

WABCO Holdings Inc. (WBC)

\$135.80 (As of 01/08/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 11/08/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: A

Summary

Shares of WABCO have underperformed the industry year to date. WABCO is likely to continue to feel the heat from declining sales, especially in Chinese, Indian and European markets. Bleak operating margin and EPS guidance, along with the elimination of its buyback program has also dampened investors' sentiments. Capital expenditures in property, plant and equipment has been rising since the past couple of years and is forecasted to increase this year as well, which may clip the margins. Moreover, increased investments in engineering to develop technologically-advanced products are likely to increase the company's R&D costs. Also, rise in raw material costs, labor challenges and increased investments in engineering are hurting the company's bottom line.

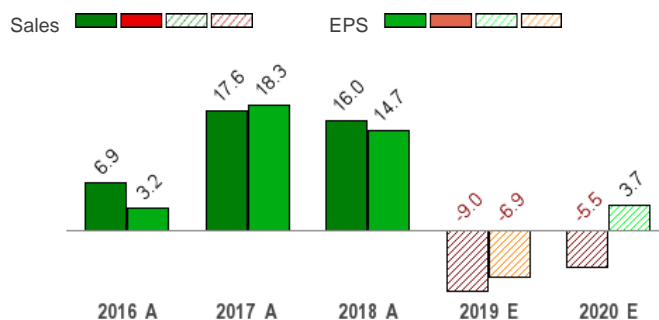
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$146.68 - \$107.10
20 Day Average Volume (sh)	383,850
Market Cap	\$7.0 B
YTD Price Change	0.2%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 10% (229 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-35.4%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/21/2020
Earnings ESP	0.0%
P/E TTM	21.6
P/E F1	17.9
PEG F1	1.2
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					3,295 E
2019	933 A	913 A	798 A	868 E	3,486 E
2018	1,003 A	1,001 A	915 A	912 A	3,831 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.88 E	\$1.91 E	\$1.78 E	\$1.98 E	\$7.60 E
2019	\$1.64 A	\$1.38 A	\$1.13 A	\$1.91 E	\$7.33 E
2018	\$1.97 A	\$2.00 A	\$1.78 A	\$2.13 A	\$7.87 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 01/08/2020. The reports text is as of 01/09/2020.

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.

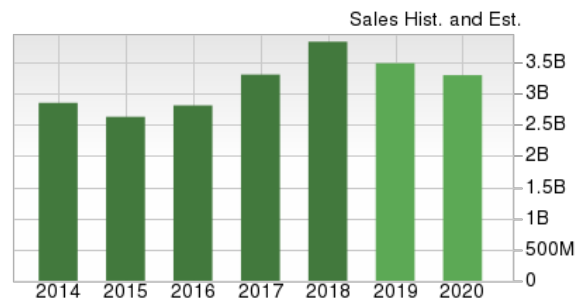
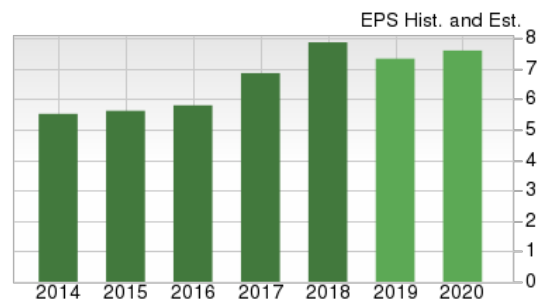
According to the company, two out of every three commercial vehicles with advanced and conventional vehicle control systems across the globe are equipped with the products of WABCO. For passenger cars, including sports utility vehicles (SUVs), the company offers products for sophisticated, niche applications.

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. In 2017, its top 10 customers contributed roughly 44% to total sales.

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:

- ▼ 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.
- ▼ Bleak guidance of the firm has dampened investors' sentiments. Notably, the company forecasts operating margin and EPS for 2019 in the range of 12.4-12.8% and \$6.88-\$7.38, respectively. This indicates a decline from the year-ago operating margin and EPS of 13.4% and \$7.43, respectively. While the company announced buyback plans for 2019 and 2020 early this year, the share repurchase program is suspended due to the firm's 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. It increased to \$107.9 million in 2019 from \$83.8 in 2018. On a full year basis, WABCO expects capital expenditures to be above the last year's level, which is likely to dent the cash flows and margins of the firm, going forward.
- ▼ WABCO has 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

- German auto parts maker ZF Friedrichshafen AG is set to acquire WABCO for \$136.50/share (representing 13% premium) by early 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 has been gaining business contracts from existing customers and new ones, in turn posing risk to our underperform recommendation. 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.
 - 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 Q3 Earnings & Revenues Hurt by Lower Production

Wabco Holdings delivered third-quarter 2019 earnings of \$1.13 per share in the reported quarter, marking a decline from \$1.41 recorded in the prior-year quarter. The bottom line also missed the Zacks Consensus Estimate of \$1.75.

Reportedly, quarterly sales of WABCO declined 12.7% to \$798.4 million. This decline resulted from a challenging environment that led to a slump in the global production of new trucks, buses and trailers in India and Europe. The Zacks Consensus Estimate for sales was pegged at \$924 million.

