

WABCO Holdings Inc. (WBC)

\$130.56 (As of 03/19/20)

Price Target (6-12 Months): **\$138.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: D

Summary

WABCO has been gaining business contracts from existing customers and new ones. The firm is set to benefit from increasing shift toward electric vehicles. German auto parts maker ZF Friedrichshafen AG is set to acquire WABCO by early 2020, generating sales of roughly €40 billion. Also, WABCO's agreement to form a joint venture with FAW Jiefang Automotive Co., Ltd. to improve efficiency and safety of commercial vehicles bode well. However, WABCO is likely to continue to feel the heat from declining sales, especially in Chinese, Indian and European markets. Further, increased investments in engineering to develop technologically-advanced products are likely to increase the company's R&D costs. Hence, the investors are recommended to wait for a better entry point.

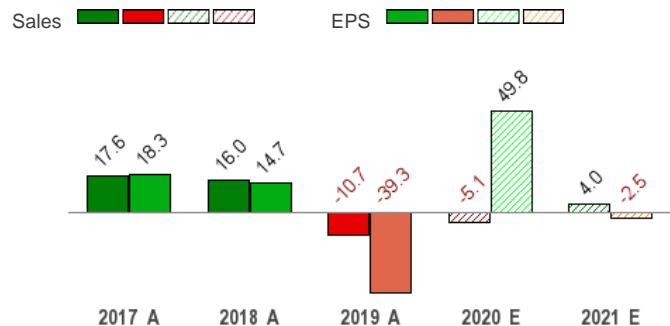
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$146.68 - \$117.20
20 Day Average Volume (sh)	1,722,656
Market Cap	\$6.7 B
YTD Price Change	-3.7%
Beta	1.05
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Automotive - Original Equipment
Zacks Industry Rank	Bottom 19% (207 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	27.2
P/E F1	18.2
PEG F1	1.2
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 03/19/2020. The reports text is as of 03/20/2020.

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.

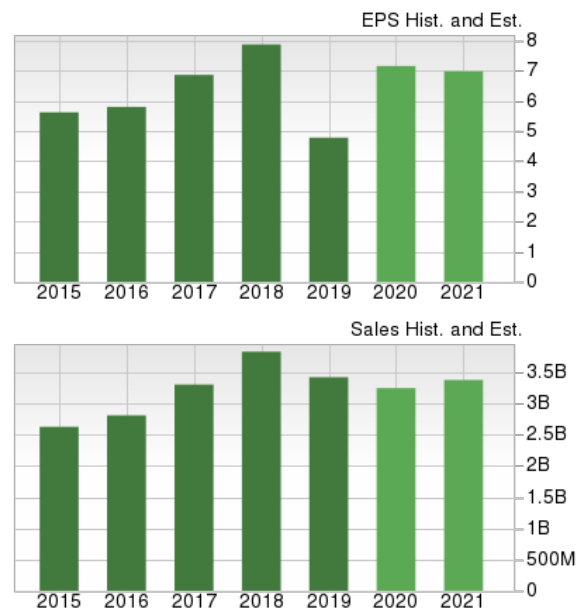
WABCO's products include advanced braking, stability, suspension, steering, transmission automation and air management systems for commercial vehicles. Further, it is the only provider of a full range of aerodynamic devices for commercial vehicles, globally. Additionally, the company is a supplier of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

- ▲ 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 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'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.

New business contracts, acquisitions and strong cash flow are tailwinds for WABCO.

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 has buyback plans for 2020, 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. 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.

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 **12/2019**

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

Valuation

WABCO's shares are down 3.7% in the year-to-date period and down 9.7% in the trailing 12-month period. Stocks in the Zacks Automotive - Original Equipment industry and the Zacks Auto-Tires-Trucks sector are up down 37.4% and 29.7%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 32.2% and 22.3%, respectively.

The S&P 500 index is down 25% in the year-to-date period and 16.3% in the past year.

