PACCAR Inc. (PCAR)

Updated April 29th, 2021 by Eli Inkrot

Key Metrics

Current Price:	$91	**5 Year CAGR Estimate:**	5.3%	**Market Cap:**	$32 B
Fair Value Price:	$85	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	05/11/21
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Dividend Payment Date:**	06/02/21
Dividend Yield:	2.6%	**5 Year Price Target**	$103	**Years Of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	6.3%

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 business. PACCAR is a $32 billion market cap business that generated $19 billion in sales in 2020.

On April 27th, 2021 PACCAR released Q1 2021 results for the period ending March 31st, 2021. For the quarter PACCAR generated $5.85 billion in sales compared to $5.16 billion in Q1 2020. Truck sales increased 12.7%, while Parts sales were up 16.2% and the Financial Services segment was up 12.6%. Net income equaled $470.1 million or $1.35 per share compared to $359.4 million or $1.03 per share in Q1 2020. PACCAR delivered 42,200 trucks during the quarter compared to 38,400 in the year ago period.

Also, on April 27th, 2021 PACCAR increased its quarterly common dividend 6.3% to $0.34.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.86	$3.12	$3.30	$3.82	$4.51	$3.85	$4.26	$6.24	$6.87	$3.74	***$5.65***	***$6.87***
DPS	$1.30	$1.58	$1.70	$1.86	$2.32	$1.56	$2.19	$3.16	$3.58	$1.98	***$2.36***	***$3.44***
Shares[1]	357	353	354	355	351	351	352	347	346	348	***348***	***345***

PACCAR has an irregular dividend schedule: paying four regular quarterly dividends 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 perspective - 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. With that in mind, we are forecasting a $0.34 quarterly common dividend to go along with a $1.00 yearend special dividend. It's important to note that the special dividend is far from certain and can vary dramatically.

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 demand. Moreover, the company's focus on owner-operators instead of large customers 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. The business is largely cyclical already - depending a great deal on general economic progress – and the pandemic has exacerbated this inherent risk. Still, we expect to see a recovery in 2021, forecasting $5.65 in earnings-per-share to go along with a 4% intermediate term growth rate. In addition, we are interested to see how the company's foray into electric trucks pans out.

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[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.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.0	13.5	16.1	16.6	13.3	14.5	15.9	10.5	10.3	20.9	***16.1***	***15.0***
Avg. Yld.	2.8%	3.8%	3.2%	2.9%	3.9%	2.8%	3.2%	4.8%	5.1%	2.5%	***2.6%***	***3.3%***

Shares of PACCAR have traded hands with an average P/E ratio of about 15 times earnings. While earnings-per-share had risen dramatically through 2019, 2020 was a down year. We are comfortable with 15 times earnings as a fair value baseline. With shares trading near 16 times earnings expectation, this implies a valuation headwind.

PACCAR pays a special dividend every year, and we are forecasting a $1.00 payment for 2021. The company has paid a special dividend of $0.70, $2.30, $2.00, $1.20 and $0.60 in the last five years, demonstrating some of the cyclicality. PACCAR targets a 45% to 55% payout ratio, which we expect to continue in a normalized environment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	45%	51%	52%	49%	51%	41%	51%	51%	52%	53%	***42%***	***50%***

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.

