

WABCO Holdings Inc. (WBC)

\$135.05 (As of 03/31/20)

Price Target (6-12 Months): **\$115.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 03/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: D

Momentum: A

Summary

Over the last several quarters, WABCO's top line has been declining amid challenging auto industry and macroeconomic headwinds. Such a challenging environment resulted in a slump in the global production of trucks, buses and passenger cars, thereby adversely impacting the performance of auto parts manufacturers like WABCO. It has also suspended its share repurchase program due to its pending merger with ZF Friedrichshafen AG. WABCO is likely to continue to feel the heat from declining sales, especially in Chinese, Indian and European markets. The coronavirus pandemic is likely to dent Wabco's sales and production further. Further, increased investments in engineering to develop technologically-advanced products will increase its R&D costs. As such, the stock is viewed as a risky bet at the moment.

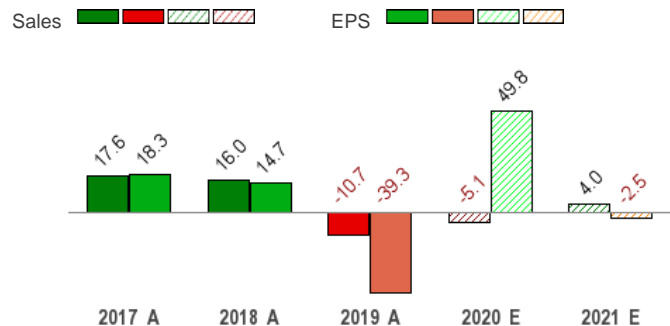
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$136.17 - \$117.20
20 Day Average Volume (sh)	1,874,340
Market Cap	\$6.9 B
YTD Price Change	-0.3%
Beta	0.87
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 15% (216 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-59.4%
Last Sales Surprise	-10.4%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	04/24/2020
Earnings ESP	0.0%
P/E TTM	28.1
P/E F1	18.9
PEG F1	1.3
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,377 E
2020					3,247 E
2019	933 A	913 A	798 A	777 A	3,421 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.56 E	\$1.42 E	\$1.32 E	\$0.88 E	\$6.98 E
2020	\$1.46 E	\$1.32 E	\$1.23 E	\$0.79 E	\$7.16 E
2019	\$1.64 A	\$1.38 A	\$1.13 A	\$0.65 A	\$4.78 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 03/31/2020. The reports text is as of 04/01/2020.

Overview

Headquartered in Brussels, Belgium, WABCO Holdings Inc. is a leading supplier of mechanical, electronic, electro-mechanical and aerodynamic products for commercial trucks, buses, trailers and passenger-car manufacturers. The company develops, manufactures and sells integrated systems to improve vehicle safety, efficiency and performance.

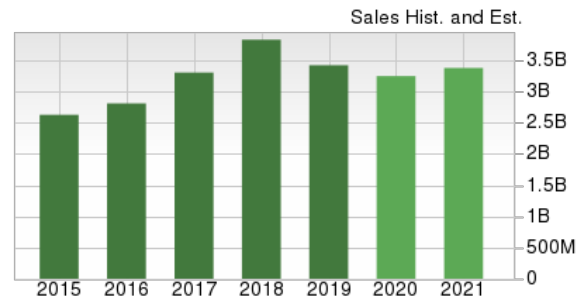
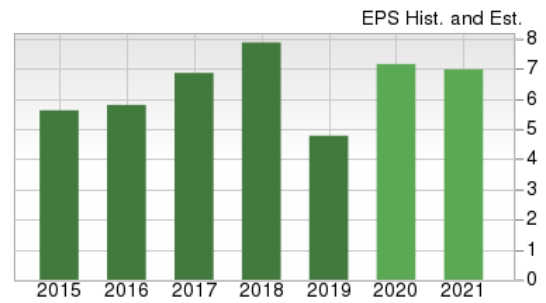
WABCO's products include advanced braking, stability, suspension, steering, transmission automation and air management systems for commercial vehicles. Further, it is the only provider of a full range of aerodynamic devices for commercial vehicles, globally. Additionally, the company is a supplier of pneumatic, and hydraulic braking and control systems for off-highway vehicles.

According to the company, two out of every three commercial vehicles with advanced and conventional vehicle control systems across the globe are equipped with the products of WABCO. For passenger cars, including sports utility vehicles (SUVs), the company offers products for sophisticated, niche applications.

WABCO also offers replacement parts, fleet management solutions, diagnostic tools, training and other expert services to commercial vehicle aftermarket distributors, service partners, and fleet operators.

Among the key customers of the company, Daimler AG is the largest. This is followed by a number of truck and bus OEMs, automakers, trailer manufacturers and aftermarket distributor networks.

WABCO was founded in the United States in 1869 as Westinghouse Air Brake Company. In 1968, Westinghouse Air Brake Company purchased by American Standard Companies Inc. and operated as Vehicle Control Systems business division of American Standard Companies. In 2007, Vehicle Control Systems business division was spun-off from the American Standard Companies and was renamed as Trane Inc. On Jun 5, 2008, Trane was merged with Ingersoll-Rand Company Limited (Ingersoll Rand) and the company exists today as a wholly owned subsidiary of Ingersoll Rand.



