PACCAR Inc. (PCAR)

Updated July 24th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$97	**5 Year CAGR Estimate:**	6.4%	**Market Cap:**	$57 B
Fair Value Price:	$113	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date[1]:**	08/15/24
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date[1]:**	09/05/24
Dividend Yield:	3.8%	**5 Year Price Target**	$113	**Years Of Dividend Growth:**	16
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 $57 billion market cap business that generated $35 billion in sales in 2023.

On December 6th, 2022, PACCAR announced a 50% stock dividend, with shareholders receiving one additional share for each two shares owned, issued on February 7th, 2023.

On April 30th, 2024, PACCAR increased its dividend by 11% to $0.30 per share quarterly.

On July 23rd, 2024, PACCAR reported Q2 2024 results for the period ending June 30th, 2024. For the quarter, PACCAR generated $8.77 billion in revenue, down 1.2% compared to $8.88 billion earned in Q2 2023. Parts sales were $1.66 billion and financial services generated pretax income of $111 million. Net income equaled $1.12 billion, or $2.13 per share compared to $1.22 billion, or $2.33 per share in Q2 2023.

In 2023, PACCAR delivered 204,200 vehicles worldwide. In the first half of 2024, it delivered 96,500 vehicles compared to 103,000 in the first half of 2023. PACCAR anticipates spending about $750 million in capital investments for 2024, with $470 million in research and development.

Additionally, the company expects Class 8 industry retail sales in the U.S. and Canada to be between 240,000 and 280,000 trucks in 2024, which compares to 297,000 truck units in 2023.

Investors were unhappy with the report and shares of PCAR sank 11% on the day of the news.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.82	$4.51	$3.85	$4.26	$6.24	$6.87	$3.74	$5.32	$5.75	$8.76	***$8.08***	***$8.08***
DPS	$1.86	$2.32	$1.56	$2.19	$3.16	$3.58	$1.98	$2.84	$4.19	$4.24	***$3.70***	***$4.04***
Shares[2]	355	351	351	352	347	346	348	348	349	525	***530***	***550***

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 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 $0.30 quarterly common dividend to go along with a $2.50 yearend special dividend. It's important to note that the special dividend is far from certain and can vary dramatically.

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

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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.

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 $8.08 in earnings-per-share for 2024 to go along with a 0% growth rate in earnings-per-share off this high comparison base.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.6	13.3	14.5	15.9	10.5	10.3	20.9	17.0	14.8	12.5	***12.0***	***14.0***
Avg. Yld.	2.9%	3.9%	2.8%	3.2%	4.8%	5.1%	2.5%	2.3%	1.5%	1.2%	***3.8%***	***3.6%***

Shares of PACCAR have traded hands with an average P/E ratio of about 15 times earnings. We are comfortable with 14.0 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 $3.20, $2.80, $1.50, $0.70, $2.30, $2.00, $1.20, and $0.60, in the last eight years, demonstrating some of its 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	49%	51%	41%	51%	51%	52%	53%	53%	73%	48%	***61%***	***50%***

