

Wabtec Corporation(WAB)

\$55.14 (As of 05/05/20)

Price Target (6-12 Months): **\$58.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Shares of Wabtec have declined more than 25% since the beginning of February due to the impact of coronavirus on its operations. During the first quarter, operational and supply chain disruptions, primarily in China and Europe, weighed on the company's operating income to the tune of approximately \$50 million. With the worsening of economic conditions, the second-quarter impact is likely to be deeper. The virus-related uncertainty forced the company to withdraw 2020 guidance. Escalating operating expenses is another headwind. Amid adversities, the GE Transportation merger and impressive performance in Digital Electronics are aiding Wabtec's top line (up 21.1% year over year in the first quarter). The company's acquisition of RELCO Locomotives is a plus. Its commitment to reward shareholders despite challenges is also noteworthy.

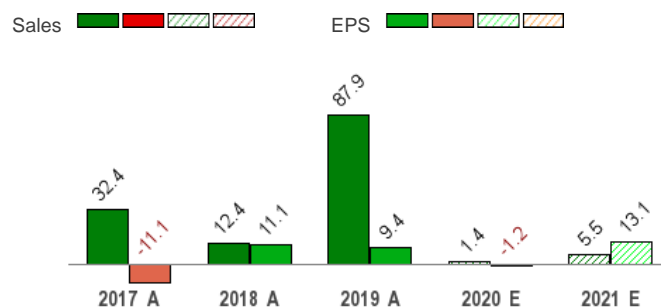
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.75 - \$35.07
20 Day Average Volume (sh)	1,533,704
Market Cap	\$10.5 B
YTD Price Change	-29.1%
Beta	1.52
Dividend / Div Yld	\$0.48 / 0.9%
Industry	Transportation - Equipment and Leasing
Zacks Industry Rank	Bottom 19% (204 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.0%
Last Sales Surprise	-4.8%
EPS F1 Est- 4 week change	-6.5%
Expected Report Date	08/04/2020
Earnings ESP	-10.7%
P/E TTM	13.5
P/E F1	13.4
PEG F1	1.1
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,768 E
2020	1,930 A	2,059 E	1,964 E	2,198 E	8,312 E
2019	1,594 A	2,236 A	2,002 A	2,368 A	8,200 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.11 E	\$1.31 E	\$1.24 E	\$1.36 E	\$4.66 E
2020	\$0.97 A	\$1.01 E	\$1.03 E	\$1.13 E	\$4.12 E
2019	\$1.06 A	\$1.06 A	\$1.03 A	\$1.04 A	\$4.17 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 05/05/2020. The reports text is as of 05/06/2020.

Overview

Westinghouse Air Brake Technologies Corporation is a provider of locomotives, value-added, technology-based equipment, systems and services to the freight rail and passenger transit industries across the globe.

The company operates under the name of Wabtec Corporation and is currently based in Wilmerding, PA. Wabtec, which went public on the NYSE in 1995, operates in more than 50 countries.

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 was included in the coveted S&P 500 index.

In January 2020, Wabtec acquired RELCO Locomotives to fortify its market capabilities

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

The Transit segment (65% of 2019 revenues) manufactures and provides aftermarket parts and services for new locomotives. Through the segment, the company also provides components for new and existing locomotives and freight cars.

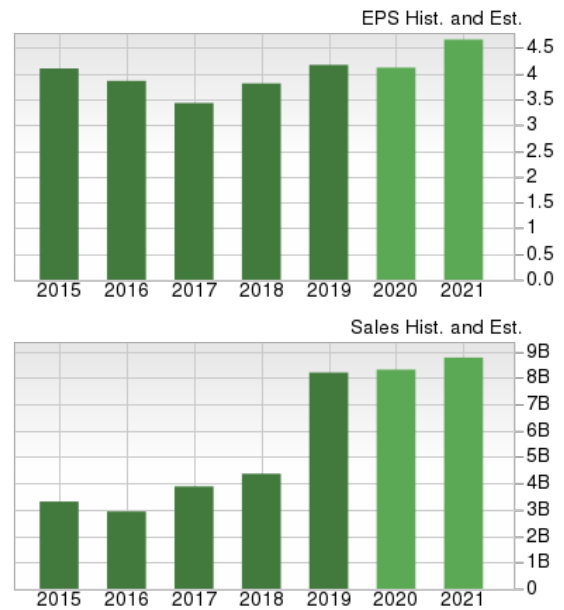
Following the completion of the GE Transportation acquisition, Wabtec, through this segment, has become the largest global manufacturer of diesel-electric locomotives for freight railroads

In 2019, 55% of segmental sales came from the United States. Additionally, roughly 60% of the segment's sales are in the aftermarket. The balance comes from the original equipment market.

