	2.76
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 21% (200 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	67.4%
Last Sales Surprise	4.3%
EPS F1 Est- 4 week change	-11.9%
Expected Report Date	NA
Earnings ESP	-12.8%
P/E TTM	1.9
P/E F1	NA
PEG F1	NA
P/S TTM	0.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,986 E	4,419 E	4,068 E	4,056 E	16,238 E
2020	3,836 A	2,519 E	3,801 E	3,993 E	14,110 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	-\$0.67 E	-\$0.01 E	\$0.44 E	\$0.08 E	\$1.00 E
2020	-\$0.31 A	-\$3.14 E	\$0.27 E	\$0.18 E	-\$3.28 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 05/15/2020. The reports text is as of 05/18/2020.

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.

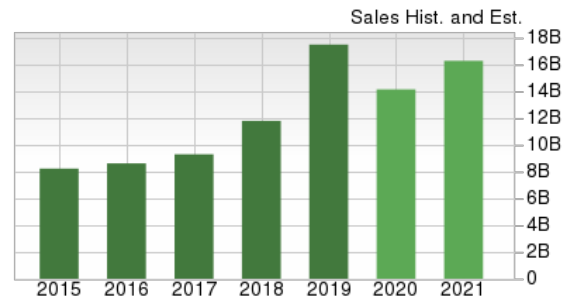
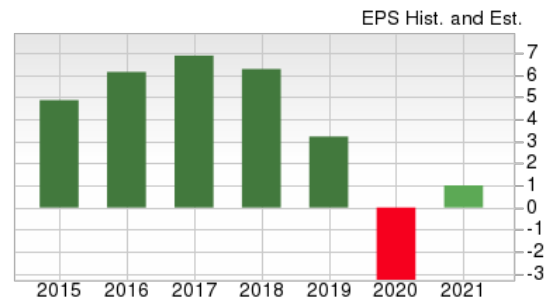
Tenneco has the following operating segments:

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. 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'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 \$1.57 billion as of Mar 31, 2020, comprising \$770 million cash and \$800 million undrawn on its revolving credit facility.
- ▲ 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. 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 \$65 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. 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 Mar 31, 2020, the company's long-term debt amounted to \$5,837 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 0.43. A high total debt-to-capital ratio often indicates that a firm might be unable to generate enough cash to satisfy its debt obligations. Moreover, the company's times interest earned ratio of -2.22 is unfavorable to the industry ratio of 8.68.
 - ▼ Headwinds surrounding global light vehicle production are likely to take a toll on Tenneco in second-quarter 2020. IHS Markit expects a 47% slump in global light vehicle unit production in the second quarter. The company, on the other hand, projects about a 50% plunge year over year for global light vehicle and commercial vehicle production in its major markets. Further, 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 mid-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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Last Earnings Report

Tenneco Q1 Loss Narrower Than Expected

Tenneco posted first-quarter 2020 adjusted loss per share of 31 cents, narrower than the Zacks Consensus Estimate of loss of 95 cents. Higher-than-anticipated revenues from Clean Air, Powertrain and Ride Performance segments resulted in the narrower-than-expected loss.

However, the bottom line compared unfavorably with the year ago quarter's earnings of 52 cents due to lower year-over-year revenues across all the segments.

The OEM auto supplier posted first-quarter 2020 revenues of \$3,836 million, beating the Zacks Consensus Estimate of \$3,677 million. The top line, however, declined from the \$4,484 million recorded in first-quarter 2019. Decline in light-vehicle production due to the coronavirus crisis and unfavorable foreign-currency translation hurt revenues.

Quarter Ending 03/2020

Report Date	May 08, 2020
Sales Surprise	4.31%
EPS Surprise	67.37%
Quarterly EPS	-0.31
Annual EPS (TTM)	2.40

Segmental Highlights

The Clean Air division's revenues were \$1,545 million compared with the year-earlier figure of \$1,779 million. The figure, however, surpassed the Zacks Consensus Estimate of \$1,477 million. Adjusted EBITDA totaled \$104 million in the quarter, down from the year-ago quarter's \$140 million.

Revenues in the Ride Performance division came in at \$588 million compared with the \$733 million recorded in the year-ago quarter. The reported figure, however, outpaced the Zacks Consensus Estimate of \$563 million. Adjusted EBITDA totaled \$16 million in the first quarter, down 48.4% year over year.

The Powertrain division's revenues summed \$997 million, down from the \$1,175 million recorded in the corresponding quarter of 2019. The figure, however, beat the Zacks Consensus Estimate of \$914 million. Adjusted EBITDA totaled \$90 million in the reported quarter, down 22.4% year over year.

The Motorparts division's revenues were \$706 million, which fell from the \$797 million generated in first-quarter 2019. The figure also missed the Zacks Consensus Estimate of \$717 million. Adjusted EBITDA totaled \$73 million in the March-end quarter, down from the \$90 million recorded in first-quarter 2019.

Financial Position

Tenneco had cash and cash equivalents of \$767 million as of Mar 31, 2020, compared with \$564 million as of Dec 31, 2019. Long-term debt was \$5,837 million, up from \$5,371 million as of Dec 31, 2019.

Outlook

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

Valuation

Tenneco's shares are down 65.8% and 61.9% 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 23.5% and 12.5%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 13.9% and up 1.2%, respectively.