Reasons To Sell:

- ▼ The coronavirus pandemic has crippled the auto industry and will lead to decline in sales and production, hurting the leading supplier of mechanical, electronic, electro-mechanical and aerodynamic products for commercial trucks, buses, trailers and passenger-car manufacturers. The COVID-19 has impacted Wabco's customers in Europe, leading to temporary plant closures, change in processes and cut in production levels, in line with the nation-wide campaign addressing the crisis.
- ▼ Over the last several quarters, WABCO's top line has been declining amid challenging auto industry and macroeconomic headwinds. Such a challenging environment resulted in a slump in the global production of trucks, buses and passenger cars, thereby adversely impacting the performance of auto parts manufacturers like WABCO. Amid the deteriorating global outlook and rising risks of recession, WABCO is likely to continue to feel the heat from declining sales, especially in Chinese, Indian and European markets.
- ▼ The company has suspended its share repurchase program due to its pending merger with German auto parts maker ZF Friedrichshafen AG, with no intent to reinstate the program this year.
- ▼ Capital expenditures in property, plant and equipment has been showing an upward trend for the company. On a full year basis, WABCO expects capital expenditures to increase, which is likely to dent the cash flows and margins of the firm. It has also been bearing the brunt of operational inefficiencies over the last several quarters. Also, increasing raw material and labor costs are causes of concern. Moreover, increased investments in engineering to develop technologically-advanced products are likely to increase the company's research and development costs, going forward.

WABCO has been bearing the brunt of operational inefficiencies and declining sales over the past few quarters.

Risks

- WABCO has been gaining business contracts from existing customers and new ones. The firm is set to benefit from increasing shift toward electric vehicles. Late last year, WABCO signed a \$950-million deal with a commercial vehicle manufacturer to provide driver assistance systems and other technologies. It also entered into a pact with Hyundai Motor to provide technologies to medium-duty trucks. These business contracts are likely to boost the firm's sales and prospects.
 - German auto parts maker ZF Friedrichshafen AG is set to acquire WABCO for \$136.50/share (representing 13% premium) in second-quarter 2020. The merged company will expand global presence and reduce the risk on investments required for transforming technologies across domains. The merger will result in the formation of an integrated global provider of integrated mobility systems for the automotive and commercial vehicle industry. The combined entity is projected to generate sales of approximately €40 billion.
 - WABCO's agreement to form a joint venture with FAW Jiefang Automotive Co., Ltd. to improve efficiency and safety of commercial vehicles bode well. Its multiple business deals and long-term agreement extensions with companies across Europe, the United States and Asia-Pacific might rev up its growth prospects.
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Last Earnings Report

WABCO Q4 Earnings & Revenues Hurt by Lower Production

Wabco Holdings delivered fourth-quarter 2019 earnings of 65 cents in the reported quarter, marking a decline from \$2.13 recorded in the prior-year quarter. The bottom line also missed the Zacks Consensus Estimate of \$1.60.

Reportedly, quarterly sales of WABCO declined 14.8% to \$777 million. This decline resulted from a challenging environment that led to a slump in the global production of new trucks, buses and trailers particularly in Europe. The Zacks Consensus Estimate for sales was pegged at \$868 million.

During the reported quarter, gross profit decreased 23.9% year over year to \$211.6 million.

Financial Details

As of Dec 31, 2019, Wabco had cash and cash equivalents of \$891.8 million compared with \$503.8 million as of Dec 31, 2018. The company's long-term debt was \$828.3 million as of Dec 31, 2019, marking a decline from \$845.2 million as of Dec 31, 2018.

For the year ended Dec 31, 2019, net cash provided by operating activities totaled \$439.9 million compared with \$468.5 million a year ago.

Quarter Ending **12/2019**

Report Date	Feb 21, 2020
Sales Surprise	-10.44%
EPS Surprise	-59.38%
Quarterly EPS	0.65
Annual EPS (TTM)	4.80

Recent News

WABCO to Close the Merger With ZF Friedrichshafen in Second-Quarter 2020

On **Mar 24**, WABCO announced that it has all approvals from regulatory authorities required to close its merger with ZF Friedrichshafen AG, with the exception of the Chinese State Administration for Market Regulation (SAMR). However, WABCO and ZF anticipate that SAMR approval will be received without significant delay, and expect that the transaction will close in the second quarter of 2020, when this final regulatory clearance is anticipated to be received.

Lat year, WABCO had entered the merger agreement with ZF to acquire WABCO's outstanding shares in an all-cash transaction for an equity value of more than \$7 billion. ZF will pay \$136.50 a share, which is a 13% premium to the closing stock price of \$120.75 as of Feb 26, 2019.

Valuation

WABCO's shares are down 0.3% in the year-to-date period and up 2.5% in the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are down 30.8% and 22.7%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 25.7% and 15.7%, respectively.

The S&P 500 index is down 18.5% in the year-to-date period and down 8.6% in the past year.