The stock is currently trading at 17.76X forward 12-month earnings, which compares to 8.96X for the Zacks sub-industry, 7.98X for the Zacks sector and 14.3X 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 17.55X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$138 price target reflects 18.77X 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	17.76	8.96	7.98	14.3
	5-Year High	22.3	13.46	11.75	19.34
	5-Year Low	12.42	8.52	7.98	14.3
	5-Year Median	17.55	11.59	9.88	17.42
EV/EBITDA TTM	Current	14.84	4.52	8.63	8.92
	5-Year High	16.62	8.66	11.34	12.88
	5-Year Low	6.07	4.4	6.97	8.31
	5-Year Median	11.73	6.57	9.32	10.78
P/B TTM	Current	4.66	1.37	1.1	3.25
	5-Year High	9.39	3.4	2.16	4.55
	5-Year Low	4.24	1.33	1.05	2.85
	5-Year Median	6.7	2.7	1.73	3.63

As of 03/19/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (207 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
Ferrari N.V. (RACE)	Neutral
Cooper-Standard Holdings Inc. (CPS)	Underperform
Meritor, Inc. (MTOR)	Underperform
Visteon Corporation (VC)	Underperform

Industry Comparison Industry: Automotive - Original Equipment				Industry Peers		
	WBC Neutral	X Industry	S&P 500	CPS Underperform	DOOO Neutral	RACE Neutral
VGM Score	F	-	-	B	A	D
Market Cap	6.69 B	500.29 M	16.45 B	150.07 M	1.48 B	25.33 B
# of Analysts	4	2	13	1	4	3
Dividend Yield	0.00%	0.00%	2.67%	0.00%	1.83%	0.00%
Value Score	F	-	-	A	A	F
Cash/Price	0.14	0.15	0.06	1.40	0.04	0.04
EV/EBITDA	15.20	3.48	10.36	2.03	6.10	19.39
PEG Ratio	1.22	0.70	1.49	NA	0.35	2.83
Price/Book (P/B)	4.66	0.80	2.16	0.17	NA	15.20
Price/Cash Flow (P/CF)	18.11	3.36	8.92	1.01	4.33	21.52
P/E (F1)	18.23	6.76	13.12	NA	5.24	32.65
Price/Sales (P/S)	1.96	0.23	1.72	0.05	0.33	6.01
Earnings Yield	5.48%	13.92%	7.54%	-15.49%	19.08%	3.07%
Debt/Equity	0.63	0.51	0.70	0.92	-3.24	1.41
Cash Flow (\$/share)	7.21	3.19	7.01	8.83	3.85	6.35
Growth Score	D	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	4.98%	7.17%	10.85%	-8.50%	NA	26.96%
Proj. EPS Growth (F1/F0)	49.74%	1.62%	4.90%	-626.32%	11.57%	0.64%
Curr. Cash Flow Growth	-31.91%	-3.78%	6.03%	-51.63%	18.68%	6.75%
Hist. Cash Flow Growth (3-5 yrs)	-3.24%	6.21%	8.55%	-5.55%	NA	10.49%
Current Ratio	3.35	1.60	1.23	1.67	0.93	3.68
Debt/Capital	38.59%	38.59%	42.57%	47.93%	NA	58.42%
Net Margin	7.19%	2.50%	11.57%	1.95%	5.66%	18.57%
Return on Equity	17.41%	14.04%	16.74%	-1.13%	-73.58%	48.53%
Sales/Assets	0.85	1.30	0.54	1.15	1.72	0.70
Proj. Sales Growth (F1/F0)	-5.09%	-1.48%	3.13%	-5.10%	6.71%	5.60%
Momentum Score	D	-	-	C	A	F
Daily Price Chg	3.46%	1.17%	1.03%	9.19%	8.25%	1.98%
1 Week Price Chg	-0.04%	-12.70%	-11.01%	2.55%	-19.67%	-6.51%
4 Week Price Chg	-3.97%	-39.01%	-33.45%	-58.83%	-70.03%	-23.14%
12 Week Price Chg	-3.66%	-42.08%	-30.67%	-72.91%	-63.64%	-18.67%
52 Week Price Chg	-9.65%	-42.02%	-23.69%	-82.56%	-42.02%	3.26%
20 Day Average Volume	1,722,656	236,308	3,981,936	401,054	165,283	929,960
(F1) EPS Est 1 week change	-2.72%	0.00%	-0.01%	-626.32%	0.00%	0.76%
(F1) EPS Est 4 week change	0.90%	-4.84%	-0.85%	-178.86%	-1.39%	-3.98%
(F1) EPS Est 12 week change	-5.84%	-7.96%	-1.70%	-176.14%	-1.01%	-6.06%
(Q1) EPS Est Mthly Chg	-0.68%	-5.84%	-0.88%	-495.45%	0.00%	-10.21%

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	D
VGM Score	F

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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