PACCAR Inc. (PCAR)

Updated November 4th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	$99	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$33 B
Fair Value Price:	$117	**5 Year Growth Estimate:**	1.5%	**Ex-Dividend Date[1]:**	11/09/22
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.4%	**Dividend Payment Date[2]:**	12/01/22
Dividend Yield:	3.0%	**5 Year Price Target**	$126	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

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 $33 billion market cap business that generated $22 billion in sales in 2021.

On October 25th, 2022, PACCAR announced a 9% increase to the regular dividend to $1.48 per share annually.

On October 25th, 2022, PACCAR reported Q3 2022 results for the period ending September 30th, 2022. For the quarter, PACCAR generated $ $7.06 billion in net sales compared to $5.15 billion earned in Q3 2021. Part sales were $1.47 billion and financial services generated revenues of $372 million. Net income equaled $769 million, or $2.21 per share compared to $381 million, or $1.09 per share in Q3 2021.

For the quarter, PACCAR delivered 44,000 trucks worldwide. PACCAR anticipates spending about $488 million in capital investments for the year, with $335 million in research and development. Additionally, the company expects Class 8 industry retail sales in the U.S. and Canada to be between 265,000 and 285,000 trucks in the year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$3.12	$3.30	$3.82	$4.51	$3.85	$4.26	$6.24	$6.87	$3.74	$5.32	***$8.08***	***$8.70***
DPS	$1.58	$1.70	$1.86	$2.32	$1.56	$2.19	$3.16	$3.58	$1.98	$2.04	***$2.98***	***$4.35***
Shares[3]	353	354	355	351	351	352	347	346	348	348	***348.0***	***345.0***

PACCAR has a variable 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 $0.37 quarterly common dividend to go along with a $1.50 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 74% 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.

[1] Estimated date.
[2] Estimated date.
[3] In millions.

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Of course, the business is largely cyclical already, depending a great deal on general economic progress. Still, 2021 saw a recovery. We are forecasting $8.08 in earnings-per-share for 2022 to go along with a 1.5% intermediate-term growth rate.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	13.5	16.1	16.6	13.3	14.5	15.9	10.5	10.3	20.9	17.0	***12.3***	***14.5***
Avg. Yld.	3.8%	3.2%	2.9%	3.9%	2.8%	3.2%	4.8%	5.1%	2.5%	2.3%	***3.0%***	***3.4%***

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 14.5 times earnings as a fair value baseline. With shares trading below this mark, this implies the potential for a valuation tailwind.

PACCAR pays a special dividend every year. The company has paid a special dividend of $1.50, $0.70, $2.30, $2.00, $1.20, and $0.60 in the last six 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	51%	52%	49%	51%	41%	51%	51%	52%	53%	38%	***37%***	***50%***

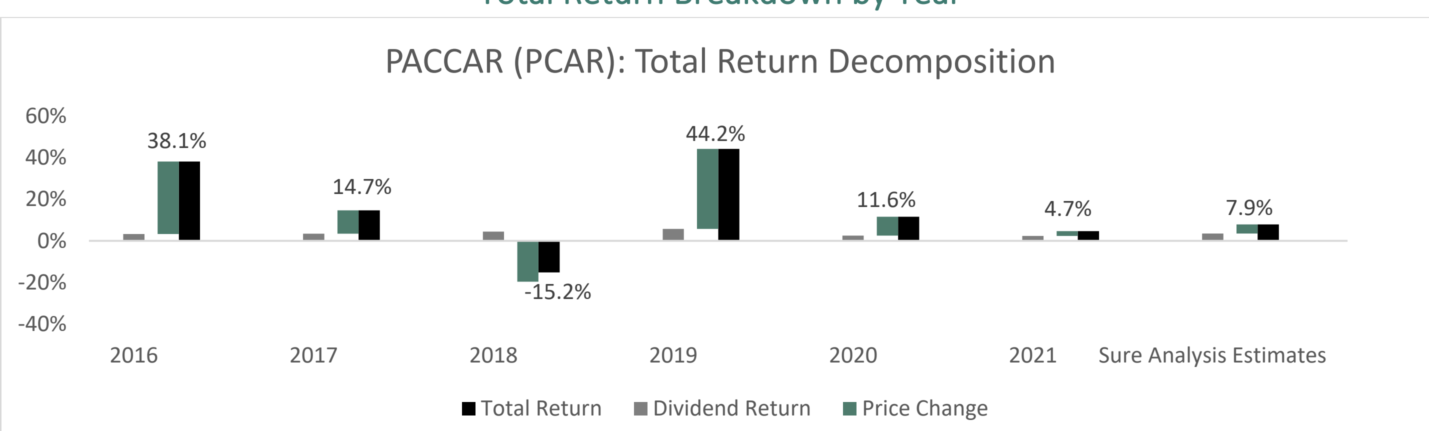
PACCAR currently enjoys a competitive advantage in offering a premium product to owner-operators. This has served the company exceptionally well in the past. Moving forward, this advantage is less certain, as PACCAR will face economic cyclicality and the possibility of consolidation via autonomous vehicles. 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 83 consecutive years of net profit (the Great Recession was close) and paying a dividend every year since 1941 (although the lumpiness should still be considered).

