

Wabtec Corporation(WAB)

\$47.58 (As of 03/27/20)

Price Target (6-12 Months): **\$50.00**

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: C

Growth: A

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 2019. High debts are concerning too. Moreover, sharp drop in revenue due to the coronavirus pandemic, is likely to hurt Wabtec first quarter results. However, the inclusion of GE Transportation products is helping the company to grow its sales significantly. In 2020, Wabtec expects sales of \$8.7 billion while adjusted earnings per share are expected between \$4.5 and \$4.8 per share. Wabtec's efforts to reward its shareholders are appreciative too. The acquisition of RELCO Locomotives is an added positive.

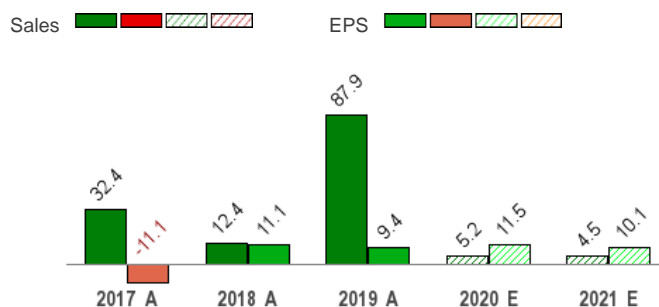
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.75 - \$35.07
20 Day Average Volume (sh)	3,060,972
Market Cap	\$9.1 B
YTD Price Change	-38.8%
Beta	1.35
Dividend / Div Yld	\$0.48 / 1.0%
Industry	Transportation - Equipment and Leasing
Zacks Industry Rank	Bottom 25% (190 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	8.1%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	04/23/2020
Earnings ESP	-2.0%
P/E TTM	11.4
P/E F1	10.2
PEG F1	0.8
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,187 E	2,284 E	2,231 E	2,318 E	9,008 E
2020	2,043 E	2,197 E	2,137 E	2,305 E	8,624 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	\$1.13 E	\$1.34 E	\$1.27 E	\$1.39 E	\$5.12 E
2020	\$1.01 E	\$1.21 E	\$1.18 E	\$1.25 E	\$4.65 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 03/27/2020. The reports text is as of 03/30/2020.

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.

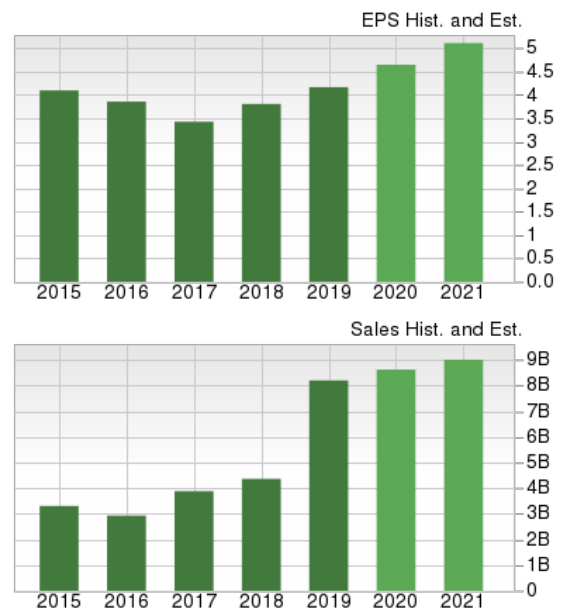
Following the completion of the GE Transportation acquisition, Wabtec, through this segment, has become the largest global manufacturer of diesel-electric locomotives for freight railroads

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 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 \$8.7 billion in 2020, higher than the 2019 figure due to the inclusion of GE Transportation products. Adjusted EBITDA is estimated to have been \$1.6 billion. Additionally, adjusted earnings are expected between \$4.5 and \$4.8 per share. We are also impressed with the company's efforts to reward shareholders. In February, the company's board authorized a buyback program worth up to \$500 million.

