

Wabtec Corporation(WAB)

\$81.00 (As of 02/05/20)

Price Target (6-12 Months): **\$86.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: B

Summary

Shares of Wabtec have underperformed its industry in a year, partly due to escalating operating expenses. The company's high operating expenses and the consequent deterioration in the operating ratio (operating expenses as a percentage of revenues) are quite concerning. Operating expenses skyrocketed more than 100% in the first nine months of 2019. Additionally, the deceleration in the industrial sector does not bode well for the company. However, the inclusion of GE Transportation products is helping the company grow its sales significantly. In 2019, Wabtec expects sales to have been \$8.2 billion while adjusted earnings per share are estimated to have been between \$4.15 and \$4.20. Wabtec's efforts to reward its shareholders are appreciative too. The acquisition of RELCO Locomotives to fortify market capabilities is an added positive.

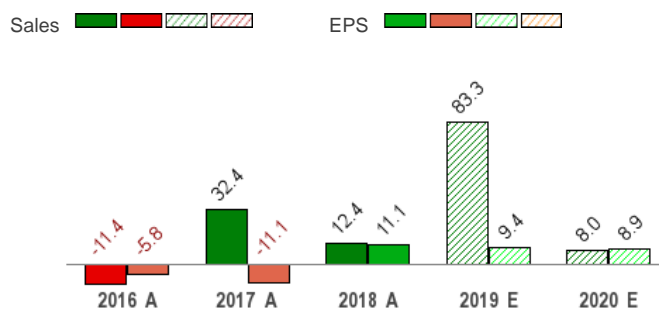
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.75 - \$61.00
20 Day Average Volume (sh)	944,217
Market Cap	\$15.5 B
YTD Price Change	4.1%
Beta	1.47
Dividend / Div Yld	\$0.48 / 0.6%
Industry	Transportation - Equipment and Leasing
Zacks Industry Rank	Bottom 35% (167 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	-6.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/18/2020
Earnings ESP	0.0%
P/E TTM	19.7
P/E F1	17.8
PEG F1	1.4
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,354 E	2,247 E	2,090 E	2,348 E	8,637 E
2019	1,594 A	2,236 A	2,002 A	2,192 E	7,999 E
2018	1,056 A	1,112 A	1,078 A	1,118 A	4,364 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.17 E	\$1.09 E	\$1.14 E	\$1.22 E	\$4.54 E
2019	\$1.06 A	\$1.06 A	\$1.03 A	\$1.03 E	\$4.17 E
2018	\$0.92 A	\$0.96 A	\$0.95 A	\$0.97 A	\$3.81 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 02/05/2020. The reports text is as of 02/06/2020.

Overview

Westinghouse Air Brake Technologies Corporation is a leading provider of value-added, technology-based equipment, systems and services, catering to the global passenger transit and freight rail industries. The company operates business under the name of Wabtec Corporation and is currently based in Wilmerding, PA.

The original Westinghouse Air Brake Co. was founded by George Westinghouse in 1869 through air brake invention. Subsequently, in 1990, Westinghouse Air Brake Company (WABCO) was formed by acquiring certain assets and operations of Trane (formerly known as American Standard, Inc.). The company was renamed as Wabtec Corporation on merging with MotivePower Industries, Inc. in 1999.

The company operates under two business segments, namely **Transit** and **Freight** segments.

