PACCAR (PCAR)

Updated January 23rd, 2019 by Eli Inkrot

Key Metrics

Current Price:	$62	**5 Year CAGR Estimate:**	10.0%	**Volatility Percentile:**	58.0%
Fair Value Price:	$80	**5 Year Growth Estimate:**	1.1%	**Momentum Percentile:**	31.5%
% Fair Value:	78%	**5 Year Valuation Multiple Estimate:**	5.2%	**Growth Percentile:**	2.7%
Dividend Yield:	3.7%	**5 Year Price Target**	$85	**Valuation Percentile:**	83.4%
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Total Return Percentile:**	37.7%

Overview & Current Events

In 1905, William Pigott, Sr. founded Seattle Car Mfg. Co, focusing on railway and logging equipment, which would later become Pacific Car and Foundry Company and eventually PACCAR Inc. Today PACCAR designs and manufactures light, medium and heavy-duty trucks under the Kenworth (U.S., Canada, Mexico & Australia), Peterbilt (U.S. & Canada) and DAF (Netherlands, Belgium, Brazil & UK) nameplates. In addition, the company provides financial services, information technology, and distributes truck parts related to its principle business. PACCAR, a $22 billion market cap business with 28,000 employees, is on pace to generate almost $22 billion in revenue and earn over $2.1 billion on an annual basis.

On October 23rd, 2018 PACCAR released Q3 2018 results for the period ending September 30th, 2018. For the quarter, the company reported $5.76 billion in sales, a 13.8% increase compared to the prior year period, and $545 million in net profit, representing a 35.4% year-over-year increase. The large increases were driven by solid business performance and a substantial benefit from tax reform; income before taxes grew 15.0%, while income after taxes increased 35.4%. Diluted earnings-per-share totaled $1.55 against $1.14 in the same quarter of 2017. PACCAR delivered 47,800 trucks in the quarter versus 40,200 previously.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$2.78	$0.23	$1.25	$2.86	$3.12	$3.30	$3.82	$4.51	$3.85	$4.26	***$6.15***	***$6.50***
DPS	$0.82	$0.54	$0.69	$1.30	$1.58	$1.70	$1.86	$2.32	$1.56	$2.19	***$2.29***	***$2.92***
Shares	363	364	365	357	353	354	355	351	351	352	***352***	***350***

Note that PACCAR has an irregular dividend schedule in that the company pays a regular, four quarter dividend throughout the year but then supplements this with a special dividend towards the end of the year. The company has followed this practice for every year in the last two decades except for 2009. This method makes sense from a business prospective - only paying what you can afford or feel comfortable with instead or arbitrary trying to bump up the payout regardless of performance or opportunities available - but you don't see it occur in practice very often. In any event, this is why the dividend payments appear lumpy in the data above.

For the last twelve months PACCAR has posted earnings-per-share of $5.77, which ought to increase to over $6 per share by yearend. This is largely driven by tax reform, but also improvements in the business. PACCAR operates in a needed industry, 71% of total U.S. freight is hauled by truck, and the company currently supplies about a third of the heavy duty market in the U.S., Canada, and Mexico. When economic times are good, the business is well positioned to capture its fair share of business. Moreover, the company's focus on owner-operators instead of large customers with pricing power has proven to be an advantage thus far. Further, the company's brands command a premium.

Of course that is not to suggest that the company does not face risks, especially as it relates to growth. The business is largely cyclical, depending a great deal on general economic progress and the movement of goods. Moreover, there are new threats on the horizon such as disruption via autonomous vehicles, which could impact owner-operators – PACCAR's key customer – in a disproportionate way.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

PACCAR (PCAR)

Updated January 23rd, 2019 by Eli Inkrot

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	14.7	N/A	35.8	16.0	13.5	16.1	16.6	13.3	14.5	15.9	***10.1***	***13.0***
Avg. Yld.	2.0%	1.6%	1.5%	2.8%	3.8%	3.2%	2.9%	3.9%	2.8%	3.2%	***3.7%***	***3.5%***

Absent the most recent recession, shares of PACCAR have traded hands with an average P/E ratio of about 15 times earnings. While earnings-per-share have risen dramatically as of late, in large part due to tax reform, we do not anticipate significant growth from this point (indeed, some analysts are even projecting negative growth). As such, we are more comfortable with a slightly lower starting earnings multiple, which still gives room for valuation multiple gains.

The 3%+ dividend yield won't show up on a typical finance website due to PACCAR paying a special dividend each year. We are comfortable including it, as it has been nearly as consistent (granted at varying levels) as the regular dividend.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	29%	N/A	55%	45%	51%	52%	49%	51%	41%	51%	***37%***	***45%***

PACCAR currently enjoys a competitive advantage in offering a premium product to owner-operators. This has served the company exceptionally well in the past. Moving forward this advantage is less certain, as PACCAR will face economic cyclicality and the possibility of consolidation via autonomous vehicles. Both of which could hit its core customer.