The Freight segment (35%) focuses on manufacturing and offering aftermarket parts and services for new locomotives. The segment also provides components for new and existing locomotives and freight cars. Other functions include building new commuter locomotives and supplying rail control and infrastructure products.

In 2019, 15% of segmental net sales came from the United States. Roughly, 50% of the segmental net sales were in the aftermarket with the other half being generated in the original equipment market.

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 significantly in 2019. The company continues reaping massive benefits from the merger as is evident from the 21.1% year-over-year surge in first-quarter total sales despite coronavirus. The inclusion of Wabtec in the coveted S&P 500 index in February 2019 following the completion of the merger with GE Transportation is another 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. The buyout is accretive in the first year itself. Moreover, in 2018, it acquired Annax and Lynxrail.
- ▲ We are impressed by the company's commitment to reward shareholders despite adversities emanating from the global health peril. This February, the company's board authorized a buy-back program worth up to \$500 million. Moreover, to combat coronavirus-related woes, Wabtec plans to reduce its previously-guided capital expenditures of \$200 million by more than 40%. Additionally, to enhance liquidity, the company added an undrawn credit facility of \$600 million. Apart from the GE Transportation merger, impressive performance by Digital Electronics (sales up double digits in the first quarter) and the Transit segment should help the company partly mitigate coronavirus-related woes.
- ▲ Debt-to-capitalization ratio, which is an indicator of a company's leverage, stood at 0.31 and 0.57 for Wabtec at the end of 2019 and 2018 respectively. The readings compare favorably with the respective numbers for its industry of 0.57 and 0.68. Moreover, the cash and cash equivalents at Wabtec for 2019 stands at \$604 million, way above the short term debt figure of \$96 million, implying that the company has enough cash to meet its short-term debt burden.

Amid coronavirus-related adversities, the GE Transportation merger is aiding the company's top line. The buyout of RELCO Locomotives to fortify market capabilities is an added positive.

Reasons To Sell:

- ▼ The coronavirus pandemic affected Wabtec's first-quarter operating income to the tune of approximately \$50 million (or earnings per share by 5 cents) due to operational and supply chain disruptions, primarily in China and Europe. The impact is likely to be deeper in the second quarter with the economic scenario worsening and supply chain disruptions aggravating due to the intensifying virus crisis. Due to the coronavirus-induced uncertainty, the company withdrew its previously announced financial guidance for 2020.
- ▼ Within the freight segment, weak global macroeconomic conditions stemming from coronavirus-related woes, is affecting North American (down 5% in the first quarter) and intermodal (down 8%) carload volumes. The company expects this headwind to hurt near-term demand for services and components. Meanwhile, in the transit segment, COVID-19 is affecting the company's passenger transportation and near-term service levels in some markets. The adversity is likely to hurt Wabtec's aftermarket sales in the short term.
- ▼ Wabtec's high operating expenses may affect the bottom line going forward. Total operating expenses surged more than 100% to \$1.6 billion in 2019, primarily due to 84% rise in selling, general and administrative expense. Despite a 6.3% reduction in selling, general and administrative expenses, operating costs rose escalated 12.3% in the first quarter.
- ▼ 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.

Coronavirus hurt Wabtec's first-quarter operating income to the tune of approximately \$50 million. The impact is likely to be deeper in the second quarter.

Last Earnings Report

Wabtec's Q1 Earnings Miss Estimates

Wabtec reported first-quarter 2020 earnings (excluding 39 cents from non-recurring items) of 97 cents per share, falling short of the Zacks Consensus Estimate by a couple of cents. Moreover, the bottom line declined 8.5% year over year due to higher operating expenses.

