

Thor Industries, Inc. (THO)

\$110.02 (As of 08/07/20)

Price Target (6-12 Months): **\$127.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**
(Since: 06/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5) **2-Buy**

Zacks Style Scores: VGM:A

Value: B | Growth: B | Momentum: A

Summary

Shares of Thor have outperformed the industry over the past year. EHG buyout has boosted Thor's position in the European market and is likely to provide the firm with attractive long-term growth opportunities. The company's rising cash flow from operations and investor-friendly moves boost investors' confidence. Cost cut initiatives undertaken by the company amid the COVID-19 pandemic is anticipated to aid the margins of the firm. Towable RVs have been gaining traction globally and is expected to keep growing in the foreseeable future, thereby aiding Thor's prospects. In fact, RV vacation is emerging out as the best social-distance travel option amid the COVID-19 woes. Thor recorded robust increase in the backlog in the latest quarter and expects the trend to continue. As such, the stock warrants a bullish stance.

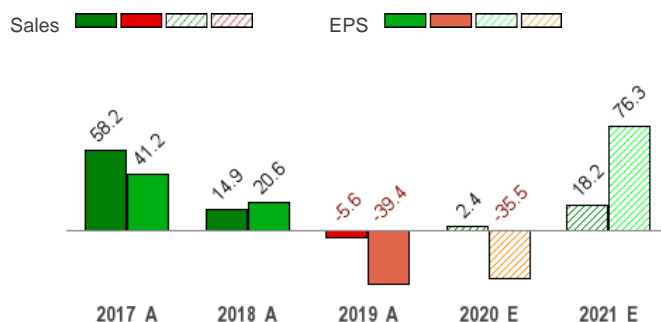
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$121.33 - \$32.30
20 Day Average Volume (sh)	776,876
Market Cap	\$6.1 B
YTD Price Change	48.1%
Beta	2.59
Dividend / Div Yld	\$1.60 / 1.5%
Industry	Building Products - Mobile Homes and RV Builders
Zacks Industry Rank	Top 28% (71 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	200.0%
Last Sales Surprise	18.5%
EPS F1 Est- 4 week change	4.0%
Expected Report Date	NA
Earnings ESP	35.1%
P/E TTM	25.6
P/E F1	18.7
PEG F1	3.2
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,497 E	2,197 E	2,460 E	2,289 E	9,520 E
2020	2,159 A	2,003 A	1,682 A	2,208 E	8,051 E
2019	1,756 A	1,291 A	2,507 A	2,312 A	7,865 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.47 E	\$1.02 E	\$1.62 E	\$1.52 E	\$5.89 E
2020	\$1.50 A	\$0.67 A	\$0.43 A	\$1.32 E	\$3.34 E
2019	\$1.28 A	\$0.65 A	\$1.65 A	\$1.70 A	\$5.18 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 08/07/2020. The reports text is as of 08/10/2020.

Overview

Founded in 1980, Indiana-based Thor Industries is the largest manufacturer of recreational vehicles (RVs) in the world. The American company builds a variety of RVs in North America and Europe, and sells those vehicles along with related parts and accessories to independent, non-franchise dealers throughout the United States, Canada and Europe.

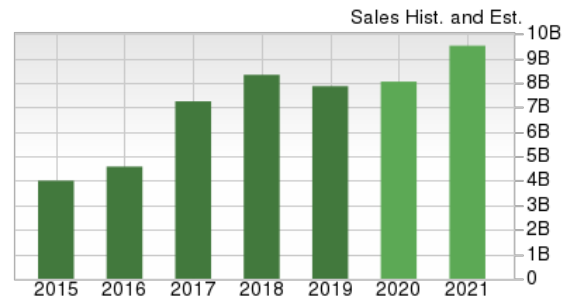
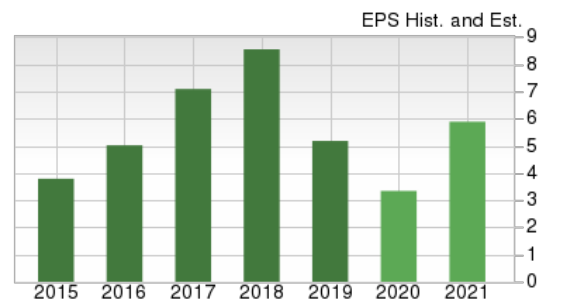
Thor, through its subsidiaries, is the leading RV maker in North America in terms of unit sales and revenues. The company's North American operating subsidiaries include Airstream, Thor Motor Coach, Keystone, Hearland, KZ and Jayco. Under the company's decentralised structure, each of the subsidiaries operate independently. Thor is the #1 player in travel trailers, fifth wheels and motorized RVs in North America.

