PACCAR Inc. (PCAR)

Updated January 25th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$111	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$39 B
Fair Value Price:	$131	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date[1]:**	02/13/23
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.4%	**Dividend Payment Date[2]:**	03/08/23
Dividend Yield:	3.6%	**5 Year Price Target**	$131	**Years Of Dividend Growth:**	13
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**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 $39 billion market cap business that generated $29 billion in sales in 2022.

On December 6th, PACCAR announced a 50% stock dividend, with shareholders receiving one additional share for each two shares owned, to be issued on February 7th, 2023.

On January 24th, 2023, PACCAR reported Q4 and FY 2022 results for the year ending December 31st, 2022. For the quarter, PACCAR generated $8.13 billion in revenue compared to $6.69 billion earned in Q4 2021. Part sales were $1.47 billion and financial services generated pretax income of $151.3 million. Net income equaled $921 million, or $2.64 per share compared to $519 million, or $1.49 per share in Q4 2021. For the full year, PACCAR achieved a record $28.82 billion in revenue and $3.01 billion in net income, equal to $8.63 per share.

In 2022, PACCAR delivered 185,900 vehicles worldwide. PACCAR anticipates spending about $550 million in capital investments for 2023, with $385 million in research and development.

Additionally, the company expects Class 8 industry retail sales in the U.S. and Canada to be between 270,000 and 310,000 trucks in 2023, which compares to 283,500 truck units in 2022.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$3.30	$3.82	$4.51	$3.85	$4.26	$6.24	$6.87	$3.74	$5.32	$8.63	***$9.05***	***$9.05***
DPS	$1.70	$1.86	$2.32	$1.56	$2.19	$3.16	$3.58	$1.98	$2.84	$4.19	***$4.00***	***$4.53***
Shares[3]	354	355	351	351	352	347	346	348	348	349	***500***	***475***

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 $0.25 quarterly common dividend to go along with a $2.00 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 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

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

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, the business is largely cyclical already, depending a great deal on general economic progress. Still, 2021 and 2022 saw a very strong recovery. We are forecasting $9.16 in earnings-per-share for 2023 to go along with a flat intermediate-term growth rate off this high comparison base.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.1	16.6	13.3	14.5	15.9	10.5	10.3	20.9	17.0	14.8	***12.3***	***14.5***
Avg. Yld.	3.2%	2.9%	3.9%	2.8%	3.2%	4.8%	5.1%	2.5%	2.3%	1.5%	***3.6%***	***3.4%***

Shares of PACCAR have traded hands with an average P/E ratio of about 15 times earnings. 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 $2.80, $1.50, $0.70, $2.30, $2.00, $1.20, and $0.60, and in the last seven 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	52%	49%	51%	41%	51%	51%	52%	53%	53%	49%	***44%***	***50%***