Also, total sales jumped 21.1% year over year to \$1,929.9 million but missed the Zacks Consensus Estimate of \$2,026.2 million. This year-over-year increase in sales was owing to the inclusion of GE Transportation products. We remind investors that Wabtec's merger with GE Transportation was completed in February 2019. Following this transaction, the company was included in the coveted S&P 500 Index.

Total operating expenses in the reported quarter escalated 12.3% to \$448.8 million, despite a 6.3% reduction in selling, general and administrative expenses. Also, the operating ratio (operating expenses as a percentage of revenues) improved to 18.7% from 20.2% in the prior-year period owing to higher revenues. Notably, lower the value of the metric the better.

Due to the coronavirus-induced uncertainty, the company withdrew its previously announced financial guidance for 2020.

Segmental Highlights

At the Transit segment, net sales decreased 7.3 % to \$628.9 million. Results were hurt by an organic sales decline of \$34 million and unfavorable currency translations. The coronavirus-induced supply-chain disruptions also hurt segmental sales. Segmental operating margin (income from operations as a percentage of sales) increased to 10.9% from 8.8% in the year-ago quarter.

Freight net sales surged 42% to \$1,301 million despite organic sales decrease and adverse foreign currency movements. Segmental results were boosted by sales from acquisitions worth \$506 million. Segmental operating margin improved to 12.4% from 8.8% in the year-ago quarter.

Balance Sheet Data

As of Mar 31, 2020, Wabtec had \$615.9 million in cash and cash equivalents compared with \$604.2 million at the end of 2019. Long-term debt at the quarter-end was \$4,655.1 million compared with \$4,333.6 million at 2019 end.

Quarter Ending **03/2020**

Report Date	May 04, 2020
Sales Surprise	-4.75%
EPS Surprise	-2.02%
Quarterly EPS	0.97
Annual EPS (TTM)	4.10

Recent News

Dividend Update – Apr 28, 2020

Wabtec's board approved a quarterly cash dividend of 12 cents per share, payable to shareholders on May 22, 2020, of record as of May 8.

Valuation

Wabtec shares are down 29.1% and 24.4% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are down 32.5% and 26.1% in the year-to-date period respectively. Over the past year, the Zacks sub-industry and the sector are down 26.6% and 24.3% respectively.

The S&P 500 index is down 10.9% and 0.8% in the year-to-date period and in the past year respectively.

The stock is currently trading at 12.69X forward 12-month price to earnings, which compares to 10.88X for the Zacks sub-industry, 25.77X for the Zacks sector and 20.63X for the S&P 500 index.

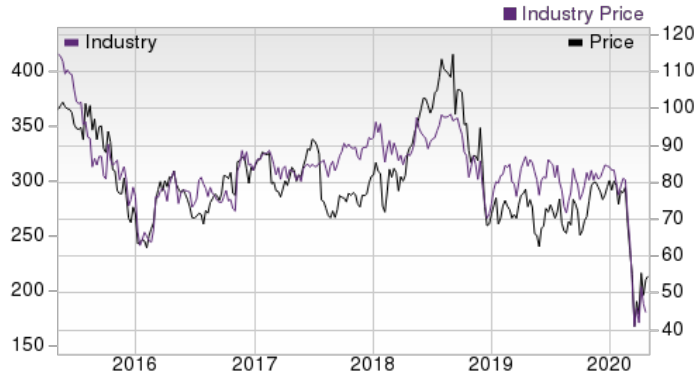
Over the past five years, the stock has traded as high as 26.51X and as low as 8.58X, with a 5-year median of 18.26X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$58 price target reflects 13.33X forward 12-month earnings.

The table below shows summary valuation data for WAB

Valuation Multiples - WAB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	12.69	10.88	25.77	20.63
	5-Year High	26.51	16.77	25.77	20.63
	5-Year Low	8.58	8.4	10.48	15.19
	5-Year Median	18.26	12.2	13.17	17.44
EV/EBITDA TTM	Current	10.27	7.9	6.07	10.51
	5-Year High	22.37	14.38	11.16	12.86
	5-Year Low	8.33	5.63	5.42	8.28
	5-Year Median	15.5	9.61	7.36	10.77
P/S F 12M	Current	1.24	0.93	1.02	3.23
	5-Year High	2.86	1.73	1.42	3.44
	5-Year Low	0.9	0.93	0.85	2.54
	5-Year Median	1.89	1.39	1.2	3.01