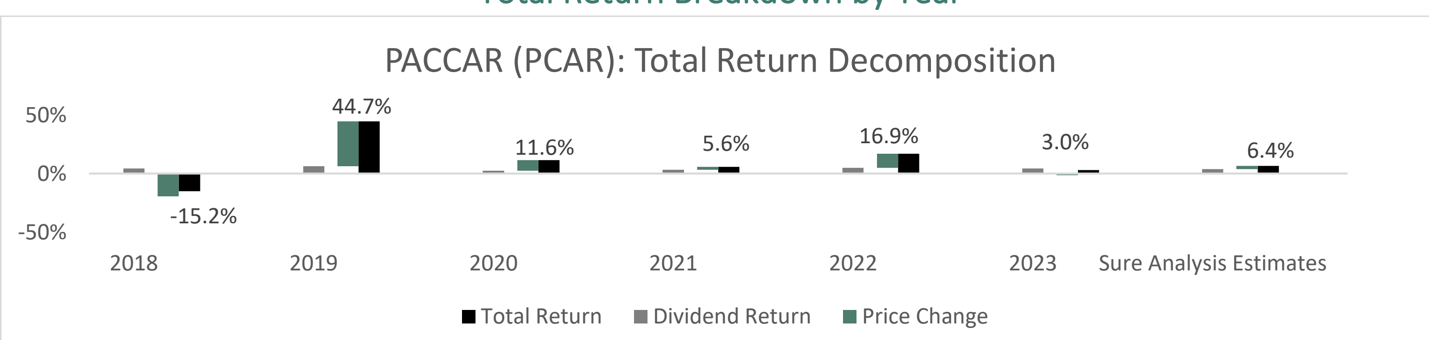
PACCAR currently enjoys a competitive advantage in offering a premium product to owner-operators. This has served the company exceptionally well in the past. Moving forward, this advantage is less certain, as PACCAR will face economic cyclicality and the possibility of consolidation via autonomous vehicles. 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 85 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 13% in the trailing 1-year period, which is below the 22% gain of the S&P 500 Index. 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 6.4% per annum, stemming from a 3.8% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue ($B)	19	19	17	19	23	26	19	24	28.82	35.13
Gross Profit	2,793	3,121	2,737	2,950	3,656	4,015	3,104	3889	4752	7142
Gross Margin	14.7%	16.3%	16.1%	15.2%	15.6%	15.7%	16.3%	16.5%	16.5%	20.3%
SG&A Exp.	561	542	543	572	645	699	581	676	726	753
D&A Exp.	918	907	993	1,108	1,054	1,077	1,049	903	790	924
Operating Profit	2,001	2,328	1,929	2,092	2,689	2,975	1,568	2290	3679	5946
Operating Margin	10.5%	12.2%	11.3%	10.8%	11.4%	11.6%	8.3%	9.7%	12.8%	16.9%
Net Profit	1,359	1,604	522	1,675	2,195	2,388	1,298	1852	3012	4601
Net Margin	7.2%	8.4%	3.1%	8.6%	9.3%	9.3%	6.8%	7.9%	10.4%	13.1%
Free Cash Flow	586	831	336	869	1,040	890	1,349	553	1637	2928
Income Tax	659	733	609	498	615	711	360	526	837	1117

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	20,619	21,110	20,639	23,440	25,482	28,361	28,260	29301	33276	40820
Cash & Equivalents	1,738	2,016	1,916	2,365	3,436	---	3,540	3428	6159	
Accts Receivable	10,090	10,183	9,700	10,825	12,155	13,250	12,870	13495	1920	2198
Inventories	926	797	728	928	1,185	1,153	1,222	1768	2199	2577
Total Liabilities	13,866	14,169	13,861	15,390	16,890	18,655	17,870	17864	20108	24940
Accounts Payable	1,552	1,287	1,334	1,621	1,828	6,013	1,737	2018	7186	9016
Long-Term Debt	8,231	8,592	8,475	8,879	9,951	---	10,850	10431	0	15930
Sh. Equity	6,753	6,940	6,778	8,051	8,593	9,706	10,390	11437	13167	15880
D/E Ratio	1.22	1.24	1.25	1.10	1.16	---	1.05	0.91	0	1.00

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.6%	7.7%	2.5%	7.6%	9.0%	8.9%	4.6%	6.4%	9.6%	12.4%
Return on Equity	20.3%	23.4%	7.6%	22.6%	26.4%	26.1%	12.9%	17.0%	24.5%	31.7%
ROIC	9.0%	10.5%	3.4%	10.4%	12.4%	16.9%	6.2%	8.6%	17.2%	16.3%
Shares Out.	355	351	351	352	347	348	347	348	349	525
Revenue/Share	53.35	53.75	48.42	55.13	66.79	73.67	53.91	67.52	82.60	66.91
FCF/Share	1.65	2.34	0.95	2.46	2.96	2.56	3.88	1.59	4.69	5.58

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