Cummins Inc. (CMI)

Updated May 6th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$285	**5 Year CAGR Estimate:**	7.2%	**Market Cap:**	$39 B
Fair Value Price:	$246	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/17/24[1]
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	06/03/24[2]
Dividend Yield:	2.4%	**5 Year Price Target**	$361	**Years Of Dividend Growth:**	18
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**Rating:**	Hold

Overview & Current Events

Cummins, headquartered in Indiana and founded in 1919, 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 five segments: Engines, Distribution, Components, Power Systems, and Accelera. Roughly 60% of its business is done in the U.S. and Canada. The company employs about 60,000 people and serves customers in about 190 countries. Cummins generates ~$33 billion in annual revenues.

On July 11th, 2023, Cummins raised its quarterly dividend 7% to $1.68, extending the company's dividend growth streak to 18 consecutive years.

On May 2nd, 2024, Cummins reported first quarter results for the period ending March 31st, 2024. For the quarter, revenue fell 0.6% to $8.4 billion, which was $50 million less than expected. Earnings-per-share of $5.10 compared unfavorably to $5.55 in the prior year, but was $0.14 ahead of estimates.

For the quarter, North America sales were flat 8% while international was down 1%. The company saw weaker demand in China and Europe. Revenue for Components were down 6% to $3.3 billion due to lower sales in North America, China, and Europe. The Engine segment was down 2% to $2.9 billion due to weakness in international markets. Distribution grew 5% to $2.5 billion as demand for power generation products was high. Pricing also aided results. Power Systems increased 3% to $1.4 billion due to improved global demand and price increases, which were offset by an 8% decline in industrial revenues. Accelera, formerly named New Power, was up 9% to $93 million due to an increase in electrolyzer installations.

The company reaffirmed guidance for the year as well. Cummins still expects revenue to decline 2% to 5% for 2023. The company is projected to earn $18.90 in 2024, down from $19.23 previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$9.14	$8.92	$8.23	$10.63	$13.15	$14.48	$12.01	$14.61	$15.67	$19.69	***$18.90***	***$27.77***
DPS	$2.81	$3.51	$4.00	$4.21	$4.44	$4.90	$5.28	$5.60	$6.04	$6.50	***$6.72***	***$9.87***
Shares[3]	182	175	168	166	163	152	149	144	142	143	***142***	***140***

Looking at the 2014 to 2023 period, Cummins grew earnings-per-share by an average compound rate of 8.9%. The growth rate has deaccelerated somewhat to 5.8% over the last five year. Considering the long- and medium-term growth rates, we reaffirm our earnings-per-share growth rate of 8% through 2029. 2020 was a difficult one for the company, but Cummins saw a rebound in recent years. That rebound is expected to continue as well. We believe the company will see a higher than usual growth rate as the global economy recovers from the pandemic. Cummins has also benefited 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

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[1] Estimated ex-dividend date.
[2] Estimated dividend payment date.
[3] In millions of shares.

Disclosure: This analyst has a long position in the security discussed in this research report.

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.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	15.8	14.0	14.1	15.0	11.4	11.0	16.0	14.9	15.5	12.2	***15.1***	***13.0***
Avg. Yld.	1.9%	2.8%	3.5%	2.6%	2.9%	3.0%	2.9%	2.6%	2.5%	2.7%	***2.4%***	***2.7%***

Shares of Cummins have traded with an average price-to-earnings ratio of 14 since 2014. We believe that a target P/E multiple of 13 is a reasonable multiple given the company's growth prospects and a fair amount of cyclicality in earnings. Shares of Cummins have increased $39, or 15.9%, since our February 6th, 2024 report. Using the current share price and expected earnings-per-share for the year, Cummins trades with a price-to-earnings ratio of 15.1. If shares were to trade at our target multiple by 2029, then valuation would reduce annual returns by 2.9% over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

