Cummins Inc. (CMI)

Updated February 5th, 2025 by Nathan Parsh

Key Metrics

Current Price:	$364	**5 Year CAGR Estimate:**	5.5%	**Market Cap:**	$50 B
Fair Value Price:	$292	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	11/22/24
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.3%	**Dividend Payment Date:**	12/05/24
Dividend Yield:	2.0%	**5 Year Price Target**	$429	**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 ~$34 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 February 4th, 2025, Cummins announced fourth quarter and full year results for the period ending December 31st, 2024. For the quarter, revenue declined 1.1% to $8.45 billion, but this was $360 million more than expected. Earnings-per-share totaled $3.02, but this was $1.62 below estimates. For the year, revenue of $34.1 billion was unchanged while earnings-per-share reached a new record $28.37.

Fourth quarter results include reorganization costs of $312 million or $2.14 per share while last year's result included a significant charge that greatly reduced EPS. For the quarter, North America sales were flat while international fell 3%. The Engine segment decreased 2% to $2.7 billion due to weakening demand for heavy-duty trucks. Revenue for Components declined 17% to $2.6 billion due to double-digit declines in both North America and international markets. International was lower mostly due to a divestiture. Distribution grew 13% to $3.1 billion due to demand for power generation products, especially for data center applications. Power Systems surged 22% to $1.7 billion, also due largely to higher demand for power generation from data center markets. Accelera improved 23% to $100 million as demand remains robust for products to support battery electric vehicles, fuels cells, electric powertrains, and electrolyzers.

The company provided guidance for 2025 as well. Cummins expects revenue in a range of down 2% to up 3%. The company is projected to earn $22.45 for the year. We have initiated our forecast accordingly.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$8.92	$8.23	$10.63	$13.15	$14.48	$12.01	$14.61	$15.67	$5.19	$28.37	***$22.45***	***$32.99***
DPS	$3.51	$4.00	$4.21	$4.44	$4.90	$5.28	$5.60	$6.04	$6.50	$7.00	***$7.28***	***$10.70***
Shares[1]	175	168	166	163	152	149	144	142	143	138	***138***	***135***

Looking at the 2015 to 2024 period, Cummins grew earnings-per-share by an average compound rate of 13.7%. The growth rate has deaccelerated somewhat 13.3% over the last five year. We reaffirm our earnings-per-share growth rate of 8% through 2030 as we feel this is a good starting point considering the high base from which EPS starts. 2020 was a difficult one for the company, but Cummins saw a rebound in recent years. 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 to continue, but we

[1] In millions of shares.

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

believe there is a tipping point whereby the increase in standards starts to be addressed via alternative technologies, such as batteries.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	14.0	14.1	15.0	11.4	11.0	16.0	14.9	15.5	12.2	12.3	***16.2***	***13.0***
Avg. Yld.	2.8%	3.5%	2.6%	2.9%	3.0%	2.9%	2.6%	2.5%	2.7%	2.0%	***2.0%***	***2.5%***

Shares of Cummins have increased $8, or 2.2%, since our November 10th, 2024 report. Shares of Cummins have traded with an average price-to-earnings ratio of 13.6 since 2015. We believe that a target P/E 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 16.2. If shares were to trade at our target multiple by 2030, then valuation would reduce annual returns by 4.3% over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

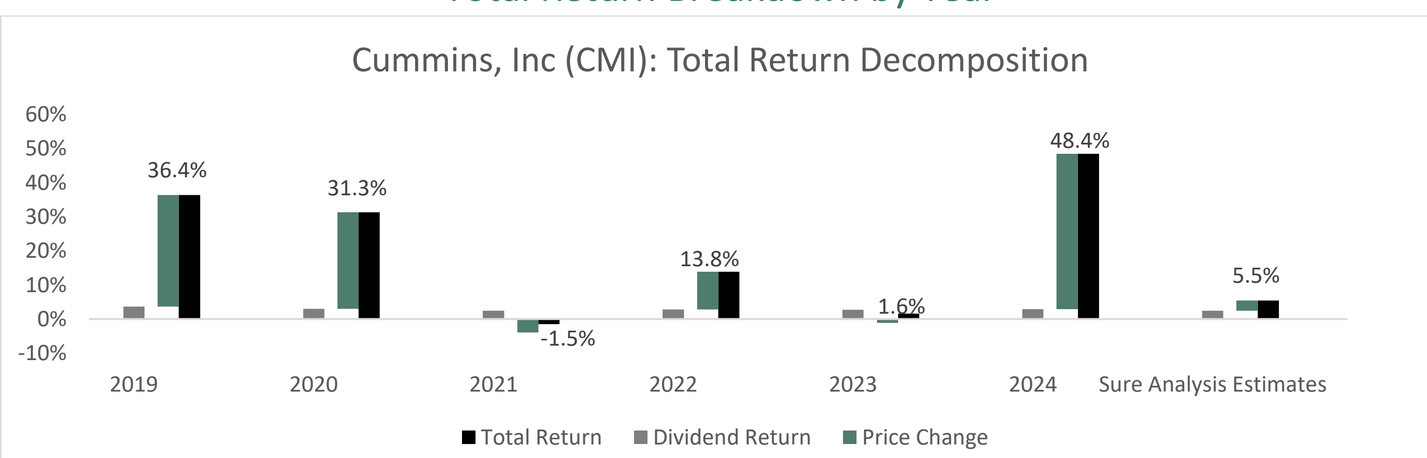
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	39%	49%	40%	34%	33%	44%	38%	39%	33%	25%	***32%***	***32%***