The S&P 500 index is down 11.1% in the year-to-date period and up 0.5% 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 3.23X 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 0.3X.

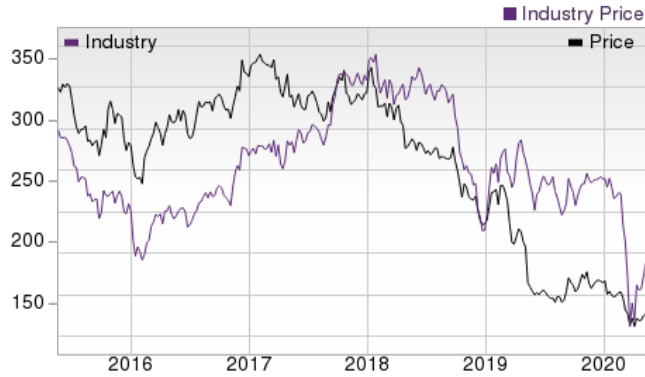
Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$4.75 price target reflects 0.02X F12M.

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	3.23
	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	0.3	0.63	0.62	3.02
EV/EBITDA TTM	Current	3.47	5	10.21	10.37
	5-Year High	7.27	8.63	11.37	12.86
	5-Year Low	3.4	4.16	6.97	8.28
	5-Year Median	5.47	6.52	9.29	10.77
P/B TTM	Current	0.4	1.82	1.36	3.76
	5-Year High	7.26	3.4	2.16	4.55
	5-Year Low	0.09	1.47	1.11	2.84
	5-Year Median	4.39	2.65	1.73	3.65

As of 05/15/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Allison Transmission Holdings, Inc. (ALSN)	Neutral	4
American AxleManufacturing 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	3
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	D	-	-	D	C	A
Market Cap	273.06 M	624.95 M	18.98 B	646.85 M	11.11 B	1.28 B
# of Analysts	5	3	14	5	5	3
Dividend Yield	0.00%	0.00%	2.21%	0.00%	4.36%	0.00%
Value Score	C	-	-	F	C	A
Cash/Price	1.85	0.25	0.06	1.01	0.10	0.36
EV/EBITDA	5.36	4.83	11.60	15.71	3.32	3.78
PEG Ratio	NA	2.31	2.58	NA	6.00	NA
Price/Book (P/B)	0.42	1.05	2.59	1.65	1.05	3.01
Price/Cash Flow (P/CF)	0.22	3.50	10.28	0.89	3.17	3.50
P/E (F1)	NA	19.94	19.01	NA	34.97	26.62
Price/Sales (P/S)	0.02	0.32	1.92	0.11	0.30	0.32
Earnings Yield	-73.21%	3.12%	5.06%	-30.94%	2.86%	3.74%
Debt/Equity	8.99	0.49	0.75	8.95	0.29	2.84
Cash Flow (\$/share)	20.57	3.46	7.01	6.39	11.58	5.05
Growth Score	D	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	-5.55%	7.57%	10.82%	-9.73%	6.86%	26.99%
Proj. EPS Growth (F1/F0)	-201.74%	-51.23%	-10.48%	-209.26%	-82.64%	-82.64%
Curr. Cash Flow Growth	63.88%	-4.22%	5.68%	-19.99%	-7.06%	15.83%
Hist. Cash Flow Growth (3-5 yrs)	18.83%	5.32%	8.52%	13.70%	3.82%	19.94%
Current Ratio	1.42	1.56	1.27	1.68	1.22	1.64
Debt/Capital	90.10%	37.82%	44.25%	89.95%	22.27%	73.94%
Net Margin	-6.17%	1.95%	10.54%	-16.69%	2.45%	10.29%
Return on Equity	12.98%	13.03%	16.29%	15.33%	14.75%	64.86%
Sales/Assets	1.28	1.23	0.54	0.89	1.43	1.36
Proj. Sales Growth (F1/F0)	-19.08%	-14.63%	-2.55%	-31.23%	-25.59%	-36.00%
Momentum Score	D	-	-	F	F	D
Daily Price Chg	-0.22%	0.48%	0.20%	6.72%	-0.27%	0.80%
1 Week Price Chg	8.78%	5.02%	3.23%	42.24%	7.18%	1.98%
4 Week Price Chg	24.10%	6.94%	0.88%	72.81%	7.18%	24.37%
12 Week Price Chg	-58.79%	-29.14%	-23.26%	-30.50%	-30.02%	-31.42%
52 Week Price Chg	-63.07%	-24.71%	-12.56%	-50.99%	-17.65%	-15.70%
20 Day Average Volume	2,101,766	200,220	2,553,422	2,787,306	1,045,132	874,716
(F1) EPS Est 1 week change	2.73%	0.00%	0.00%	8.20%	6.53%	0.00%
(F1) EPS Est 4 week change	-11.89%	-19.68%	-5.57%	-125.23%	-56.42%	-48.97%
(F1) EPS Est 12 week change	-192.87%	-63.86%	-16.22%	-172.06%	-78.75%	-75.88%
(Q1) EPS Est Mthly Chg	-30.57%	-56.93%	-11.63%	-171.93%	-509.67%	-171.72%

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	D
VGM Score	D

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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