The stock is currently trading at 18.37X forward 12-month earnings, which compares to 11.47X for the Zacks sub-industry, 9.98X for the Zacks sector and 16.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.3X and as low as 12.42X, with a 5-year median of 17.54X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$115 price target reflects 15.13X forward 12-month earnings per share.

The table below shows summary valuation data for WBC:

Valuation Multiples - WBC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.37	11.47	9.98	16.12
	5-Year High	22.3	13.4	11.75	19.34
	5-Year Low	12.42	8.52	8.23	15.18
	5-Year Median	17.54	11.58	9.91	17.44
EV/EBITDA TTM	Current	15.35	4.92	8.8	9.72
	5-Year High	16.62	8.66	11.34	12.88
	5-Year Low	6.07	4.37	6.97	8.27
	5-Year Median	11.73	6.58	9.29	10.78
P/B TTM	Current	4.82	1.73	1.32	3.53
	5-Year High	9.39	3.4	2.16	4.55
	5-Year Low	4.24	1.48	1.13	2.85
	5-Year Median	6.64	2.69	1.74	3.63

As of 03/31/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (216 out of 254)



Top Peers

Allison Transmission Holdings, Inc. (ALSN)	Neutral
BRP Inc. (DOOO)	Neutral
Iochpe-Maxion SA (IOCJY)	Neutral
Ferrari N.V. (RACE)	Neutral
Cooper-Standard Holdings Inc. (CPS)	Underperform
Garrett Motion Inc. (GTX)	Underperform
Meritor, Inc. (MTOR)	Underperform
Visteon Corporation (VC)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	WBC Underperform	X Industry	S&P 500	CPS Underperform	DOOO Neutral	RACE Neutral
VGM Score	D	-	-	B	B	D
Market Cap	6.92 B	487.75 M	17.97 B	172.98 M	1.45 B	28.27 B
# of Analysts	4	3	13	1	4	3
Dividend Yield	0.00%	0.00%	2.37%	0.00%	1.87%	0.00%
Value Score	F	-	-	A	B	F
Cash/Price	0.14	0.18	0.06	2.15	0.03	0.04
EV/EBITDA	15.73	3.84	10.93	2.11	4.46	21.53
PEG Ratio	1.26	1.05	1.74	NA	0.61	3.32
Price/Book (P/B)	4.82	0.83	2.39	0.20	NA	16.97
Price/Cash Flow (P/CF)	18.74	3.25	9.48	1.16	3.25	24.01
P/E (F1)	18.88	8.47	14.84	NA	9.19	38.27
Price/Sales (P/S)	2.02	0.25	1.91	0.06	0.32	6.70
Earnings Yield	5.30%	10.74%	6.65%	-13.44%	10.86%	2.62%
Debt/Equity	0.63	0.53	0.70	0.92	-3.11	1.41
Cash Flow (\$/share)	7.21	3.19	7.01	8.83	5.04	6.35
Growth Score	D	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	4.98%	9.76%	10.89%	-8.50%	NA	26.96%
Proj. EPS Growth (F1/F0)	49.74%	-11.94%	1.29%	-626.32%	-38.11%	-4.17%
Curr. Cash Flow Growth	-31.91%	-4.22%	6.03%	-51.63%	19.75%	6.75%
Hist. Cash Flow Growth (3-5 yrs)	-3.24%	4.58%	8.55%	-5.55%	NA	10.49%
Current Ratio	3.35	1.61	1.24	1.67	0.89	3.68
Debt/Capital	38.59%	39.44%	42.36%	47.93%	NA	58.42%
Net Margin	7.19%	2.50%	11.64%	1.95%	6.15%	18.57%
Return on Equity	17.41%	14.04%	16.74%	-1.13%	-67.45%	48.53%
Sales/Assets	0.85	1.30	0.54	1.15	1.68	0.70
Proj. Sales Growth (F1/F0)	-5.09%	-3.99%	1.61%	-5.10%	-21.40%	-0.59%
Momentum Score	A	-	-	B	F	B
Daily Price Chg	-0.05%	0.00%	-2.05%	14.49%	1.99%	-1.11%
1 Week Price Chg	2.72%	8.76%	12.32%	4.96%	0.00%	7.50%
4 Week Price Chg	-0.29%	-26.35%	-18.09%	-25.04%	-59.20%	-2.65%
12 Week Price Chg	-0.59%	-41.00%	-24.90%	-67.02%	-64.03%	-7.66%
52 Week Price Chg	2.47%	-37.33%	-18.55%	-79.13%	-41.44%	12.21%
20 Day Average Volume	1,874,340	223,851	4,222,189	425,302	177,181	910,439
(F1) EPS Est 1 week change	0.00%	0.00%	-0.18%	0.00%	0.00%	-1.16%
(F1) EPS Est 4 week change	0.90%	-12.76%	-3.16%	-105.97%	-43.99%	-8.56%
(F1) EPS Est 12 week change	-5.84%	-18.40%	-4.36%	-176.14%	-44.56%	-10.55%
(Q1) EPS Est Mthly Chg	-0.68%	-14.11%	-2.63%	0.00%	-49.33%	-14.11%

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	F
Growth Score	D
Momentum Score	A
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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