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 5.5% annually through 2030, up from our prior estimate of 4.1%. Our projected return consists of an 8% earnings growth rate and a starting yield of 2.0%, offset by a headwind from multiple contraction. Cummins' most recent quarter showed a mixed business result with power generation products performing well while truck demand was weaker. Shares are up more than 65% over our last five reports so the valuation remains above our target. We have raised our 2030 price target $39 to $429 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	19,110	17,509	20,428	23,771	23,571	19,811	24,021	28,074	34,065	34,102
Gross Profit	4,947	4,458	5,100	5,737	5,980	4,894	5,695	6,719	8,249	8,439
Gross Margin	25.9%	25.5%	25.0%	24.1%	25.4%	24.7%	23.7%	23.9%	24.2%	24.7%
SG&A Exp.	2,092	2,099	2,429	2,437	2,454	2,125	2,374	2,649	3,208	3,275
D&A Exp.	514	530	583	611	672	673	662	784	1,024	
Operating Profit	2,118	1,733	1,977	2,392	2,489	1,847	2,200	2,661	1,412	3,355
Op. Margin	11.1%	9.9%	9.7%	10.1%	10.6%	9.3%	9.2%	9.5%	4.1%	9.8%
Net Profit	1,399	1,394	999	2,141	2,260	1,789	2,131	2,151	735	3,946
Net Margin	7.3%	8.0%	4.9%	9.0%	9.6%	9.0%	8.9%	7.7%	2.2%	11.6%
Free Cash Flow	1,266	1,345	1,690	1,594	2,406	2,147	1,522	1,046	2,753	279
Income Tax	555	474	1,371	566	566	527	587	636	786	835

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	15,134	15,011	18,075	19,062	19,737	22,624	23,710	30,299	32,005	31,540
Cash & Equivalents	1,711	1,120	1,369	1,303	1,129	3,401	2,592	2,101	2,179	1,671
Accounts Receivable	2,820	3,025	3,618	3,866	3,387	3,440	3,565	5,202	5,583	5,181
Inventories	2,707	2,675	3,166	3,759	3,486	3,425	4,355	5,603	5,677	5,742
Goodwill & Int. Ass.	810	812	2,055	2,035	2,289	2,256	2,187	5,030	5,018	4,721
Total Liabilities	7,384	7,837	9,911	10,803	11,272	13,635	14,309	20,074	22,101	20,232
Accounts Payable	1,706	1,854	2,579	2,822	2,534	2,820	3,021	4,252	4,260	3,951
Long-Term Debt	1,639	1,856	2,006	2,476	2,367	4,164	4,159	7,855	6,696	7,059
Shareholder's Equity	7,406	6,875	7,259	7,348	7,507	8,062	8,146	8,975	8,850	10,271
LTD/E Ratio	0.22	0.27	0.28	0.34	0.32	0.52	0.51	0.88	0.76	0.69

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	9.1%	9.2%	6.0%	11.5%	11.6%	8.4%	9.2%	8.0%	2.4%	12.4%
Return on Equity	17.7%	18.7%	13.0%	26.1%	27.0%	20.5%	23.2%	21.9%	7.3%	37.2%
ROIC	14.6%	15.1%	10.4%	20.5%	21.0%	14.9%	16.0%	13.6%	4.2%	22.6%
Shares Out.	175	168	166	163	152	149	144	142	143	138
Revenue/Share	107.11	103.40	122.10	146.01	151.00	132.96	164.64	197.29	238.72	245.16
FCF/Share	7.10	7.94	10.10	9.79	15.41	14.41	10.43	7.35	19.29	2.01

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