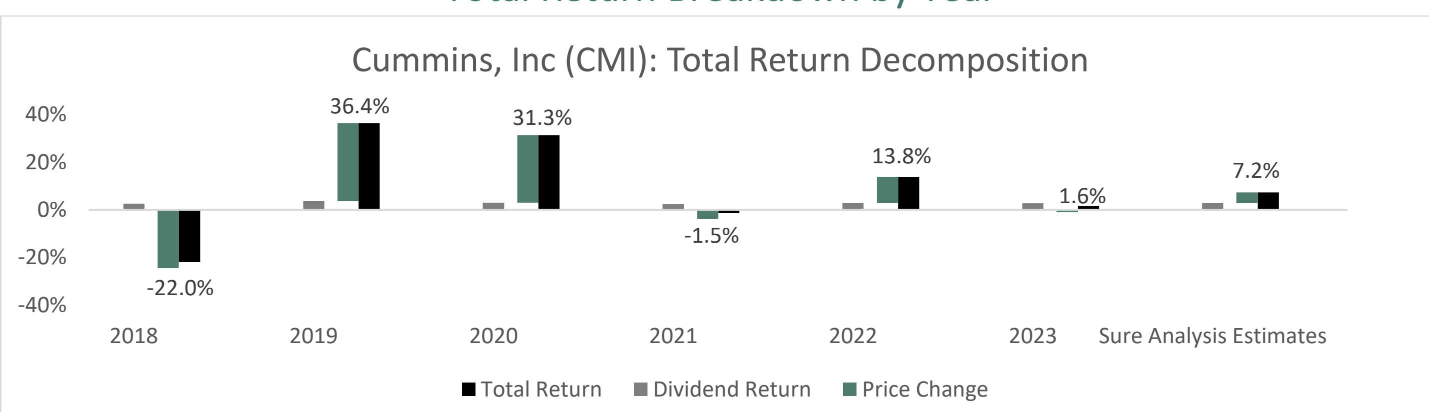
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	31%	39%	49%	40%	34%	33%	44%	38%	39%	33%	***36%***	***36%***

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 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 recover quickly, and the dividend payout ratio is low enough to keep the payment steady. 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.

Final Thoughts & Recommendation

Cummins is now projected to return a total of 7.2% annually through 2029, down from our prior estimate of 10.8%. Our projected return consists of an 8% earnings growth rate and a starting yield of 2.4%, offset by a low single-digit headwind from multiple contraction. First quarter results were mixed, with some segments showing strength and others negatively impacted by lower demand outside of North America. Shares are higher by almost 31% over our last two reports. We have lowered our 2029 price target $6 to $361 due to earnings estimates for the year and Cummins now earns a hold recommendation due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	19,221	19,110	17,509	20,428	23,771	23,571	19,811	24,021	28,074	34,065
Gross Profit	4,861	4,947	4,458	5,100	5,737	5,980	4,894	5,695	6,719	8,249
Gross Margin	25.3%	25.9%	25.5%	25.0%	24.1%	25.4%	24.7%	23.7%	23.9%	24.2%
SG&A Exp.	2,095	2,092	2,099	2,429	2,437	2,454	2,125	2,374	2,687	3,333
D&A Exp.	455	514	530	583	611	672	673	662	784	
Operating Profit	2,018	2,118	1,733	1,977	2,392	2,489	1,847	2,214	2,622	1,278
Op. Margin	10.5%	11.1%	9.9%	9.7%	10.1%	10.6%	9.3%	9.2%	9.3%	3.8%
Net Profit	1,651	1,399	1,394	999	2,141	2,260	1,789	2,131	2,151	735
Net Margin	8.6%	7.3%	8.0%	4.9%	9.0%	9.6%	9.0%	8.9%	7.7%	2.2%
Free Cash Flow	1,468	1,266	1,345	1,690	1,594	2,406	2,147	1,522	1,046	2,753
Income Tax	698	555	474	1,371	566	566	527	587	636	786

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	15,764	15,134	15,011	18,075	19,062	19,737	22,624	23,710	30,299	32,005
Cash & Equivalents	2,301	1,711	1,120	1,369	1,303	1,129	3,401	2,592	2,101	2,179
Accounts Receivable	2,946	2,820	3,025	3,618	3,866	3,387	3,440	3,565	4,826	5,583
Inventories	2,866	2,707	2,675	3,166	3,759	3,486	3,425	4,355	5,603	5,677
Goodwill & Int. Ass.	822	810	812	2,055	2,035	2,289	2,256	2,187	5,030	5,018
Total Liabilities	7,671	7,384	7,837	9,911	10,803	11,272	13,635	14,309	20,074	22,101
Accounts Payable	1,881	1,706	1,854	2,579	2,822	2,534	2,820	3,021	4,252	4,260
Long-Term Debt	1,686	1,639	1,856	2,006	2,476	2,367	4,164	4,159	7,855	6,696
Shareholder's Equity	7,749	7,406	6,875	7,259	7,348	7,507	8,062	8,146	8,975	8,850
LTD/E Ratio	0.22	0.22	0.27	0.28	0.34	0.32	0.52	0.51	0.88	0.76

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.8%	9.1%	9.2%	6.0%	11.5%	11.6%	8.4%	9.2%	8.0%	2.4%
Return on Equity	20.7%	17.7%	18.7%	13.0%	26.1%	27.0%	20.5%	23.2%	21.9%	7.3%
ROIC	17.0%	14.6%	15.1%	10.4%	20.5%	21.0%	14.9%	16.0%	13.6%	4.2%
Shares Out.	182	175	168	166	163	152	149	144	142	143
Revenue/Share	104.99	107.11	103.40	122.10	146.01	151.00	132.96	164.64	197.29	238.72
FCF/Share	8.02	7.10	7.94	10.10	9.79	15.41	14.41	10.43	7.35	19.29

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