Final Thoughts & Recommendation

Shares are up nearly 12% year-to-date, which compares favorably to the broader market. PACCAR faces two main risks: poor performance during recessions and autonomous (or other) 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 7.9% per annum, stemming from a 1.5% growth rate and a 3.0% expected dividend yield, and the potential for a valuation tailwind. Shares continue to earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue ($B)	17	17	19	19	17	19	23	26	19	24
Gross Profit	2,466	2,496	2,793	3,121	2,737	2,950	3,656	4,015	3,104	3889
Gross Margin	14.5%	14.6%	14.7%	16.3%	16.1%	15.2%	15.6%	15.7%	16.3%	16.5%
SG&A Exp.	572	560	561	542	543	572	645	699	581	676
D&A Exp.	701	811	918	907	993	1,108	1,054	1,077	1,049	903
Operating Profit	1,596	1,672	2,001	2,328	1,929	2,092	2,689	2,975	1,568	2290
Operating Margin	9.4%	9.8%	10.5%	12.2%	11.3%	10.8%	11.4%	11.6%	8.3%	9.7%
Net Profit	1,112	1,171	1,359	1,604	522	1,675	2,195	2,388	1,298	1852
Net Margin	6.5%	6.8%	7.2%	8.4%	3.1%	8.6%	9.3%	9.3%	6.8%	7.9%
Free Cash Flow	(284)	503	586	831	336	869	1,040	890	1,349	553
Income Tax	517	524	659	733	609	498	615	711	360	526

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	18,628	20,726	20,619	21,110	20,639	23,440	25,482	28,361	28,260	29301
Cash & Equivalents	1,272	1,750	1,738	2,016	1,916	2,365	3,436	---	3,540	3428
Accts Receivable	9,200	9,832	10,090	10,183	9,700	10,825	12,155	13,250	12,870	13495
Inventories	782	814	926	797	728	928	1,185	1,153	1,222	1768
Total Liabilities	12,781	14,091	13,866	14,169	13,861	15,390	16,890	18,655	17,870	17864
Accounts Payable	1,148	1,397	1,552	1,287	1,334	1,621	1,828	6,013	1,737	2018
Long-Term Debt	7,880	8,424	8,231	8,592	8,475	8,879	9,951	---	10,850	10431
Sh. Equity	5,847	6,634	6,753	6,940	6,778	8,051	8,593	9,706	10,390	11437
D/E Ratio	1.35	1.27	1.22	1.24	1.25	1.10	1.16	---	1.05	0.91

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.2%	6.0%	6.6%	7.7%	2.5%	7.6%	9.0%	8.9%	4.6%	6.4%
Return on Equity	19.8%	18.8%	20.3%	23.4%	7.6%	22.6%	26.4%	26.1%	12.9%	17.0%
ROIC	8.6%	8.1%	9.0%	10.5%	3.4%	10.4%	12.4%	16.9%	6.2%	8.6%
Shares Out.	353	354	355	351	351	352	347	348	347	348
Revenue/Share	47.92	48.21	53.35	53.75	48.42	55.13	66.79	73.67	53.91	67.52
FCF/Share	-0.80	1.42	1.65	2.34	0.95	2.46	2.96	2.56	3.88	1.59

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