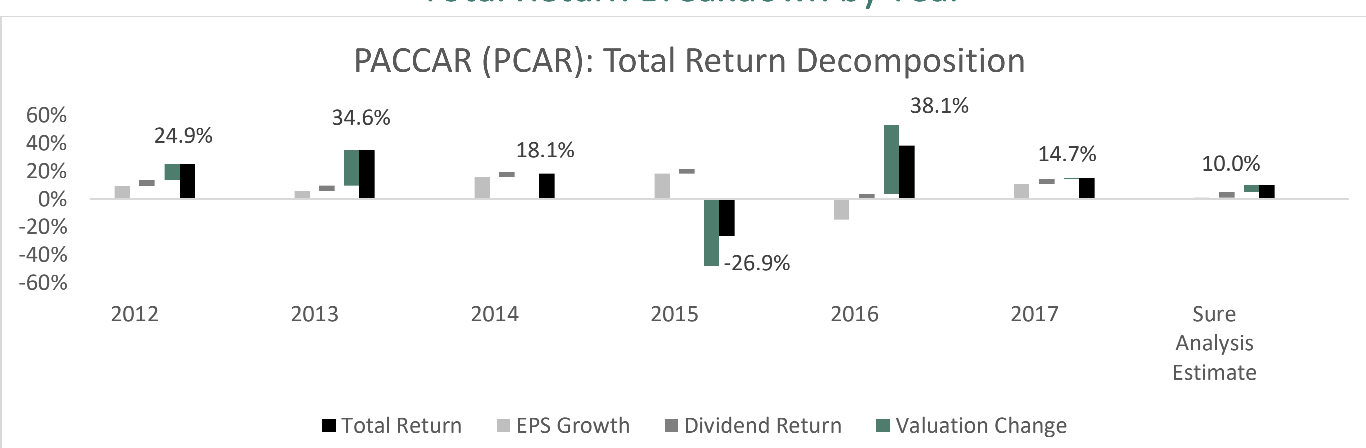
The company's last recession performance – generating earnings of $2.78, $0.23, $1.25 and $2.86 in 2008 through 2011 – is noteworthy. It shows just how far earnings can fall during lesser times, but also gives you some insight into the resilience of the business. Also noteworthy is PACCAR's record of 79 consecutive years of net profit (the last recession was close) and paying a dividend every year since 1941.

PACCAR breaks its balance sheet down into two parts: Trucks, Parts & Other and Financial Services. The Trucks, Parts & Other segment has a safe and conservative balance sheet. The Financial Services segment held $14.1 Billion in assets against $10.8 billion in liabilities, which again is reasonable and not overly risky.

Final Thoughts & Recommendation

PACCAR faces two main risks: poor performance during recessions and autonomous (or otherwise) vehicle distribution. An investment thesis for PACCAR is valuation dependent, as we not have particularly robust growth expectations. We rate PACCAR as a hold at current prices, as expected total returns don't justify a buy today considering the risks here.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

PACCAR (PCAR)

Updated January 23rd, 2019 by Eli Inkrot

Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	14289	7585	10293	16355	17051	17124	18997	19115	17033	19456
Gross Profit	2552	1101	1430	2356	2466	2496	2793	3121	2753	2986
Gross Margin	17.9%	14.5%	13.9%	14.4%	14.5%	14.6%	14.7%	16.3%	16.2%	15.3%
SG&A Exp.	581	435	482	547	572	560	561	542	540	555
D&A Exp.	649	652	623	674	701	811	918	907	993	1108
Operating Profit	1088	-80	649	1479	1596	1672	2001	2328	1947	2144
Op. Margin	7.6%	-1.1%	6.3%	9.0%	9.4%	9.8%	10.5%	12.2%	11.4%	11.0%
Net Profit	1018	112	458	1042	1112	1171	1359	1604	522	1675
Net Margin	7.1%	1.5%	4.4%	6.4%	6.5%	6.8%	7.2%	8.4%	3.1%	8.6%
Free Cash Flow	-245	402	668	-55	-284	503	586	831	336	869
Income Tax	446	63	203	465	517	524	659	733	609	498

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	16250	14569	14234	17173	18628	20726	20619	21110	20639	23440
Cash & Equivalents	1955	1912	2041	2107	1272	1750	1738	2016	1916	2365
Acc. Receivable	699	555	610	8238	9200	9832	10090	10183	9700	10825
Inventories	658	632	534	710	782	814	926	797	728	928
Total Liabilities	11403	9465	8876	11808	12781	14091	13866	14169	13861	15390
Accounts Payable	2042		707	1462	1148	1397	1552	1287	1334	1621
Long-Term Debt	7485	6073	5276	6655	7880	8424	8231	8592	8475	8879
Total Equity	4847	5104	5358	5364	5847	6634	6753	6940	6778	8051
D/E Ratio	1.54	1.19	0.98	1.24	1.35	1.27	1.22	1.24	1.25	1.10

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	6.1%	0.7%	3.2%	6.6%	6.2%	6.0%	6.6%	7.7%	2.5%	7.6%
Return on Equity	20.6%	2.2%	8.7%	19.4%	19.8%	18.8%	20.3%	23.4%	7.6%	22.6%
ROIC	8.1%	1.0%	4.2%	9.2%	8.6%	8.1%	9.0%	10.5%	3.4%	10.4%
Shares Out.	363	364	365	357	353	354	355	351	351	352
Revenue/Share	39.05	20.79	28.11	44.88	47.92	48.21	53.35	53.75	48.42	55.13
FCF/Share	-0.67	1.10	1.82	-0.15	-0.80	1.42	1.65	2.34	0.95	2.46

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.