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 \$1.6 billion in 2019, primarily due to 84% rise in selling, general and administrative expense. Operating ratio deteriorated to 19.7% from 17.4% in 2018. Lower the value of the metric the better.
- ▼ Moreover, sharp drop in revenue due to the coronavirus pandemic, is likely to hurt Wabtec first quarter results. We are also concerned about the company's high debt levels. Long-term debt as of Dec 31, 2019, was \$4.33 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 Q4

Wabtec's earnings (excluding 33 cents from non-recurring items) of \$1.04 per share, surpassed the Zacks Consensus Estimate by a penny. Moreover, the bottom line improved 7.2% year over year. Also, total sales soared more than 100% year over year to \$2,368.4 million and surpassed the Zacks Consensus Estimate of \$2,191.8 million. The substantial year-over-year increase in sales was owing to the inclusion of GE Transportation products and higher sales from the Transit segment.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	8.06%
EPS Surprise	0.97%
Quarterly EPS	1.04
Annual EPS (TTM)	4.19

Total operating expenses in the reported quarter increased in excess of 100% to \$448.8 million, primarily due to 92.7% rise in selling, general and administrative expenses. Also, the operating ratio (operating expenses as a percentage of revenues) deteriorated to 18.9% from 18.2% in the prior-year period. Notably, lower the value of the metric the better.

Segmental Highlights

At the Transit segment, net sales inched up 1% to \$701 million, driven by organic sales growth and acquisitions. Segmental operating margin (income from operations as a percentage of sales) increased to 5.6% from 5.2% in the year-ago quarter.

Freight net sales soared more than 200% to \$1,667.1 million despite organic sales decrease and unfavorable foreign currency related movements. Segmental sales were boosted by acquisitions worth \$1.3 billion. Segmental operating margin declined to 14.3% from 17.8% in the year-ago quarter.

Liquidity & Buyback

As of Dec 31, 2019, Wabtec had \$604.2 million in cash and cash equivalents compared with \$580.9 million at the end of 2018. Long-term debt at the quarter-end was \$4,333.6 million compared with \$3,792.8 million at 2018 end. The company's board authorized a buyback program worth up to \$500 million.

2020 Outlook

Sales are anticipated to be \$8.7 billion. Adjusted income from operations is estimated to be \$1.4 billion. Additionally, adjusted EBITDA is predicted to be \$1.6 billion. Meanwhile, adjusted earnings per share are forecast in the band of \$4.5-\$4.8. For 2020, adjusted operating margin is expected to be 16% while adjusted effective tax rate is anticipated to be 25.5%. Moreover, the company hopes to achieve net synergy benefit of more than \$150 million in the current year owing to its cost-cutting measures and synergies from its merger with GE Transportation. Further, cash flow from operations is expected to be around \$900 million.

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 down 36.3% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry are down 33.2% while those in the Zacks Transportation sector are down 27.4%.

The S&P 500 index is up 11.8% in the past year.

The stock is currently trading at 9.99X forward 12-month price to earnings, which compares to 8.27X for the Zacks sub-industry, 11.61X for the Zacks sector and 15.48X for the S&P 500 index.

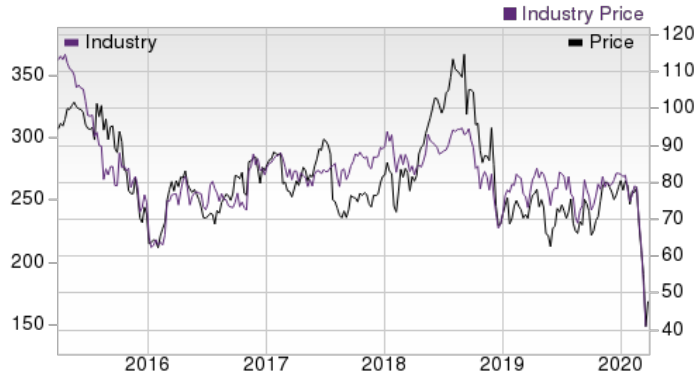
Over the past five years, the stock has traded as high as 26.51X and as low as 8.58X, with a 5-year median of 18.43X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$50 price target reflects 10.5X forward 12-month earnings.

