# Cummins Inc. (CMI)

*Updated February 6th, 2019 by Eli Inkrot*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $148 | **5 Year CAGR Estimate:** | 12.9% | **Volatility Percentile:** | 50.7% |
| **Fair Value Price:** | $187 | **5 Year Growth Estimate:** | 5.0% | **Momentum Percentile:** | 20.0% |
| **% Fair Value:** | 79% | **5 Year Valuation Multiple Estimate:** | 4.8% | **Growth Percentile:** | 33.1% |
| **Dividend Yield:** | 3.1% | **5 Year Price Target** | $239 | **Valuation Percentile:** | 83.6% |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | B | **Total Return Percentile:** | 74.1% |

## Overview & Current Events

Cummins, headquartered in Indiana and founded in 1919 (celebrating its 100th year in business in 2019), designs, manufactures, distributes and services engines for heavy, medium and light-duty trucks. The company's products include diesel and natural gas engines as well as hybrid and electric platforms. Cummins operates in four segments: Engines (35% of 2018 revenue), Distribution (26%), Components (24%) and Power Systems (15%). Roughly 60% of the business is done in the U.S. and Canada. The $24 billion market cap company employs more than 60,000 people and serves customers in about 190 countries.

On February 6th, 2018 Cummins released Q4 and full year 2018 results for the period ending December 31st, 2018. For the quarter Cummins generated revenue of $6.13 billion, a 11.8% increase compared to Q4 2017, driven by increased truck production in North America and stronger demand in global markets. Net income for the year was $579 million ($3.63 per share) compared to an adjusted $503 million ($3.03 per share) in last year's quarter. For the full year Cummins reported revenue of $23.77 billion, a 16.4% increase compared to 2017. Net income totaled $2.1 billion ($13.15 per share) against an adjusted $1.8 billion ($10.62 per share) in 2017.

Cummins also provided its 2019 outlook. For full year 2019 the company anticipates that revenues will be flat to up 4%. Also, Cummins expects to return 75% of operating cash flows to shareholders through dividends and share repurchases.

## Growth on a Per-Share Basis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $2.47 | $5.17 | $9.07 | $8.69 | $7.91 | $9.14 | $8.92 | $8.23 | $10.63 | $13.15 | ***$14.40*** | ***$18.40*** |
| **DPS** | $0.70 | $0.88 | $1.33 | $1.80 | $2.25 | $2.81 | $3.51 | $4.00 | $4.21 | $4.44 | ***$4.68*** | ***$6.44*** |
| **Shares** | 201 | 198 | 193 | 190 | 187 | 182 | 175 | 168 | 166 | 163 | ***160*** | ***150*** |

The above table is slightly misleading as it relates to growth, as the data starts at the last recession. Looking at the 2008 through 2018 period Cummins grew earnings-per-share by an average compound rate of 12.4%, quite an impressive record, although most of the improvement was in the 2010-2011 and 2017-2018 periods.

Cummins has been benefiting from an increase in worldwide emission regulations and fuel efficiency standards. When paired with the company's reliable and superior quality engines, this has afforded the company growth opportunities. This trend is likely to continue, but we believe there is a tipping point whereby the increase in standards starts to be addressed via alternative technologies, such as batteries. In turn, this could slow Cummins' growth profile as the company would either need to invest heavily in new technologies or risk falling behind.

## Valuation Analysis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 14.8 | 14.5 | 11.1 | 11.9 | 15.3 | 15.8 | 14.0 | 14.1 | 14.9 | 10.2 | ***10.3*** | ***13.0*** |
| **Avg. Yld.** | 1.9% | 1.2% | 1.3% | 1.7% | 1.9% | 1.9% | 2.8% | 3.5% | 2.7% | 3.3% | ***3.2%*** | ***2.7%*** |

# Cummins Inc. (CMI)

*Updated February 6th, 2019 by Eli Inkrot*

Over the past decade shares of Cummins have traded with an average P/E ratio of about 13 or 14 times earnings. We believe this is a reasonable multiple, considering the company's growth prospects paired with a fair amount of cyclicality in earnings.