During the reported quarter, gross profit decreased 13.1% year over year to \$238.9 million. Operating expenses dropped \$10.1 million year over year to \$158 million.

Financial Details

At the end of third-quarter 2019, Wabco had cash and cash equivalents of \$817.1 million compared with \$503.8 million as of Dec 31, 2018. The company's long-term debt was \$808.2 million as of Sep 30, 2019, marking a decline from \$845.2 million as of Dec 31, 2018.

At the end of third-quarter 2019, WABCO witnessed net cash provided by operating activities of \$307.5 million compared with \$300.5 million a year ago.

Quarter Ending 09/2019

Report Date	Nov 06, 2019
Sales Surprise	0.00%
EPS Surprise	-35.43%
Quarterly EPS	1.13
Annual EPS (TTM)	6.28

Valuation

WABCO's shares are up 23.4% in the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are up 13.2% and up 12.6%, respectively, over the past year.

The S&P 500 index is up 26.4% in the past year.

The stock is currently trading at 17.89X forward 12-month earnings, which compares to 12.95X for the Zacks sub-industry, 10.65X for the Zacks sector and 18.74X 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 17.51X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$115 price target reflects 15.15X 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	17.89	12.95	10.65	18.74
	5-Year High	22.3	13.46	11.75	19.34
	5-Year Low	12.42	8.52	8.23	15.17
	5-Year Median	17.51	11.61	9.93	17.44
P/B TTM	Current	4.79	2.63	1.66	4.42
	5-Year High	9.39	3.4	2.16	4.45
	5-Year Low	4.24	2.08	1.38	2.85
	5-Year Median	6.88	2.75	1.75	3.6
EV/EBITDA TTM	Current	13.71	6.24	8.67	11.99
	5-Year High	16.45	8.66	11.33	12.86
	5-Year Low	6.22	4.63	7.05	8.48
	5-Year Median	11.74	6.63	9.26	10.67

As of 01/08/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 254)



Top Peers

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

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	WBC Underperform	X Industry	S&P 500	CPS Underperform	DOOO Neutral	RACE Neutral
VGM Score	B	-	-	C	A	D
Market Cap	6.96 B	828.27 M	23.82 B	528.06 M	4.10 B	31.51 B
# of Analysts	8	3	13	3	4	2
Dividend Yield	0.00%	0.00%	1.8%	0.00%	0.66%	0.00%
Value Score	D	-	-	A	B	F
Cash/Price	0.13	0.10	0.04	0.61	0.02	0.03
EV/EBITDA	11.68	5.23	13.92	3.83	11.93	25.50
PEG Ratio	1.19	1.33	2.00	NA	1.08	2.53
Price/Book (P/B)	4.79	1.51	3.32	0.58	NA	20.54
Price/Cash Flow (P/CF)	13.06	5.15	13.58	1.81	12.01	28.88
P/E (F1)	17.87	11.87	18.86	17.92	16.23	39.04
Price/Sales (P/S)	1.96	0.49	2.63	0.16	0.92	7.58
Earnings Yield	5.60%	8.22%	5.30%	5.58%	6.17%	2.56%
Debt/Equity	0.61	0.41	0.72	0.87	-3.24	1.51
Cash Flow (\$/share)	10.40	3.65	6.94	17.29	3.85	5.84
Growth Score	B	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	7.57%	9.38%	10.56%	-4.53%	NA	28.69%
Proj. EPS Growth (F1/F0)	3.65%	7.68%	7.49%	2,988.22%	19.64%	4.27%
Curr. Cash Flow Growth	13.33%	6.02%	14.83%	-11.17%	18.68%	22.37%
Hist. Cash Flow Growth (3-5 yrs)	6.15%	10.36%	9.00%	14.11%	NA	NA
Current Ratio	3.01	1.56	1.23	1.76	0.93	4.23
Debt/Capital	37.82%	35.95%	42.92%	46.51%	NA	60.19%
Net Margin	9.20%	3.02%	11.08%	3.23%	5.66%	19.67%
Return on Equity	23.60%	14.34%	17.16%	4.41%	-73.58%	51.17%
Sales/Assets	0.90	1.30	0.55	1.20	1.72	0.70
Proj. Sales Growth (F1/F0)	-5.48%	2.01%	4.15%	-2.51%	11.40%	8.62%
Momentum Score	A	-	-	F	B	C
Daily Price Chg	-0.04%	0.00%	-0.22%	0.71%	1.43%	2.01%
1 Week Price Chg	0.45%	-0.43%	-0.30%	-2.41%	0.07%	-1.18%
4 Week Price Chg	0.49%	0.00%	2.11%	12.89%	1.07%	2.00%
12 Week Price Chg	0.56%	3.46%	5.70%	-10.14%	12.52%	5.42%
52 Week Price Chg	23.77%	7.09%	22.84%	-55.01%	58.80%	51.58%
20 Day Average Volume	383,850	141,045	1,570,747	242,070	65,495	194,002
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-3.45%	0.00%	0.00%
(F1) EPS Est 4 week change	0.56%	0.00%	0.00%	-3.45%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.82%	-5.26%	-0.53%	-59.77%	1.94%	-4.81%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-42.11%	0.00%	NA

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	D
Growth Score	B
Momentum Score	A
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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