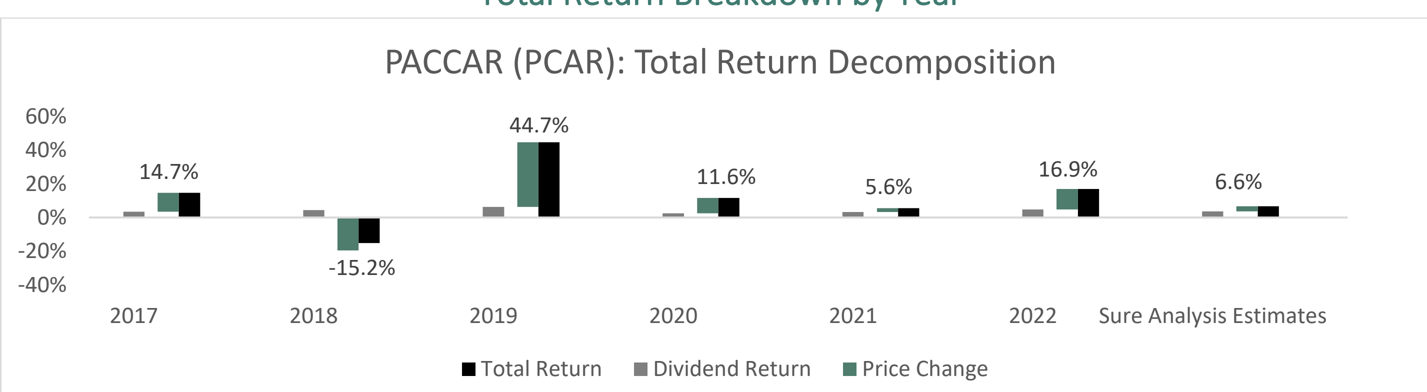
PACCAR currently enjoys a competitive advantage in offering a premium product to owner-operators. This has served the company exceptionally well in the past. Moving forward, this advantage is less certain, as PACCAR will face economic cyclicality and the possibility of consolidation via autonomous vehicles. 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 84 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 13% 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 6.6% per annum, stemming from a 3.6% expected dividend yield, and the potential for a valuation tailwind. We reiterate our hold rating on PACCAR.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue ($B)	17	19	19	17	19	23	26	19	24	28820
Gross Profit	2,496	2,793	3,121	2,737	2,950	3,656	4,015	3,104	3889	4752
Gross Margin	14.6%	14.7%	16.3%	16.1%	15.2%	15.6%	15.7%	16.3%	16.5%	16.5%
SG&A Exp.	560	561	542	543	572	645	699	581	676	726
D&A Exp.	811	918	907	993	1,108	1,054	1,077	1,049	903	790
Operating Profit	1,672	2,001	2,328	1,929	2,092	2,689	2,975	1,568	2290	3679
Operating Margin	9.8%	10.5%	12.2%	11.3%	10.8%	11.4%	11.6%	8.3%	9.7%	12.8%
Net Profit	1,171	1,359	1,604	522	1,675	2,195	2,388	1,298	1852	3012
Net Margin	6.8%	7.2%	8.4%	3.1%	8.6%	9.3%	9.3%	6.8%	7.9%	10.4%
Free Cash Flow	503	586	831	336	869	1,040	890	1,349	553	1637
Income Tax	524	659	733	609	498	615	711	360	526	837

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	20,726	20,619	21,110	20,639	23,440	25,482	28,361	28,260	29301	33276
Cash & Equivalents	1,750	1,738	2,016	1,916	2,365	3,436	---	3,540	3428	6159
Accts Receivable	9,832	10,090	10,183	9,700	10,825	12,155	13,250	12,870	13495	1920
Inventories	814	926	797	728	928	1,185	1,153	1,222	1768	2199
Total Liabilities	14,091	13,866	14,169	13,861	15,390	16,890	18,655	17,870	17864	20108
Accounts Payable	1,397	1,552	1,287	1,334	1,621	1,828	6,013	1,737	2018	7186
Long-Term Debt	8,424	8,231	8,592	8,475	8,879	9,951	---	10,850	10431	0
Sh. Equity	6,634	6,753	6,940	6,778	8,051	8,593	9,706	10,390	11437	13167
D/E Ratio	1.27	1.22	1.24	1.25	1.10	1.16	---	1.05	0.91	0

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.0%	6.6%	7.7%	2.5%	7.6%	9.0%	8.9%	4.6%	6.4%	9.6%
Return on Equity	18.8%	20.3%	23.4%	7.6%	22.6%	26.4%	26.1%	12.9%	17.0%	24.5%
ROIC	8.1%	9.0%	10.5%	3.4%	10.4%	12.4%	16.9%	6.2%	8.6%	17.2%
Shares Out.	354	355	351	351	352	347	348	347	348	349
Revenue/Share	48.21	53.35	53.75	48.42	55.13	66.79	73.67	53.91	67.52	82.60
FCF/Share	1.42	1.65	2.34	0.95	2.46	2.96	2.56	3.88	1.59	4.69

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