Additionally, given the current multiple near 10 times earnings with a payout ratio just over 30%, shares now trade hands with a dividend yield north of 3%. We believe this is attractive considering the dividend growth runway ahead. Moreover, share repurchases ought to continue to aid the bottom lin.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 28% | 17% | 15% | 21% | 28% | 31% | 39% | 49% | 40% | 34% | ***33%*** | ***35%*** |

Cummins maintains a competitive advantage in its strong brand name, stemming from reliability and superior quality. In turn, the company maintains a large share of the heavy-duty engine market. Two main risks stick out: a high reliance on a few customers, namely PACCAR, Daimler, Chrysler and Navistar, which could turn to manufacturing in-house, and the potential for new technologies to disrupt or require increased investment.

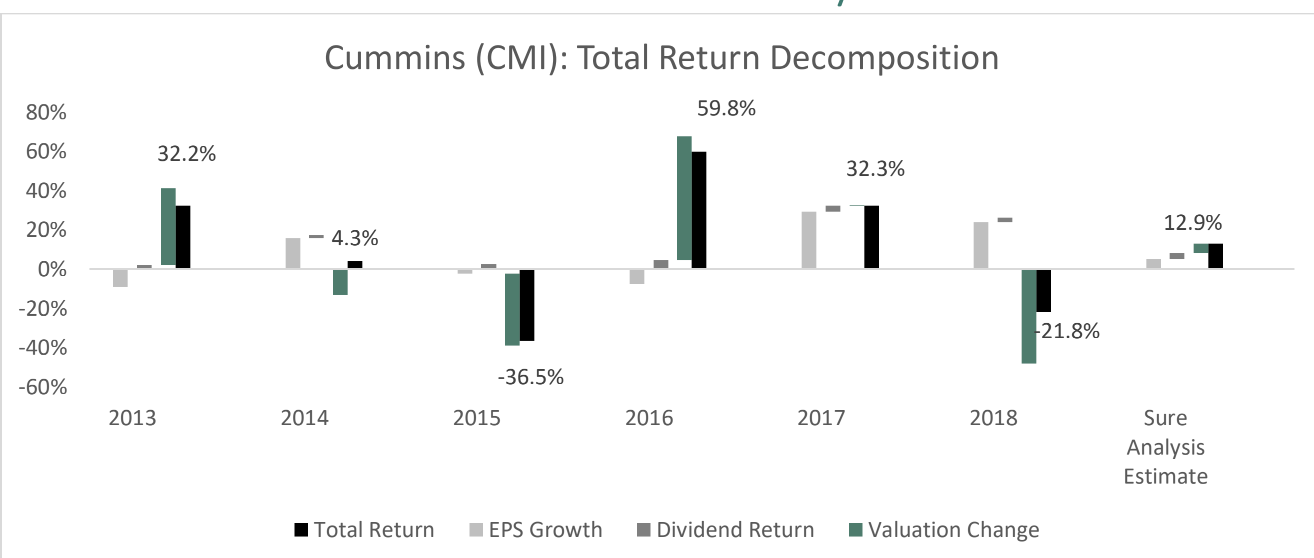
During the last recession Cummins posted earnings-per-share of $4.08, $2.47, $5.17 and $9.07 during the 2008 through 2011 stretch. Meanwhile, the dividend kept on increasing during this time. We view this a microcosm of the business at large. That is, in lesser economic times earnings are likely to falter, but the company has the ability to recovery quickly and the dividend payout ratio is low enough to keep the payment steady.

As of the most recent report Cummins held $1.3 billion in cash, $9.8 billion in current assets and $19.1 billion in total assets against $6.4 billion in current liabilities and $10.8 billion in total liabilities. Moreover, long-term debt stood at $1.6 billion compared to underlying earnings power north of $2 billion per year.

## Final Thoughts & Recommendation

Since our last update shares are up about 10%. Still, there's a lot to like about Cummins. The company has a strong reputation and balance sheet, coupled with growth prospects, a below average valuation and a well-covered, above average dividend yield. It is true that risks exist, namely in customer concentration and the future of engines, but we believe shares are currently adequately pricing these unknowns. Cummins is a buy at current prices.

