PACCAR Inc. (PCAR)

Updated January 28th, 2020 by Eli Inkrot

Key Metrics

Current Price:	$76	**5 Year CAGR Estimate:**	7.5%	**Market Cap:**	$26.4B
Fair Value Price:	$78	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	02/10/20
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.5%	**Dividend Payment Date:**	03/03/20
Dividend Yield:	4.7%	**5 Year Price Target**	$90	**Years Of Dividend Growth:**	10
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	14.3%

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 $26 billion market cap business with 28,000 employees, generates $24 billion in revenue and earnings of $2.4 billion on an annual basis.

On January 28th, 2020 PACCAR released Q4 and full year 2019 results for the period ending December 31st, 2019. For the quarter PACCAR generated $5.71 billion in sales, which was a -3.7% decline compared to Q4 2018, as truck sales experienced a -4.9% decline in the quarter. Net income equaled $531.3 million ($1.53 per share) compared to $578.1 million ($1.65 per share) in Q4 2018. For the year PACCAR generated sales of $24.12 billion, representing an 8.9% year-over-year increase, as truck sales were up 9.9% in 2019. Net income totaled $2.39 billion ($6.87 per share) compared to $2.20 billion ($6.24 per share) in 2018. PACCAR delivered a record 198,800 vehicles worldwide during the year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.25	$2.86	$3.12	$3.30	$3.82	$4.51	$3.85	$4.26	$6.24	$6.87	***$6.00***	***$6.96***
DPS	$0.69	$1.30	$1.58	$1.70	$1.86	$2.32	$1.56	$2.19	$3.16	$3.28	***$3.58***	***$3.95***
Shares[1]	365	357	353	354	355	351	351	352	347	348	***346***	***345***

PACCAR has an irregular dividend schedule: paying a regular, four quarter dividend throughout the year and then supplementing this with a special dividend at yearend. 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 instead of arbitrarily trying to bump up the payout - but you don't see it occur in practice very often.

PACCAR operates in a needed industry: roughly 70% 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. Moreover, there are new threats on the horizon such as disruption via autonomous vehicles. We are somewhat cautious forecasting 3% growth.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	35.8	16.0	13.5	16.1	16.6	13.3	14.5	15.9	10.5	9.9	***12.7***	***13.0***
Avg. Yld.	1.5%	2.8%	3.8%	3.2%	2.9%	3.9%	2.8%	3.2%	4.8%	5.3%	***4.7%***	***4.6%***

[1] In millions.

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 Inc. (PCAR)

Updated January 28th, 2020 by Eli Inkrot

Absent the most recent recession, shares of PACCAR have traded hands with an average P/E ratio of about 14 times earnings. While earnings-per-share have risen dramatically as of late, we do not anticipate significant growth from this point (indeed, analysts are projecting negative growth for 2020). As such, we are more comfortable with a slightly lower starting earnings multiple, which still could mean small gains from valuation expansion.

The 4%+ 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. (The regular dividend sits at $0.32 per quarter, or an annual yield of roughly 1.7%, but this year's special dividend amounted to $2.30 per share.) The company targets a 45% to 55% payout ratio.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	55%	45%	51%	52%	49%	51%	41%	51%	51%	48%	***60%***	***57%***

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.

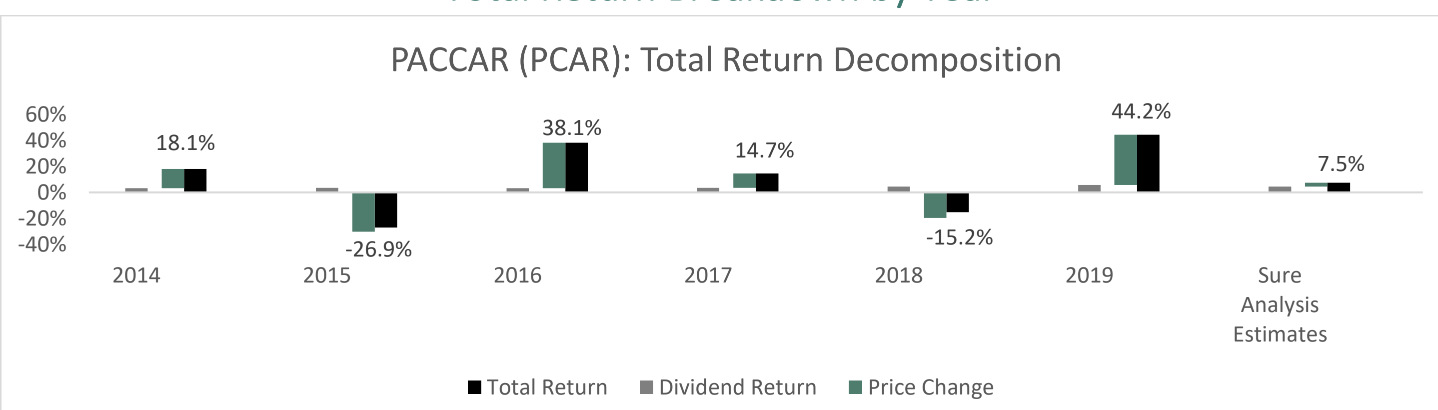
The company's last recession performance – generating earnings of $2.78, $0.23, $1.25 and $2.86 in 2008 through 2011 – is noteworthy. It shows just how far earnings can fall during lesser times, but also gives you some insight into the resilience of the business. Also noteworthy is PACCAR's record of 81 consecutive years of net profit (the last recession was close) and paying a dividend every year since 1941 (although the lumpiness should still be considered).