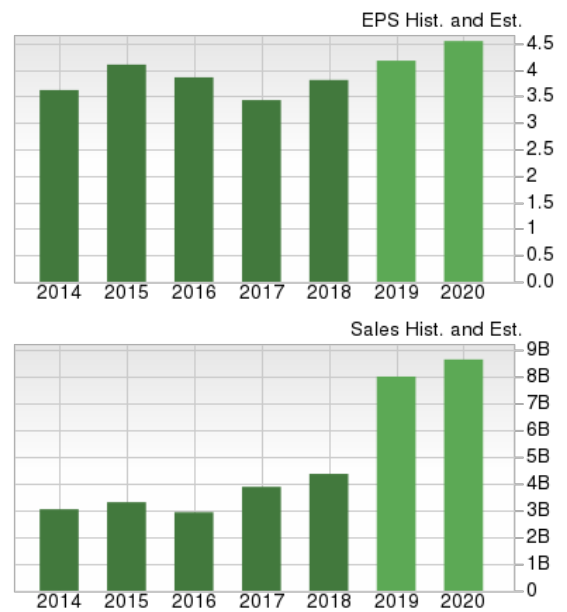
The Transit segment (64% of 2018 revenues) is involved in manufacturing and servicing components for new as well as existing passenger transit vehicles such as regional trains, high speed trains, subway cars, light-rail vehicles and buses. It also supplies rail control and infrastructure products including positive train control equipment. In 2018, 22% of segmental sales came from the United States. Additionally, roughly two-thirds of the segment's sales are in the aftermarket. The balance comes from the original equipment market.

The Freight segment (36%) focuses on manufacturing and servicing of components for new and existing locomotives as well as freight cars. It also supplies rail control and infrastructure products including positive train control equipment. In 2018, 36% of segmental sales came from the United States.

In February 2019, Wabtec completed the previously announced merger with GE Transportation, a business unit of GE. The combined company has an expanded product portfolio and a larger customer base. It focuses on innovation.

Following the completion of the merger with GE Transportation in February 2019, Wabtec has been included in the coveted S&P 500 index. In January 2020, Wabtec acquired RELCO Locomotives to fortify its market capabilities

The company's financial year coincides with the calendar year.



Reasons To Buy:

- ▲ In February 2019, Wabtec completed the previously announced merger with GE Transportation, a business unit of GE. The combined company has an expanded product portfolio and a larger customer base. Inclusion of GE Transportation products helped the company's sales increase in excess of 100% in the second quarter of 2019. The inclusion of Wabtec in the coveted S&P 500 index in February 2019 following the completion of the merger with GE Transportation is an added positive.
- ▲ Apart from the GE Transportation merger, Wabtec has taken other steps to expand its product portfolio. To this end, in January 2020, Wabtec acquired RELCO Locomotives, an established name in the locomotive leasing, rebuilding and repairing industry. The transaction valued at \$29 million on cash-free and debt-free basis, increases Wabtec's freight services capabilities and capacity, thereby driving growth in the remanufacturing and repair business. Moreover, in 2018, it acquired Annax and Lynxrail.
- ▲ Wabtec anticipates sales to have been \$8.2 billion in 2019, much higher than the 2018 figure due to the inclusion of GE Transportation products. Adjusted EBITDA is estimated to have been \$1.2 billion. Additionally, adjusted earnings are expected to have been between \$4.15 and \$4.20 per share. We are also impressed with the company's efforts to reward shareholders.

Wabtec anticipates sales to have been \$8.2 billion in 2019 due to its expanded portfolio. The acquisition of RELCO Locomotives to fortify market capabilities is an added positive.

Reasons To Sell:

- ▼ Wabtec's high operating expenses and the consequent deterioration in operating ratio are worrisome. Total operating expenses surged more than 100% to \$1.17 billion in the first nine months of 2019, primarily due to 81.2% rise in selling, general and administrative expense. Operating ratio deteriorated to 20% from 17.2% in the prior-year period. Lower the value of the metric the better. Operating expenses are likely to have been high in the fourth quarter of 2019 as well. Detailed results will be out on Feb 18, 2020.
- ▼ We are also concerned about the company's high debt levels. Long-term debt as of Sep 30, 2019, was \$4.63 billion compared with \$3.79 billion at 2018 end. Additionally, the deceleration in the industrial sector is unwelcome for transportation companies like Wabtec.
- ▼ Rafael Santana succeeded Ray Betler as Wabtec's president and chief executive officer (CEO) from Jul 1, 2019. Santana is also a member of the company's board. However, if this change at the helm fails to yield the desired results, then investors' confidence in the stock might be rattled.

Wabtec's high operating expenses and the consequent deterioration in operating ratio are worrisome. Escalated debt levels are concerning too.