## 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.*

# Cummins Inc. (CMI)

*Updated February 6th, 2019 by Eli Inkrot*

## Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 10800 | 13226 | 18048 | 17334 | 17301 | 19221 | 19110 | 17509 | 20428 | 23771 |
| Gross Profit | 2169 | 3168 | 4589 | 4416 | 4280 | 4861 | 4947 | 4452 | 5090 | 5737 |
| Gross Margin | 20.1% | 24.0% | 25.4% | 25.5% | 24.7% | 25.3% | 25.9% | 25.4% | 24.9% | 24.1% |
| SG&A Exp. | 1239 | 1487 | 1837 | 1808 | 1817 | 2095 | 2092 | 2046 | 2390 | 2437 |
| D&A Exp. | 326 | 320 | 325 | 361 | 407 | 455 | 514 | 530 | 583 | |
| Operating Profit | 568 | 1251 | 2144 | 1870 | 1740 | 1995 | 2103 | 1781 | 1997 | 2392 |
| Op. Margin | 5.3% | 9.5% | 11.9% | 10.8% | 10.1% | 10.4% | 11.0% | 10.2% | 9.8% | 10.1% |
| Net Profit | 428 | 1040 | 1848 | 1645 | 1483 | 1651 | 1399 | 1394 | 999 | 2141 |
| Net Margin | 4.0% | 7.9% | 10.2% | 9.5% | 8.6% | 8.6% | 7.3% | 8.0% | 4.9% | 9.0% |
| Free Cash Flow | 792 | 599 | 1391 | 755 | 1349 | 1468 | 1266 | 1345 | 1690 | 1594 |
| Income Tax | 156 | 477 | 725 | 533 | 531 | 698 | 555 | 474 | 1371 | 566 |

## Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 8816 | 10402 | 11668 | 12548 | 14728 | 15764 | 15134 | 15011 | 18075 | 19062 |
| Cash & Equivalents | 930 | 1023 | 1484 | 1369 | 2699 | 2301 | 1711 | 1120 | 1369 | 1303 |
| Accounts Receivable | 1730 | 1935 | 2252 | 2235 | 2362 | 2744 | 2640 | 2803 | 3311 | 3866 |
| Inventories | 1341 | 1977 | 2141 | 2221 | 2381 | 2866 | 2707 | 2675 | 3166 | 3759 |
| Goodwill & Int. Ass. | 592 | 589 | 566 | 814 | 818 | 822 | 810 | 812 | 2055 | 2035 |
| Total Liabilities | 4796 | 5406 | 5837 | 5574 | 6858 | 7671 | 7384 | 7837 | 9911 | 10803 |
| Accounts Payable | 957 | 1362 | 1546 | 1339 | 1557 | 1881 | 1706 | 1854 | 2579 | 2822 |
| Long-Term Debt | 674 | 791 | 783 | 775 | 1740 | 1686 | 1639 | 1856 | 2006 | 2476 |
| Shareholder’s Equity | 3773 | 4670 | 5492 | 6603 | 7510 | 7749 | 7406 | 6875 | 7259 | 7348 |
| D/E Ratio | 0.18 | 0.17 | 0.14 | 0.12 | 0.23 | 0.22 | 0.22 | 0.27 | 0.28 | 0.34 |

## Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 4.9% | 10.8% | 16.7% | 13.6% | 10.9% | 10.8% | 9.1% | 9.2% | 6.0% | 11.5% |
| Return on Equity | 12.2% | 24.6% | 36.4% | 27.2% | 21.0% | 21.6% | 18.5% | 19.5% | 14.1% | 29.3% |
| ROIC | 9.6% | 19.8% | 29.8% | 22.9% | 17.1% | 17.0% | 14.6% | 15.1% | 10.4% | 20.5% |
| Shares Out. | 201 | 198 | 193 | 190 | 187 | 182 | 175 | 168 | 166 | 163 |
| Revenue/Share | 54.63 | 67.09 | 93.22 | 91.39 | 92.31 | 104.99 | 107.11 | 103.40 | 122.13 | 146.01 |
| FCF/Share | 4.01 | 3.04 | 7.19 | 3.98 | 7.20 | 8.02 | 7.10 | 7.94 | 10.10 | 9.79 |

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