PACCAR breaks its balance sheet down into two parts: Trucks, Parts & Other and Financial Services. The Trucks, Parts & Other segment held $5.2 billion in cash and securities and $12.3 billion in total assets against $6.0 billion in total liabilities. The Financial Services segment held $16.1 billion in assets against $12.6 billion in liabilities. Collectively, the business has its financial house in order.

Final Thoughts & Recommendation

Shares are up marginally since our last update. PACCAR faces two main risks: poor performance during recessions and autonomous (or otherwise) vehicle disruption. Still, the company has proven to be a quality firm over a business cycle, has a conservative financial stance and a premium product. We see 7.5% total return potential from a 3% growth rate, an above average 4.7% dividend yield and a moderate valuation tailwind. To that last point, it should be underscored that an investment thesis for PACCAR is somewhat valuation dependent, as we do not have particularly robust growth expectations. Collectively we believe the business is sound but continue to rate shares as a hold at today's price.

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 Inc. (PCAR)

Updated January 28th, 2020 by Eli Inkrot

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue ($B)	10	16	17	17	19	19	17	19	23	26
Gross Profit	1,430	2,356	2,466	2,496	2,793	3,121	2,737	2,950	3,656	4,015
Gross Margin	13.9%	14.4%	14.5%	14.6%	14.7%	16.3%	16.1%	15.2%	15.6%	15.7%
SG&A Exp.	482	547	572	560	561	542	543	572	645	699
D&A Exp.	623	674	701	811	918	907	993	1,108	1,054	1,077
Operating Profit	649	1,479	1,596	1,672	2,001	2,328	1,929	2,092	2,689	2,975
Operating Margin	6.3%	9.0%	9.4%	9.8%	10.5%	12.2%	11.3%	10.8%	11.4%	11.6%
Net Profit	458	1,042	1,112	1,171	1,359	1,604	522	1,675	2,195	2,388
Net Margin	4.4%	6.4%	6.5%	6.8%	7.2%	8.4%	3.1%	8.6%	9.3%	9.3%
Free Cash Flow	668	(55)	(284)	503	586	831	336	869	1,040	890
Income Tax	203	465	517	524	659	733	609	498	615	711

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	14,234	17,173	18,628	20,726	20,619	21,110	20,639	23,440	25,482	28,361
Cash & Equivalents	2,041	2,107	1,272	1,750	1,738	2,016	1,916	2,365	3,436	
Accts Receivable	610	8,238	9,200	9,832	10,090	10,183	9,700	10,825	12,155	1,306
Inventories	534	710	782	814	926	797	728	928	1,185	1,153
Total Liabilities	8,876	11,808	12,781	14,091	13,866	14,169	13,861	15,390	16,890	18,655
Accounts Payable	707	1,462	1,148	1,397	1,552	1,287	1,334	1,621	1,828	6,013
Long-Term Debt	5,276	6,655	7,880	8,424	8,231	8,592	8,475	8,879	9,951	-
Sh. Equity	5,358	5,364	5,847	6,634	6,753	6,940	6,778	8,051	8,593	9,706
D/E Ratio	0.98	1.24	1.35	1.27	1.22	1.24	1.25	1.10	1.16	-

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.2%	6.6%	6.2%	6.0%	6.6%	7.7%	2.5%	7.6%	9.0%	8.9%
Return on Equity	8.7%	19.4%	19.8%	18.8%	20.3%	23.4%	7.6%	22.6%	26.4%	26.1%
ROIC	4.2%	9.2%	8.6%	8.1%	9.0%	10.5%	3.4%	10.4%	12.4%	16.9%
Shares Out.	365	357	353	354	355	351	351	352	347	348
Revenue/Share	28.11	44.88	47.92	48.21	53.35	53.75	48.42	55.13	66.79	73.67
FCF/Share	1.82	(0.15)	(0.80)	1.42	1.65	2.34	0.95	2.46	2.96	2.56

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