As of 05/05/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Avis Budget Group, Inc. (CAR)	Neutral	3
GATX Corporation (GATX)	Neutral	4
Greenbrier Companies, Inc. (The) (GBX)	Neutral	4
Herc Holdings Inc. (HRI)	Neutral	3
Freightcar America, Inc. (RAIL)	Neutral	3
Trinity Industries, Inc. (TRN)	Neutral	4
Air Lease Corporation (AL)	Underperform	5
CAI International, Inc. (CAI)	Underperform	2

Industry Comparison Industry: Transportation - Equipment And Leasing				Industry Peers		
	WAB	X Industry	S&P 500	GATX	GBX	TRN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	4
VGM Score	B	-	-	C	D	F
Market Cap	10.48 B	606.56 M	19.65 B	2.12 B	538.04 M	2.18 B
# of Analysts	7	2.5	14	2	4	3
Dividend Yield	0.87%	0.00%	2.18%	3.15%	6.56%	4.12%
Value Score	B	-	-	B	B	D
Cash/Price	0.06	0.18	0.06	0.08	0.34	0.10
EV/EBITDA	14.75	6.62	11.77	10.78	4.15	9.68
PEG Ratio	1.04	1.20	2.49	0.88	1.52	NA
Price/Book (P/B)	1.07	0.85	2.64	1.16	0.36	0.88
Price/Cash Flow (P/CF)	9.96	2.27	10.48	3.93	2.76	5.08
P/E (F1)	13.02	12.42	19.10	13.23	10.66	21.47
Price/Sales (P/S)	1.23	0.72	2.00	1.53	0.17	0.72
Earnings Yield	7.47%	7.56%	4.99%	7.56%	9.35%	4.66%
Debt/Equity	0.48	2.64	0.74	3.12	0.55	1.97
Cash Flow (\$/share)	5.54	10.88	7.01	15.49	5.96	3.63
Growth Score	B	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	-0.29%	-2.37%	10.87%	-2.37%	-17.83%	-27.70%
Proj. EPS Growth (F1/F0)	-1.27%	-18.87%	-9.07%	-16.52%	-46.17%	-31.75%
Curr. Cash Flow Growth	122.27%	18.20%	5.88%	1.08%	-8.90%	18.84%
Hist. Cash Flow Growth (3-5 yrs)	20.78%	7.73%	8.55%	2.02%	6.72%	-13.56%
Current Ratio	1.42	1.79	1.24	5.87	2.26	2.41
Debt/Capital	32.21%	72.50%	44.07%	75.75%	36.16%	66.39%
Net Margin	5.19%	8.25%	11.00%	15.59%	2.26%	8.91%
Return on Equity	8.00%	9.99%	16.39%	11.26%	6.74%	5.91%
Sales/Assets	0.45	0.33	0.55	0.17	1.11	0.35
Proj. Sales Growth (F1/F0)	1.37%	0.00%	-2.17%	0.00%	-0.25%	-28.09%
Momentum Score	D	-	-	D	F	C
Daily Price Chg	4.73%	1.44%	0.74%	2.65%	0.73%	1.54%
1 Week Price Chg	1.82%	7.11%	0.53%	2.66%	-1.81%	13.11%
4 Week Price Chg	10.44%	5.04%	6.47%	-5.57%	-1.96%	10.60%
12 Week Price Chg	-28.96%	-31.59%	-20.68%	-22.46%	-38.52%	-14.62%
52 Week Price Chg	-24.38%	-33.79%	-10.95%	-19.25%	-52.97%	-15.28%
20 Day Average Volume	1,533,704	292,608	2,492,530	367,937	630,022	1,408,692
(F1) EPS Est 1 week change	-0.96%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.49%	-15.39%	-7.39%	-20.00%	-40.35%	-24.78%
(F1) EPS Est 12 week change	-11.49%	-22.99%	-14.21%	-20.00%	-42.35%	-22.99%
(Q1) EPS Est Mthly Chg	-6.94%	0.00%	-13.52%	NA	-78.16%	0.00%

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	D
VGM Score	B

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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