It has emerged as one of the leaders in the European RV industry through the acquisition of Erwin Hymer Group, which was closed last February. European RV operations include eight production facilities that manufactured noted brands within Europe including Hymer, Buerstner, Carado, Eriba, Etrusco, Laika, Xplore, Elddis, Compass, Buccaneer, and CrossCamp.

Thor operates under three reportable segments: North American Towable Recreational Vehicles (accounting for 59.2% of total RV revenues in fiscal 2019), North American Motorized Recreational Vehicles (21.4%) and European Recreational Vehicles (19.4%). Operations of Thor's Postle unit are included in "Other," which is a non-reportable segment. This mainly includes the sale of aluminum extrusions and specialized component products.

As the RV market is fiercely competitive amid low barriers of entry, Thor counts Forest River, Inc. and Winnebago Industries, Inc. as its closest peers within North American towable and motorized segments. Its major competitors within the European segment include Trigano, Hobby/Fendt and Knaus Tabbert.

The recreational vehicle industry is influenced by many strong macroeconomic factors and is extremely sensitive to overall strength of the economy. The Global RV Market — valued at \$51.5 billion in 2019 — has enjoyed exponential growth since 2008 on the back of rising popularity of van life movement among millennials and changing customer lifestyles. The demand for RVs in luxury camping and travel amenities is likely to keep growing in the future.



Reasons To Buy:

- ▲ The acquisition of Germany-based Erwin Hymer Group ('EHG'), a leading RV maker in Europe, has made Thor the largest RV manufacturer. EHG's strength in product development, technology and efficiency complements Thor's North American market standing. The buyout has boosted Thor's position in the European market and is likely to provide the firm with attractive long-term growth opportunities, along with various commercial and operational synergies.
- ▲ Thor fares well in the cash flow parameter, a key metric in gauging a firm's financial performance. Net cash provided by operating activities in 2017, 2018 and 2019 came in at \$419.3 million, \$466.5 million and \$508 million, respectively. Year to date, Thor generated positive cash flow of \$237.3 million. The RV maker is committed to enhance shareholders value. Notably, the company has raised regular dividend for 10 straight years. While many firms have chosen to tap brakes on dividend amid coronavirus-led financial crisis, Thor intends to maintain its investor-friendly moves.
- ▲ Since May, the firm has been witnessing improvement in sales and backlog, especially in the North American market. The trend is expected to continue. Amid coronavirus scare, RVs seem to be the safest travel option as they enable people to enjoy vacations with families, while adhering to social distancing. Towable RVs have been gaining popularity globally and is expected to keep growing in the foreseeable future. Increased Airstream production capabilities are likely to drive future earnings growth, given the fact that it is an iconic brand of the RV industry.
- ▲ In response to the COVID-19 crisis, the firm has initiated a number of cost-saving measures including employee furloughs, pay reduction, CEO compensation cut and reduced discretionary spending. In a bid to preserve liquidity, Thor has reduced fiscal 2020 capex outlook to \$100 million from \$135 million. These measures are likely to offer some respite amid margin woes. The company remains optimistic to achieve the ambitious target of \$14 billion in annual net sales by the end of fiscal 2025.

EHG buyout has boosted Thor's position in the European market and is likely to provide the firm with attractive long-term growth opportunities.