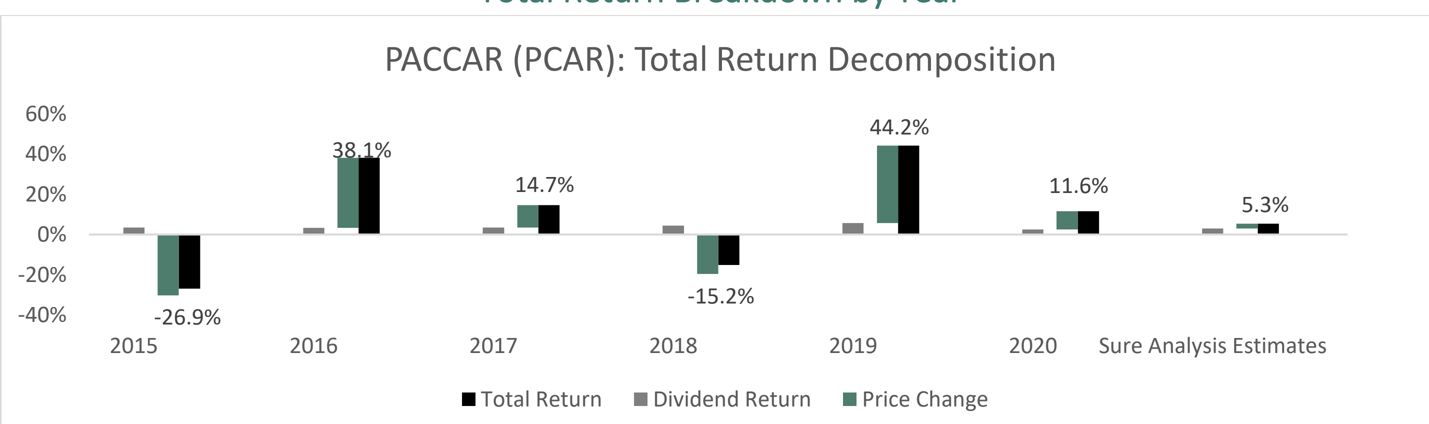
The company's last recession performance – generating earnings of $2.78, $0.23, $1.25 and $2.86 in 2008 through 2011 – is noteworthy. It shows just how far earnings can fall during lesser times, but also gives you some insight into the resilience of the business. Also noteworthy is PACCAR's record of 82 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 $4.7 billion in cash and securities and $13.0 billion in total assets against $5.8 billion in total liabilities. The Financial Services segment held $15.5 billion in assets against $12.0 billion in liabilities.

Final Thoughts & Recommendation

After being up 49% collectively in our last three reports, shares are down -7% in the last three months. 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. Total return potential comes in at 5.3% per annum, stemming from a 4% growth rate and 2.6% expected dividend yield offset by a valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue ($B)	16	17	17	19	19	17	19	23	26	19
Gross Profit	2,356	2,466	2,496	2,793	3,121	2,737	2,950	3,656	4,015	3,104
Gross Margin	14.4%	14.5%	14.6%	14.7%	16.3%	16.1%	15.2%	15.6%	15.7%	16.6%
SG&A Exp.	547	572	560	561	542	543	572	645	699	581
D&A Exp.	674	701	811	918	907	993	1,108	1,054	1,077	1,049
Operating Profit	1,479	1,596	1,672	2,001	2,328	1,929	2,092	2,689	2,975	1,586
Operating Margin	9.0%	9.4%	9.8%	10.5%	12.2%	11.3%	10.8%	11.4%	11.6%	8.5%
Net Profit	1,042	1,112	1,171	1,359	1,604	522	1,675	2,195	2,388	1,298
Net Margin	6.4%	6.5%	6.8%	7.2%	8.4%	3.1%	8.6%	9.3%	9.3%	6.9%
Free Cash Flow	(55)	(284)	503	586	831	336	869	1,040	890	1,349
Income Tax	465	517	524	659	733	609	498	615	711	360

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	17,173	18,628	20,726	20,619	21,110	20,639	23,440	25,482	28,361	28,260
Cash & Equivalents	2,107	1,272	1,750	1,738	2,016	1,916	2,365	3,436	---	3,540
Accts Receivable	8,238	9,200	9,832	10,090	10,183	9,700	10,825	12,155	1,306	12,870
Inventories	710	782	814	926	797	728	928	1,185	1,153	1,222
Total Liabilities	11,808	12,781	14,091	13,866	14,169	13,861	15,390	16,890	18,655	17,870
Accounts Payable	1,462	1,148	1,397	1,552	1,287	1,334	1,621	1,828	6,013	1,737
Long-Term Debt	6,655	7,880	8,424	8,231	8,592	8,475	8,879	9,951	---	10,850
Sh. Equity	5,364	5,847	6,634	6,753	6,940	6,778	8,051	8,593	9,706	10,390
D/E Ratio	1.24	1.35	1.27	1.22	1.24	1.25	1.10	1.16	---	1.05

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.6%	6.2%	6.0%	6.6%	7.7%	2.5%	7.6%	9.0%	8.9%	4.6%
Return on Equity	19.4%	19.8%	18.8%	20.3%	23.4%	7.6%	22.6%	26.4%	26.1%	12.9%
ROIC	9.2%	8.6%	8.1%	9.0%	10.5%	3.4%	10.4%	12.4%	16.9%	6.2%
Shares Out.	357	353	354	355	351	351	352	347	348	347
Revenue/Share	44.88	47.92	48.21	53.35	53.75	48.42	55.13	66.79	73.67	53.91
FCF/Share	-0.15	-0.80	1.42	1.65	2.34	0.95	2.46	2.96	2.56	3.88

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