Cummins Inc. (CMI)

Updated November 10th, 2024 by Nathan Parsh

Key Metrics

Current Price:	$356	**5 Year CAGR Estimate:**	4.1%	**Market Cap:**	$49 B
Fair Value Price:	$265	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	11/22/24
% Fair Value:	134%	**5 Year Valuation Multiple Estimate:**	-5.7%	**Dividend Payment Date:**	12/05/24
Dividend Yield:	2.0%	**5 Year Price Target**	$390	**Years Of Dividend Growth:**	19
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, formerly named New Power. 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 9th, 2024, Cummins raised its quarterly dividend 8.3% to $1.82, extending the company's dividend growth streak to 19 consecutive years.

On November 5th, 2024, Cummins reported third quarter results for the period ending September 30th, 2024. For the quarter, revenue increased 0.4% to $8.46 billion, which beat estimates by $150 million. Earnings-per-share of $5.86 compared favorably to $4.73 in the prior year and was $1.02 more than expected.

For the quarter, North America sales declined 1% while international increased 2%. Revenue for Components was down 16% to $2.7 billion due to the divestiture of a business and weaker demand in heavy-duty trucks. The Engine segment fell 1% to $2.9 billion as strength in international markets was offset by lower demand for heavy duty trucks in North America. Distribution grew 16% to $3.0 billion as demand for power generation products continues to be strong. Pricing continues to aid results. Power Systems was up 17% to $1.7 billion due to improved global demand from the data center market and price increases. Industrial revenues were also positive for the second consecutive quarter. Accelera grew 7% to $110 million due once again to growth in electrolyzer installations and products to support battery electric vehicles.

The company reaffirmed guidance for the year as well. Cummins expects revenue in a range of flat to down 3%, up from down 2% to down 5% for 2023. The company is now projected to earn $20.41 in 2024, up from $19.61 in 2024, $18.90, and $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	***$20.41***	***$29.99***
DPS	$2.81	$3.51	$4.00	$4.21	$4.44	$4.90	$5.28	$5.60	$6.04	$6.50	***$7.28***	***$10.70***
Shares[1]	182	175	168	166	163	152	149	144	142	143	***138***	***135***

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

[1] 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	***17.4***	***13.0***
Avg. Yld.	1.9%	2.8%	3.5%	2.6%	2.9%	3.0%	2.9%	2.6%	2.5%	2.7%	***2.0%***	***2.7%***

Shares of Cummins have increased $66, or 22.8%, since our August 4th, 2024 report. 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. Using the current share price and expected earnings-per-share for the year, Cummins trades with a price-to-earnings ratio of 17.4. If shares were to trade at our target multiple by 2029, then valuation would reduce annual returns by 5.7% over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

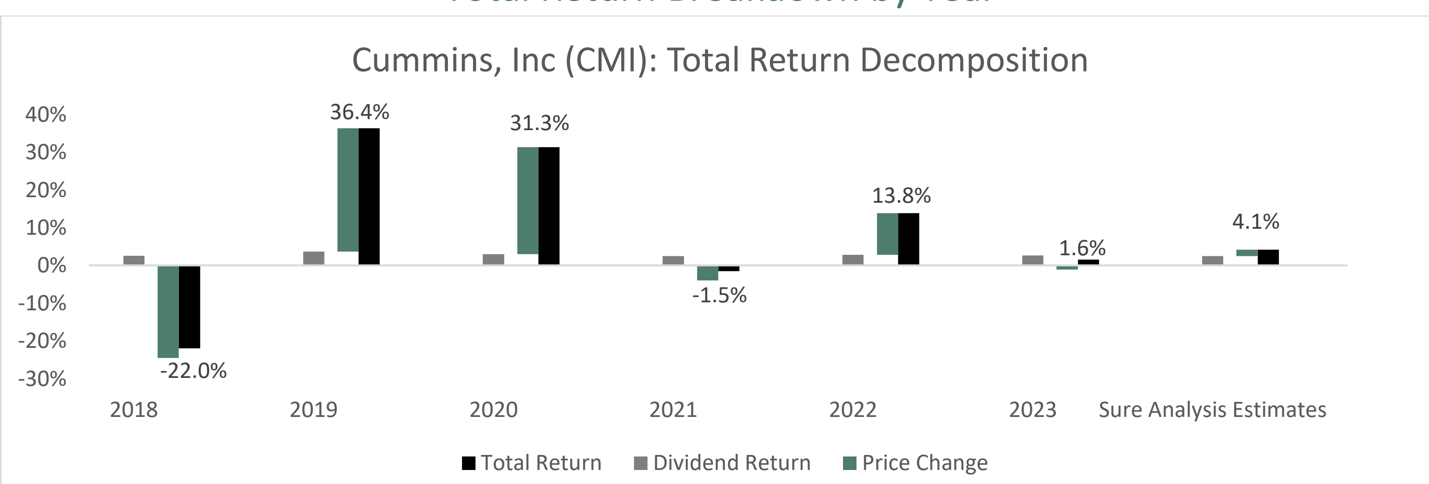
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	31%	39%	49%	40%	34%	33%	44%	38%	39%	33%	***36%***	***36%***

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 4.1% annually through 2029, down from our prior estimate of 7.7%. Our projected return consists of an 8% earnings growth rate and a starting yield of 2.0%, offset by a mid-single-digit headwind from multiple contraction. Cummins' most recent quarter showed strength in most areas of the company. Shares are up more than 63% over our last four reports. We have raised our 2029 price target $15 to $390 due to earnings estimates for the year, but we continue to rate shares of Cummins as a hold 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.