Risks

- Rising debt levels of the firm play a spoilsport. As of Apr 30, 2020, Thor's long-term debt was \$1,965.5 million, up from \$1,885 million recorded on Jul 30, 2019. Its total debt-to-capital ratio stands at 0.49, higher than the industry's 0.40. High leverage restricts the firm's financial flexibility to tap onto growth opportunities. Moreover, the company's times interest earned ratio of 3.08 is unfavorable with the industry's 4.06.
 - Supply chain disruptions in the European market remain a cause of concern. Supply constraints in Europe, primarily from chassis manufacturers and other non-chassis raw material vendors, are expected to remain a headwind in the upcoming quarter as well. This may result in lost revenues. Demand across Europe has varied in terms of region, with Italy, Spain and Belgium, among a few others, witnessing a decline.
 - Given the historically cyclic nature of RV retail demand, any degradation in consumer confidence or economic outlook is likely to impact big-ticket discretionary purchases like recreational vehicles. The firm's net sales, North American and European wholesale shipments, as well as retail sales were negatively affected in the last reported quarter by disruptions amid coronavirus woes. While RV demand has gained traction of late with the easing of lockdown restrictions, a second wave of coronavirus looms large. As such, any COVID-19-related production disruption and weak consumer confidence may impair Thor's earnings.
 - Stiff competition within the RV industry is also a concern. Further, high cost of raw materials is likely to put pressure on gross profits. RV components are likely to get impacted by tariffs woes in China, which would significantly raise the cost of goods sold. Moreover, the firm is bearing the brunt of increasing SG&A costs over the past few years. During the first nine months of fiscal 2020, Thor's SG&A expenses increased 31.2% year over year.
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Last Earnings Report

Thor Posts a Surprise Q3 Profit, Tops Sales Estimates

Thor reported a profit of 43 cents a share in the third quarter of fiscal 2020, as against the Zacks Consensus Estimate of a loss of 43 cents. However, earnings of 59 cents a share were recorded in the year-ago quarter.

Net sales in the quarter under review came in at \$1,681.7 million, surpassing the consensus mark of \$1,419 million. However, the top line declined 32.9% from the prior-year quarter.

Quarter Ending **04/2020**

Report Date	Jun 08, 2020
Sales Surprise	18.49%
EPS Surprise	200.00%
Quarterly EPS	0.43
Annual EPS (TTM)	4.30

Key Takeaways

Net sales in the European RV segment came in at \$615.3 million, down from \$767.5 million in the prior-year period. Backlog in the segment was \$803.5 million as of April 30, 2020, up 16.9%, from the year-ago quarter.

North American Motorized RV sales totaled \$264 million for the third quarter, compared to \$459.2 million in the prior-year period. North American Towable RV sales were \$773.4 million, compared to \$1.24 billion sales generated in the prior-year period. Backlog for North American Towable & Motorized RV units stood at \$857.9 million and \$548 million, respectively, as of Apr 30, 2020.

Thor had cash and cash equivalents of \$654.9 million as of Apr 30, 2020. Long-term debt totaled \$1,965 million.

Valuation

Thor's shares are up 48.1% in the year-to-date period and 124.6% over the trailing 12-month period. Stocks in the Zacks Building Products - Mobile Homes and RV Builders industry and the Zacks Auto sector are up 19.4% and 21.1%, respectively year-to-date. Over the past year, the Zacks sub-industry and sector are up 57.7% and 39.3%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 18.56X forward 12-month earnings, which compares to 20.3X for the Zacks sub-industry, 23.94X for the Zacks sector and 22.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.9X and as low as 5.78X, with a 5-year median of 12.47X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$127 price target reflects 21.45X forward 12-month earnings per share.

The table below shows summary valuation data for THO:

Valuation Multiples - THO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.56	20.3	23.94	22.81
	5-Year High	35.9	41.26	25.33	22.81
	5-Year Low	5.78	9.95	8.2	15.25
	5-Year Median	12.47	13.44	9.87	17.55
EV/EBITDA TTM	Current	12.25	14.02	11.61	12.99
	5-Year High	13.23	14.94	11.75	12.99
	5-Year Low	3.6	3.6	6.8	8.24
	5-Year Median	8.23	8.21	9.28	10.89
P/S F12M	Current	0.64	0.8	0.87	3.67
	5-Year High	1.02	0.9	0.87	3.67
	5-Year Low	0.21	0.38	0.49	2.53
	5-Year Median	0.64	0.55	0.61	3.04

