

Adient Plc

Solid op results, but tax man pulls the seat out from under EPS – first take

Maintain Rating: BUY | PO: 50.00 USD | Price: 35.61 USD

Operating results in-line, taxes hit bottom line

ADNT reported FY1Q:24 (Q ending 12/3/23) adj. EPS of \$0.31, which was below both our \$0.46 estimate and Bloomberg consensus of \$0.49. The miss was driven by higher-than-expected taxes due to the geographic composition of earnings and significant valuation allowances in certain tax jurisdiction. However, on an operating basis, results were in line with our estimates. Total FY1Q:24 sales of \$3.66bn declined 1% YoY, and were just below our estimate of \$3.73bn. Recall that revenue in the quarter was negatively affected by the UAW strike and EBITDA depressed by about \$25mm. Core operating results were in line with our estimates with EBIT of \$131mm (BofAe \$131mm). ADNT also reported FY1Q:24 adjusted EBITDA (including equity income) of \$216mm, largely in line with BofAe of \$215mm and consensus of \$220mm, implying an adjusted EBITDA margin of 5.9% (BofAe 5.8%). On a geographical basis, North America was stronger than expected due to commercial recoveries and lower and improved freight, while EMEA came in lighter primarily due lower volume/mix benefits. Asia was largely in line. Recall that ADNT released preliminary results earlier in January in connection to the amendment and extension of the Term Loan B.

Outlook reiterated with minor tweaks to sales outlook

ADNT tweaked its FY24 outlook lowering revenue guidance to \$15.4bn-\$15.5 (prior \$15.5bn-\$15.6, BofA \$15.8bn) to reflect latest production estimates and FX rates, but left other items unchanged. The outlook includes: adjusted EBITDA of \$985m (unchanged, BofA \$1.02bn), implying adjusted EBITDA margin of ~6.4% (prior 6.3%-6.4%, BofAe 6.5%). The company expects adjusted equity income of \$70mm (unchanged, BofA \$94m), interest expense of \$185mm (unchanged, BofAe \$174mm), and free cash flow of \$300mm (unchanged, BofAe \$301mm). Cash taxes are projected for FY24 to come in at \$105mm (unchanged, BofAe \$124mm) and capital spending is guided at \$310mm (unchanged). Based on past communication and industry assumptions we believe the outlook is conservative.

Leverage within target range, further progress on debt

ADNT ended FY1Q:24 with \$990mm of cash and \$2.55bn of total debt, for a net debt position of \$1.56bn, or roughly 1.65x net debt/adjusted LTM EBITDA. This is up from 1.5x at the end of FY4Q:23, but below the 2.4x leverage level at the end of FY2022. We note that ADNT has made material progress in improving its capital structure and is now within its target leverage ratio of 1.5x-2.0x. Note that post quarter, ADNT made further progress amending and extending to 2031 its Term Loan B, which will reduce costs. In addition, ADNT repurchased 3mm shares for \$100mm in the quarter.

Maintain Buy, progress is slow and methodical

ADNT continues to make progress on its capital structure and on its turnaround efforts. The FY2024 outlook highlights that the operating environment continues to improve and, in our view, appears conservative as global production volumes are projected to increase by just ~1%. We believe ADNT as a seating supplier is better positioned than peers to benefit from recovering volumes without much of the noise around volatile powertrain shifts. Therefore, we reiterate our Buy rating.

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Stock Data

Price	35.61 USD
Price Objective	50.00 USD
Date Established	28-Nov-2023
Investment Opinion	C-1-9
52-Week Range	30.11 USD - 46.51 USD
Mkt Val (mn) / Shares Out (mn)	3,362 USD / 94.4
Free Float	98.3%
Average Daily Value (mn)	24.91 USD
BofA Ticker / Exchange	ADNT / NYS
Bloomberg / Reuters	ADNT US / ADNT.N
ROE (2024E)	12.0%
Net Dbt to Eqty (Sep-2023A)	54.7%
ESGMeter™	Medium

