AGCO Corporation (AGCO)

Updated August 5th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$88	**5 Year CAGR Estimate:**	4.5%	**Market Cap:**	$6.60 B
Fair Value Price:	$80	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	08/15/2024
% Fair Value:	110%	**5 Year Valuation Multiple Estimate:**	-2.0%	**Dividend Payment Date:**	09/16/2024
Dividend Yield:	1.3%	**5 Year Price Target**	$102	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

AGCO Corporation is a leading global manufacturer and distributor of agricultural equipment. Established in 1990 via the acquisition of a division of Deutz-Allis, AGCO has since grown to become a leading player in the agricultural machinery sector. The company offers a comprehensive range of products designed to meet the needs of farmers worldwide, including tractors, combine harvesters, planters, and tillage equipment. Its product lineup features several well-known brands such as Massey Ferguson, Fendt, Valtra, and GSI. Massey Ferguson is known for its versatile tractors and harvesters, while Fendt offers high-end, advanced machinery for precision farming. Valtra caters to the Scandinavian market with customizable tractors, and GSI provides grain storage solutions and equipment. AGCO generates over $14.4 billion in annual revenues and is headquartered in Duluth, Georgia.

On April 1st, 2024, AGCO acquired 85% of PTx Trimble, with Trimble holding 15%.

On July 30th, 2024, AGCO posted its Q2 and half-year results for the period ending June 30th, 2024. Net sales came in at $3.2 billion, down 15.1% compared to the prior-year period, with revenue declines recorded across the board. Adjusted EPS landed at $2.53, substantially lower from $4.29 last year, due to the decline in sales leading to a notable margin compression.

In the first half of 2024, North American tractor sales decreased by 8% compared to the same period in 2023. The drop was more pronounced for smaller equipment compared to larger categories, with combine sales falling by 11%. In South America, tractor sales fell by 14%, with significant declines across Brazil, Argentina, and other smaller markets. The situation in Brazil was worsened by floods in Rio Grande do Sul, funding issues with the government-subsidized loan program, and a difficult harvest in the Cerrado region. In Western Europe, tractor sales decreased by 5% over the same period, with the most substantial drops observed in Italy, the United Kingdom, and Scandinavia.

AGCO expects 2024 net sales to be around $12.5 billion, boosted by PTx Trimble, but impacted by lower sales volumes and foreign currency issues. Adjusted operating margins are projected at 9%, considering the PTx Trimble consolidation, reduced sales, lower production, cost controls, and decreased engineering investments. Adjusted earnings per share are targeted at $8.00. Still, this estimate is substantially below management's previous estimate of $12.00. All past numbers reflected in our table are in GAAP, nonetheless.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$4.36	$3.06	$1.96	$2.32	$3.58	$1.63	$5.65	$11.85	$11.87	$15.63	***$8.00***	***$10.21***
DPS	$0.44	$0.48	$0.52	$0.56	$0.60	$0.63	$0.64	$4.74	$5.40	$6.10	***$1.16***	***$1.87***
Shares[1]	94.2	87.1	81.7	80.2	79.7	77	75.6	75.7	74.9	74.9	***74.7***	***70.0***

AGCO Corporation has seen slow revenue growth over the past decade, with a CAGR of 2.9%. This modest growth is due to challenges in the agricultural equipment sector, including commodity price fluctuations that impacted farmer incomes and equipment investments, and global trade tensions like the U.S.-China trade war, which resulted in tariffs and export restrictions. Despite this, AGCO's EPS grew at a substantial CAGR of over 15% during the same period, driven by margin

[1] Share count is 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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expansion and buybacks. In the past five years, AGCO has experienced accelerated growth due to rising commodity prices, rising global food demand, and strategic moves like the 2017 acquisition of Precision Planting, which expanded its product offerings and market reach. Nevertheless, investors should note that AGCO's business model is cyclical, with the agricultural equipment market affected by economic cycles, weather conditions, and market demand. Therefore, we project a modest EPS growth of 5% through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.2	15.7	25.4	26.7	18.2	41.4	12.4	9.6	10.2	7.8	***11.0***	***10.0***
Avg. Yld.	0.8%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	4.2%	4.4%	5.0%	***1.3%***	***1.8%***

Over the years, AGCO's P/E multiple has generally remained in the high single-digit to low double-digit range. This range reflects the cyclical nature of the company's business model, as both sales and earnings are significantly affected by the fluctuations in the agriculture industry. At 11.0 this year's expected EPS, the stock is priced for a decline or a significant slowdown in earnings growth moving forward. To be prudent, we have assigned an even more humble fair P/E of about 10 over the medium-term. The increased yields from 2021 to 2023 reflect special dividends of $4.00, $4.50, and $5.00 paid in each year. A special dividend of $2.50 was paid this year. We have applied only the base dividend rate in our estimates.