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Top 28% (71 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Camping World Holdings Inc. (CWH)	Outperform	2
D.R. Horton, Inc. (DHI)	Outperform	1
BRP Inc. (DOOO)	Outperform	2
LCI Industries (LCII)	Outperform	1
HarleyDavidson, Inc. (HOG)	Neutral	3
REV Group, Inc. (REVG)	Neutral	3
Skyline Corporation (SKY)	Neutral	3
Winnebago Industries, Inc. (WGO)	Neutral	3

Industry Comparison Industry: Building Products - Mobile Homes And Rv Builders				Industry Peers		
	THO	X Industry	S&P 500	LCII	SKY	WGO
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	1	3	3
VGM Score	A	-	-	B	A	A
Market Cap	6.07 B	1.88 B	23.30 B	3.16 B	1.63 B	1.91 B
# of Analysts	4	3	14	2	2	4
Dividend Yield	1.45%	0.00%	1.76%	2.07%	0.00%	0.78%
Value Score	B	-	-	C	C	B
Cash/Price	0.10	0.15	0.07	0.03	0.15	0.07
EV/EBITDA	18.11	13.52	13.32	13.86	13.52	12.28
PEG Ratio	3.19	3.19	2.94	NA	NA	NA
Price/Book (P/B)	2.88	2.88	3.19	3.87	3.33	2.43
Price/Cash Flow (P/CF)	13.94	13.94	12.51	14.16	19.30	13.32
P/E (F1)	18.68	29.04	22.02	21.64	31.09	27.58
Price/Sales (P/S)	0.74	1.28	2.53	1.35	1.28	0.89
Earnings Yield	5.35%	3.45%	4.37%	4.62%	3.23%	3.63%
Debt/Equity	0.93	0.16	0.77	0.93	0.16	0.61
Cash Flow (\$/share)	7.89	4.25	6.94	8.86	1.49	4.25
Growth Score	B	-	-	D	A	A
Hist. EPS Growth (3-5 yrs)	5.44%	24.57%	10.46%	14.53%	84.66%	19.72%
Proj. EPS Growth (F1/F0)	76.14%	-29.10%	-6.80%	-0.68%	-19.57%	181.34%
Curr. Cash Flow Growth	-20.46%	10.40%	5.39%	2.39%	16.59%	10.40%
Hist. Cash Flow Growth (3-5 yrs)	16.64%	24.01%	8.55%	17.98%	99.43%	22.31%
Current Ratio	1.65	2.32	1.33	2.25	2.32	2.31
Debt/Capital	48.22%	13.65%	44.50%	48.21%	13.65%	37.88%
Net Margin	2.40%	4.14%	10.13%	4.54%	4.14%	2.37%
Return on Equity	11.34%	11.58%	14.39%	13.89%	11.90%	9.21%
Sales/Assets	1.45	1.45	0.51	1.27	1.68	1.49
Proj. Sales Growth (F1/F0)	18.24%	0.00%	-1.51%	9.67%	-12.50%	16.19%
Momentum Score	A	-	-	A	A	C
Daily Price Chg	-0.47%	0.72%	0.90%	2.05%	1.66%	1.44%
1 Week Price Chg	2.12%	1.06%	0.14%	7.50%	7.87%	-2.53%
4 Week Price Chg	13.01%	9.63%	8.95%	17.90%	22.75%	-2.97%
12 Week Price Chg	63.31%	32.03%	18.90%	56.08%	48.32%	18.78%
52 Week Price Chg	113.51%	14.68%	1.18%	35.58%	-2.97%	56.27%
20 Day Average Volume	776,876	245,511	2,057,775	134,219	447,621	610,729
(F1) EPS Est 1 week change	0.00%	3.25%	0.00%	10.00%	45.38%	0.00%
(F1) EPS Est 4 week change	3.97%	3.97%	1.36%	124.25%	32.06%	-4.54%
(F1) EPS Est 12 week change	48.37%	20.24%	1.57%	131.71%	2.98%	20.24%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.54%	68.82%	11.77%	-10.85%

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	B
Growth Score	B
Momentum Score	A
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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