Last Earnings Report

Earnings Beat at Wabtec in Q3

Wabtec reported third-quarter 2019 reported third-quarter 2019 earnings (excluding 55 cents from non-recurring items) of \$1.03 per share, beating the Zacks Consensus Estimate by 3 cents. Moreover, the bottom line improved 8.4% year over year. Results were aided by a strong operating performance.

Total sales soared more than 85% year over year to \$2,001.7 million but fell short of the Zacks Consensus Estimate of \$2,150 million. Total operating expenses in the reported quarter increased in excess of 100% to \$430.3 million, primarily due to a 99% rise in selling, general and administrative expenses. Also, the operating ratio (operating expenses as a percentage of revenues) deteriorated to 21.5% from 16.4% in the prior-year period. Notably, lower the value of the metric the better.

Quarter Ending 09/2019

Report Date	Oct 31, 2019
Sales Surprise	-6.90%
EPS Surprise	3.00%
Quarterly EPS	1.03
Annual EPS (TTM)	4.12

Segmental Highlights

At the Transit segment, net sales climbed 3% to \$706 million driven by organic sales growth and acquisitions. Segmental operating margin (income from operations as a percentage of sales) decreased to 7.9% from 8.8% in the year-ago quarter.

Freight net sales soared 231% to \$1,295.7 million despite organic sales decrease and unfavorable foreign currency related movements. Segmental sales were boosted by acquisitions of \$954 million. Segmental operating margin declined to 11.4% from 20.3% in the year-ago quarter.

Liquidity

As of Sep 30, 2019, Wabtec had \$587.4 million in cash and cash equivalents compared with \$580.9 million at the end of 2018. Long-term debt at the quarter-end was \$4.63 billion compared with \$3.79 billion at 2018 end.

2019 View Updated

Wabte now anticipates sales (on an adjusted basis) of \$8.2 billion for the current year (earlier view: \$8.3 billion). Adjusted earnings are now expected to be between \$4.15 and \$4.20 per share (earlier guidance: \$4.10 and \$4.20). Adjusted EBITDA is now estimated at approximately \$1.2 billion (earlier view: \$1.6 billion billion).

Recent News

RELCO Acquisition - Jan 08, 2020

Wabtec acquired RELCO Locomotives, an established name in the locomotive leasing, rebuilding and repairing industry. The transaction valued at \$29 million on cash-free and debt-free basis, increases Wabtec's freight services capabilities and capacity, thereby driving growth in the remanufacturing and repair business.

Wabtec's president and CEO Rafael Santana feels that the combined entity will help generate aftermarket services growth, besides supporting the development of innovative solutions to improve asset utilization and lower operating costs for customers.

The buyout, accretive in the first year itself, will enable Wabtec to expand its network, fortify market capabilities and better serve the rail industry. RELCO is expected to have generated sales worth approximately \$50 million in 2019.

Valuation

Wabtec shares are up 11.4% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Transportation sector are up 15.7% and 5.5%, respectively.

The S&P 500 index is up 21% in the past year.

The stock is currently trading at 17.62X forward 12-month price to earnings, which compares to 12.12X for the Zacks sub-industry, 13.24X for the Zacks sector and 19.09X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.51X and as low as 13.57X, with a 5-year median of 18.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$86 price target reflects 18.71X forward 12-month earnings.

The table below shows summary valuation data for WAB

Valuation Multiples - WAB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.62	12.12	13.24	19.09
	5-Year High	26.51	16.22	17	19.34
	5-Year Low	13.57	8.63	10.48	15.18
	5-Year Median	18.6	12.27	13.22	17.46
EV/EBITDA TTM	Current	14.52	9.57	7.7	11.95
	5-Year High	22.36	13.8	11.08	12.85
	5-Year Low	9.6	5.84	6	8.49
	5-Year Median	15.66	9.47	7.41	10.66
P/S F12M	Current	1.8	1.18	1.14	3.54
	5-Year High	2.86	1.74	1.44	3.54
	5-Year Low	1.14	1.05	1.02	2.54
	5-Year Median	1.94	1.44	1.22	3