The table below shows summary valuation data for WAB

Valuation Multiples - WAB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.99	8.27	11.61	15.48
	5-Year High	26.51	16.77	17.05	19.34
	5-Year Low	8.58	8.27	10.47	15.18
	5-Year Median	18.43	12.3	13.11	17.42
EV/EBITDA TTM	Current	9.26	7.63	6.24	9.4
	5-Year High	22.37	14.38	11.12	12.88
	5-Year Low	8.33	5.6	5.72	8.27
	5-Year Median	15.52	9.62	7.4	10.78
P/S F 12M	Current	1.05	1	0.84	2.76
	5-Year High	2.86	1.73	1.41	3.43
	5-Year Low	0.9	1	0.84	2.54
	5-Year Median	1.91	1.41	1.21	3

As of 03/27/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 254)



Top Peers

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

Industry Comparison Industry: Transportation - Equipment And Leasing				Industry Peers		
	WAB Neutral	X Industry	S&P 500	GATX Outperform	GBX Underperform	TRN Outperform
VGM Score	B	-	-	C	D	B
Market Cap	9.12 B	570.73 M	17.63 B	2.04 B	587.05 M	1.91 B
# of Analysts	7	2	13	2	3	3
Dividend Yield	1.01%	0.00%	2.41%	3.29%	6.00%	4.76%
Value Score	C	-	-	B	B	B
Cash/Price	0.08	0.18	0.07	0.08	0.54	0.09
EV/EBITDA	13.05	7.64	10.81	9.98	4.05	9.38
PEG Ratio	0.83	0.69	1.69	0.68	0.70	NA
Price/Book (P/B)	0.91	0.70	2.35	1.12	0.40	0.82
Price/Cash Flow (P/CF)	8.59	2.04	9.47	3.77	3.02	4.39
P/E (F1)	10.36	8.42	14.74	10.16	6.67	12.73
Price/Sales (P/S)	1.11	0.64	1.89	1.46	0.18	0.64
Earnings Yield	9.77%	9.84%	6.73%	9.84%	14.99%	7.84%
Debt/Equity	0.43	2.53	0.70	2.85	0.56	2.05
Cash Flow (\$/share)	5.54	10.88	7.01	15.49	5.96	3.63
Growth Score	A	-	-	D	F	C
Hist. EPS Growth (3-5 yrs)	-0.29%	-2.37%	10.85%	-2.37%	-16.57%	-27.81%
Proj. EPS Growth (F1/F0)	11.51%	-7.70%	2.89%	4.36%	-5.92%	-0.53%
Curr. Cash Flow Growth	122.27%	18.20%	5.93%	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	1.29	1.59	1.23	2.16	2.35	1.60
Debt/Capital	30.25%	71.54%	42.57%	74.02%	36.58%	67.24%
Net Margin	3.98%	8.39%	11.64%	15.15%	1.90%	4.58%
Return on Equity	7.54%	10.40%	16.74%	11.03%	6.29%	6.52%
Sales/Assets	0.43	0.33	0.54	0.17	1.16	0.35
Proj. Sales Growth (F1/F0)	5.17%	0.00%	2.37%	0.00%	12.39%	-15.01%
Momentum Score	B	-	-	C	B	A
Daily Price Chg	-5.80%	-4.68%	-3.35%	-5.96%	1.46%	-8.33%
1 Week Price Chg	-25.84%	-15.51%	-16.96%	-15.51%	-20.97%	-9.61%
4 Week Price Chg	-30.74%	-34.00%	-18.79%	-18.97%	-26.40%	-22.08%
12 Week Price Chg	-41.22%	-33.90%	-25.68%	-30.01%	-44.43%	-27.96%
52 Week Price Chg	-34.78%	-36.29%	-17.12%	-22.43%	-45.67%	-26.33%
20 Day Average Volume	3,060,972	434,961	4,286,768	435,318	598,850	1,953,491
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.21%	0.00%	-2.28%	0.00%	0.75%	2.31%
(F1) EPS Est 12 week change	2.33%	-3.57%	-3.22%	12.74%	-3.57%	8.99%
(Q1) EPS Est Mthly Chg	0.66%	0.00%	-1.60%	0.00%	NA	15.39%

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	A
Momentum Score	B
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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