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ADNT = Adient

UAW = United Auto Workers

LTM = Last Twelve Months

Exhibit 1: ADNT quarterly results variance – YoY % versus BofAe

ADNT reported FY1Q:24 adjusted EPS of \$0.31 versus BofAe of \$0.46

Income Statement	YoY Change			Actual vs. BofAe		
	FY1Q:24	FY1Q:23	YoY Δ	Actual	BofAe	Variance
Revenue	\$3,660	\$3,699	-1.1%	\$3,660	\$3,733	-1.9%
Adjusted EBIT	\$131	\$135	-3.0%	\$131	\$131	-0.2%
Equity Income	\$25	\$27	-7.4%	\$25	\$23	8.7%
Adjusted Net Income	\$29	\$33	-12.1%	\$29	\$44	-33.4%
Adjusted EBITDA	\$216	\$212	1.9%	\$216	\$215	0.4%
Adjusted EPS	\$0.31	\$0.34	-9.9%	\$0.31	\$0.46	-32.6%
Margins						
Adjusted EBIT margin	3.6%	3.6%	-7 bps	3.6%	3.5%	6 bps
Adjusted EBITDA margin	5.9%	5.7%	17 bps	5.9%	5.8%	13 bps

Source: Company filings, BofA Global Research estimates

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Price objective basis & risk

Adient Plc (ADNT)

Our price objective of \$50 for ADNT is based on an EV/EBITDA multiple of roughly 6.0x on our FY2024 estimates, slightly above the historical average of roughly 5.5x as the company successfully completed debt refinancing and secured its capital structure, and continues to improve in performance with its turnaround efforts.

Downside risks: 1) inability to win sufficient and profitable new business, expand the backlog, and reaccelerate top line growth, 2) inability to complete restructuring programs or cost rationalization initiatives, 3) decline in new vehicle production, 4) inability to consistently execute financially, 5) raw material cost inflation, 6) inability to handle OEM price downs, 7) failure to maintain a lean cost structure, 8) new program/platform launch risk.

Upside risks: 1) ADNT successfully wins back business, expands its backlog and reaccelerates its top line growth, 2) better than expected operating leverage from continued growth in global auto production, 3) significant progress made on restructuring programs and cost rationalization actions, 4) material market share gains in China market, 5) wind-down of non-recurring items boosts ongoing cash flow power.

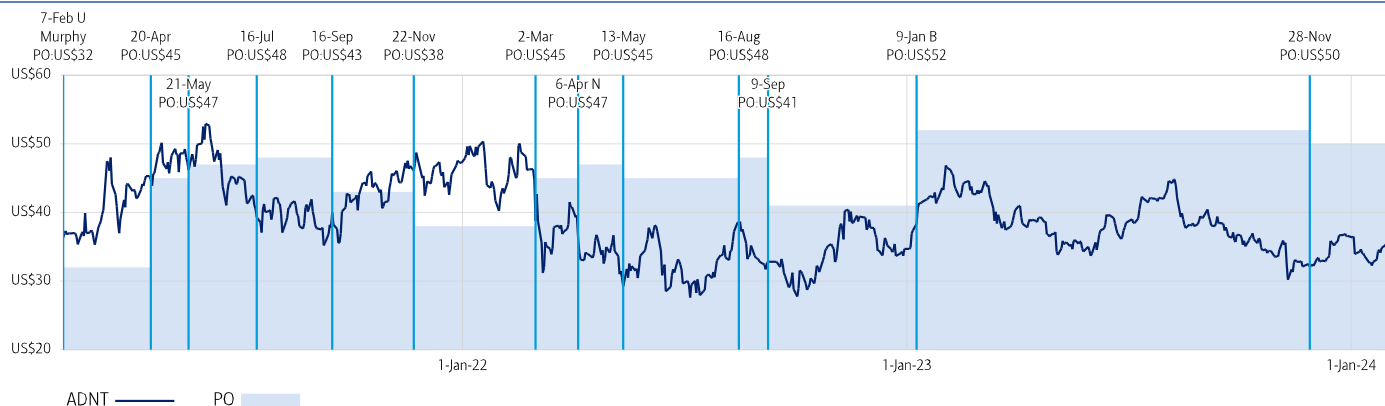
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Adient Plc (ADNT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	55.83%	Buy	39	58.21%
Hold	30	25.00%	Hold	15	50.00%
Sell	23	19.17%	Sell	12	52.17%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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