As of 02/05/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (167 out of 255)



Top Peers

GATX Corporation (GATX)	Outperform
Air Lease Corporation (AL)	Neutral
CAI International, Inc. (CAI)	Neutral
Avis Budget Group, Inc. (CAR)	Neutral
Greenbrier Companies, Inc. (The) (GBX)	Neutral
Herc Holdings Inc. (HRI)	Neutral
Trinity Industries, Inc. (TRN)	Neutral
Freightcar America, Inc. (RAIL)	Underperform

Industry Comparison Industry: Transportation - Equipment And Leasing				Industry Peers		
	WAB Neutral	X Industry	S&P 500	GATX Outperform	GBX Neutral	TRN Neutral
VGM Score	C	-	-	C	D	D
Market Cap	15.53 B	1.82 B	24.26 B	2.78 B	846.85 M	2.66 B
# of Analysts	7	1.5	13	2	5	3
Dividend Yield	0.59%	0.00%	1.75%	2.33%	4.16%	3.51%
Value Score	D	-	-	C	B	B
Cash/Price	0.04	0.10	0.04	0.06	0.33	0.04
EV/EBITDA	33.22	8.03	14.19	11.20	4.97	12.43
PEG Ratio	1.42	0.98	2.04	0.98	1.00	1.94
Price/Book (P/B)	1.60	1.09	3.31	1.51	0.57	1.08
Price/Cash Flow (P/CF)	16.39	4.13	13.70	5.22	4.36	8.45
P/E (F1)	17.72	12.34	19.17	14.72	9.48	19.39
Price/Sales (P/S)	2.23	1.15	2.67	1.99	0.26	0.92
Earnings Yield	5.60%	7.45%	5.22%	6.80%	10.55%	5.17%
Debt/Equity	0.48	2.52	0.71	2.85	0.56	1.91
Cash Flow (\$/share)	4.94	8.93	6.92	15.16	5.96	2.56
Growth Score	C	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	-0.53%	-2.17%	10.80%	-2.37%	-16.57%	-28.18%
Proj. EPS Growth (F1/F0)	8.86%	9.13%	7.35%	-2.45%	-4.53%	-9.21%
Curr. Cash Flow Growth	10.03%	16.45%	10.12%	-1.08%	-8.90%	-21.29%
Hist. Cash Flow Growth (3-5 yrs)	6.63%	6.63%	8.55%	1.58%	6.72%	-8.38%
Current Ratio	1.38	1.57	1.20	2.16	2.35	1.70
Debt/Capital	32.26%	71.57%	42.91%	74.05%	36.58%	65.58%
Net Margin	3.24%	8.53%	11.79%	15.15%	1.90%	4.96%
Return on Equity	7.89%	10.81%	17.21%	11.03%	6.29%	6.27%
Sales/Assets	0.42	0.31	0.54	0.17	1.16	0.34
Proj. Sales Growth (F1/F0)	7.98%	1.50%	4.15%	0.00%	12.60%	-0.14%
Momentum Score	B	-	-	B	D	D
Daily Price Chg	2.43%	2.10%	1.40%	1.66%	4.13%	2.32%
1 Week Price Chg	-6.55%	-1.45%	-2.60%	-6.74%	-4.93%	-2.26%
4 Week Price Chg	3.05%	-2.08%	1.96%	-2.57%	-7.77%	0.93%
12 Week Price Chg	3.30%	0.07%	6.04%	-2.33%	-10.72%	2.03%
52 Week Price Chg	11.43%	8.32%	16.68%	6.04%	-38.94%	-9.41%
20 Day Average Volume	944,217	220,417	1,966,046	375,070	451,052	914,967
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	11.77%	-2.14%	-2.90%
(F1) EPS Est 12 week change	-2.30%	-1.93%	-0.08%	11.40%	-0.96%	-14.10%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	-18.37%	-8.33%

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	D
Growth Score	C
Momentum Score	B
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.