Safety, Quality, Competitive Advantage, & Recession Resiliency

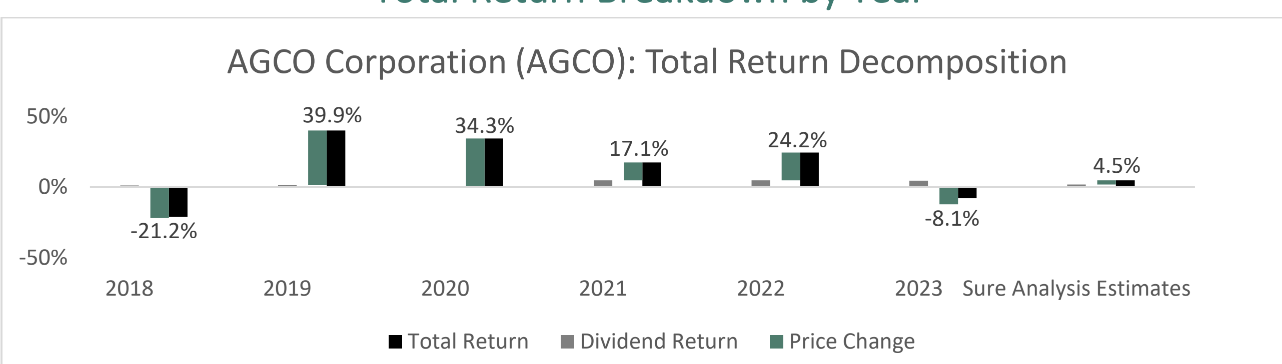
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	10%	16%	27%	24%	17%	39%	11%	40%	45%	39%	***15%***	***18%***

AGCO Corporation's competitive advantages include a strong portfolio of brands like Massey Ferguson and Fendt, which cater to various market needs with products such as the reliable Massey Ferguson tractors and the advanced Fendt 1000 Vario series. The company also benefits from its global presence in over 140 countries, allowing it to scale operations and access diverse markets. However, AGCO is vulnerable to recessions because downturns can lead to reduced farmer incomes and lower demand for costly agricultural equipment, as seen during the 2008 financial crisis when machinery sales declined significantly. Still, we believe the base quarterly dividend rate is very safe, even if EPS were to fall sharply.

Final Thoughts & Recommendation

Shares of AGCO have declined by about 32% over the past year, with weakness kicking in in the agricultural machinery market. The company's revenues and earnings are likely to keep declining throughout this year. Despite its prolonged decline, we believe the stock could still be modestly overvalued at its current levels. Thus, despite our growth estimates and dividend yield, we rate AGCO stock a hold. Note that our forecast doesn't include any potential special dividends. This explains our hold rating despite the rather underwhelming total return forecast.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	9,724	7,467	7,411	8,307	9,352	9,041	9,150	11,138	12,651	14,412
Gross Profit	2,066	1,561	1,516	1,765	1,997	1,984	2,058	2,572	3,001	3,777
Gross Margin	21.3%	20.9%	20.5%	21.3%	21.4%	21.9%	22.5%	23.1%	23.7%	26.2%
SG&A Expense	995	852	865	965	1,069	1,040	1,002	1,089	1,190	1,455
Total D&A	280	260	275	280	290	272	272	282	270	288
Operating Income	693	383	302	420	507	540	654	1,017	1,308	1,716
Operating Margin	7.1%	5.1%	4.1%	5.1%	5.4%	6.0%	7.1%	9.1%	10.3%	11.9%
Net Income	410	266	160	186	286	125	427	897	890	1,171
Net Margin	4.2%	3.6%	2.2%	2.2%	3.1%	1.4%	4.7%	8.1%	7.0%	8.1%
Free Cash Flow	137	313	169	374	393	423	627	390	450	585
Income Taxes	188	73	92	134	111	181	188	108	297	230

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,369	6,498	7,168	7,972	7,626	7,760	8,504	9,182	10,104	11,421
Cash & Equivalents	364	427	430	368	326	430	1,112	882	788	595
Accounts Receivable	964	837	890	1,019	880	801	856	992	1,221	1,605
Inventories	1,751	1,423	1,515	1,873	1,909	2,079	1,974	2,594	3,190	3,441
Goodwill	1,747	1,622	1,984	2,190	2,069	1,800	1,762	1,673	1,675	1,642
Total Liabilities	3,872	3,614	4,331	4,876	4,633	4,853	5,486	5,738	6,221	6,764
Accounts Payable	670	626	723	918	866	915	855	1,078	1,385	1,207
Long-Term Debt	1,092	1,231	1,695	1,714	1,486	1,345	1,616	1,504	1,461	1,392
Shareholder's Equity	3,449	2,838	2,776	3,030	2,933	2,854	2,980	3,416	3,882	4,657
LTD/E Ratio	0.32	0.43	0.61	0.57	0.51	0.47	0.54	0.44	0.38	0.30

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.2%	3.8%	2.3%	2.5%	3.7%	1.6%	5.3%	10.1%	9.2%	10.9%
Return on Equity	10.9%	8.4%	5.6%	6.3%	9.4%	4.2%	14.4%	27.8%	24.3%	27.4%
ROIC	8.3%	6.1%	3.7%	4.0%	6.1%	2.9%	9.6%	18.7%	17.3%	20.6%
Shares Out.	94.2	87.1	81.7	80.2	79.7	77	75.6	75.7	74.9	74.9
Revenue/Share	103.22	85.73	90.70	103.57	117.34	117.42	121.03	147.14	168.91	192.42
FCF/Share	1.45	3.59	2.06	4.66	4.93	5.49	8.29	5.16	6.01	7.81

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