

## Adient Plc

## A slightly mixed harbinger of supplier results to come

Reiterate Rating: BUY | PO: 50.00 USD | Price: 34.31 USD

## ADNT pre-announced FY1Q24 results

ADNT pre-announced FY1Q24 headline results including revenue of ~\$3.7bn (BofA \$3.9bn, consensus \$3.8bn) and EBITDA of ~\$215m (BofA \$248m, consensus \$225m). Although pre-announced numbers are below printed expectations, the company is off to an OK start to FY24 as it was able to keep last quarter momentum going despite the headwind of the UAW strike.

## Pre-announcement in light of debt refinancing

The pre-announcement comes as Bloomberg reported that the company plans to refinance its Term Loan B (maturity April 2028), which totaled \$635mm as of September 30, 2023. As part of its deleveraging strategy, ADNT over the course of 2023 prepaid \$350mm of the Term Loan B and, with the refinancing, ADNT could further reduce its interest expense burden in 2024. The Term Loan is accruing at the Eurodollar rate plus a 3.25% premium. Recall that ADNT ended FY4Q:23 with \$1.11bn of cash and \$2.54bn of total debt, for a net debt position of \$1.43bn, or roughly 1.5x net debt/adjusted LTM EBITDA.

## Rebalancing FY24 estimates

As we adjust our estimates for FY1Q24, we also rebalance our forecast for the rest of the year, which now implies a stronger FY2H24 as the company affirms that YoY margin improvement in 2024 is on track.

## Reiterate Buy, progress is on the way

ADNT has continued to make progress on its capital structure and operating turnaround, which should open up opportunities to return capital to shareholders. The FY2024 outlook and today's release demonstrate that the operating environment is slowly improving, and, in our view, will likely get better through the year. We see current consensus expectations for declining global production volumes for 2024 as unlikely. This implies that ADNT outlook might be conservative as the company based its forecast on volumes to increase by just ~1%. We believe ADNT as a seating supplier is relatively better positioned than other suppliers (many impacted by the fog of uncertain powertrain shifts) and should simply benefit from the improved operating environment. Therefore, we reiterate our Buy rating.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.11	2.15	3.07	4.80	5.55
GAAP EPS	(1.25)	2.15	3.07	4.80	5.55
EPS Change (YoY)	-94.7%	NM	42.8%	56.4%	15.6%
Consensus EPS (Bloomberg)			3.04	4.40	5.65
DPS	0	0	0	0	0
Valuation (Sep)					
P/E	311.9x	16.0x	11.2x	7.1x	6.2x
GAAP P/E	NM	16.0x	11.2x	7.1x	6.2x
EV / EBITDA*	9.5x	6.8x	6.2x	5.2x	4.8x
Free Cash Flow Yield*	1.5%	12.8%	9.3%	15.6%	16.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

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Timestamp: 23 January 2024 05:00AM EST

23 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	15,951.1	15,782.4
2025E Rev (m)	16,848.5	16,670.2
2026E Rev (m)	17,242.2	17,058.9
2024E EPS	3.12	3.07
2025E EPS	4.82	4.80
2026E EPS	5.51	5.55

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## Stock Data

Price	34.31 USD
Price Objective	50.00 USD
Date Established	28-Nov-2023
Investment Opinion	C-1-9
52-Week Range	30.11 USD - 47.50 USD
Mrkt Val (mn) / Shares Out (mn)	3,239 USD / 94.4
Free Float	98.1%
Average Daily Value (mn)	28.89 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 <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

FY = Fiscal Year

ADNT = Adient

# iQprofile<sup>SM</sup> Adient Plc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	2.9%	7.5%	8.6%	10.6%	10.8%
Return on Equity	0.5%	9.5%	12.0%	15.8%	15.1%
Operating Margin	2.5%	4.0%	4.3%	5.2%	5.7%
Free Cash Flow	47	415	301	507	527

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	24.9x	3.3x	2.1x	1.9x	1.9x
Asset Replacement Ratio	0.6x	0.7x	0.9x	1.0x	1.2x
Tax Rate	46.0%	29.3%	24.4%	21.3%	21.4%
Net Debt-to-Equity Ratio	67.4%	54.7%	37.6%	17.5%	2.2%
Interest Cover	2.1x	3.3x	3.9x	5.1x	5.7x

## Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	14,121	15,395	15,782	16,670	17,059
% Change	3.2%	9.0%	2.5%	5.6%	2.3%
Gross Profit	781	1,035	1,109	1,334	1,457
% Change	-2.3%	32.5%	7.2%	20.2%	9.2%
EBITDA	675	938	1,024	1,222	1,335
% Change	-26.4%	38.9%	9.3%	19.3%	9.3%
Net Interest & Other Income	(159)	(191)	(174)	(172)	(172)
<b>Net Income (Adjusted)</b>	<b>11</b>	<b>205</b>	<b>291</b>	<b>455</b>	<b>526</b>
<b>% Change</b>	<b>-94.5%</b>	<b>NM</b>	<b>41.8%</b>	<b>56.6%</b>	<b>15.6%</b>

## Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(40)	295	383	549	631
Depreciation & Amortization	350	340	360	368	376
Change in Working Capital	(108)	126	(96)	(1)	14
Deferred Taxation Charge	4	(124)	0	0	0
Other Adjustments, Net	68	30	(36)	(39)	(44)
Capital Expenditure	(227)	(252)	(310)	(370)	(450)
<b>Free Cash Flow</b>	<b>47</b>	<b>415</b>	<b>301</b>	<b>507</b>	<b>527</b>
<b>% Change</b>	<b>NA</b>	<b>783.0%</b>	<b>-27.5%</b>	<b>68.4%</b>	<b>4.0%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(106)	(67)	0	0	0
Change in Debt	(1,002)	(103)	0	0	0

## Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	947	1,110	1,411	1,918	2,445
Trade Receivables	1,852	1,874	1,989	2,055	2,056
Other Current Assets	1,413	1,332	1,398	1,431	1,442
Property, Plant & Equipment	1,377	1,382	1,332	1,334	1,409
Other Non-Current Assets	3,618	3,726	3,744	3,763	3,785
<b>Total Assets</b>	<b>9,207</b>	<b>9,424</b>	<b>9,874</b>	<b>10,501</b>	<b>11,137</b>
Short-Term Debt	14	134	134	134	134
Other Current Liabilities	3,496	3,604	3,671	3,749	3,754
Long-Term Debt	2,564	2,401	2,401	2,401	2,401
Other Non-Current Liabilities	673	682	682	682	682
<b>Total Liabilities</b>	<b>6,747</b>	<b>6,821</b>	<b>6,888</b>	<b>6,966</b>	<b>6,971</b>
<b>Total Equity</b>	<b>2,420</b>	<b>2,603</b>	<b>2,986</b>	<b>3,535</b>	<b>4,166</b>
<b>Total Equity &amp; Liabilities</b>	<b>9,167</b>	<b>9,424</b>	<b>9,874</b>	<b>10,501</b>	<b>11,137</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Auto Parts

## Company Description

Adient is the world's largest automotive seating supplier for original equipment manufacturers (OEMs). ADNT's technologies and capabilities include nearly every aspect of automotive seating, including complete seating systems, frames, mechanisms, foam, head restraints, armrests, trim covers, and fabrics. ADNT also participates in the automotive interiors market, primarily through its joint venture in China with Yangfeng Global Automotive Interior Systems Co., Ltd. (YFAI).

## Investment Rationale

Despite notable operational challenges since its spin-off in 2016, Adient has cleared a key hurdle in resetting its capital structure and is demonstrating progress on its turnaround and restructuring efforts, despite COVID disruptions slowed down the process in 2020-2022. We expect more turnaround progress ahead and, despite being conservative on the cycle timing, we see an opportunity for seating suppliers to gain. Therefore, we rate the stock Buy.

## Stock Data

Average Daily Volume 841,985

## Quarterly Earnings Estimates

	2023	2024
Q1	0.34A	NAE
Q2	0.32A	NA
Q3	0.98A	NA
Q4	0.51A	NA



## 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.

## Analyst Certification

I, John Murphy, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Automotives Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Adient Plc	ADNT	ADNT US	John Murphy, CFA
	Aptiv PLC	APTIV	APTIV US	John Murphy, CFA
	Asbury Auto	ABG	ABG US	John Murphy, CFA
	AutoNation, Inc.	AN	AN US	John Murphy, CFA
	BorgWarner	BWA	BWA US	John Murphy, CFA
	Ferrari	RACE	RACE US	John Murphy, CFA
	Ferrari NV	XJHKF	RACE IM	John Murphy, CFA
	Ford Motor	F	F US	John Murphy, CFA
	General Motors Company	GM	GM US	John Murphy, CFA
	Group 1 Auto	GPI	GPI US	John Murphy, CFA
	Lear Corp.	LEA	LEA US	John Murphy, CFA
	Lithia Motors A	LAD	LAD US	John Murphy, CFA
	Magna Intl	MGA	MGA US	John Murphy, CFA
	Magna Intl	YMG	MG CN	John Murphy, CFA
	Penske Auto Group	PAG	PAG US	John Murphy, CFA
	Rivian Automotive	RIVN	RIVN US	John Murphy, CFA
	Visteon	VC	VC US	John P. Babcock
<b>NEUTRAL</b>				
	Gentex	GNTX	GNTX US	John Murphy, CFA
	Lucid Group	LCID	LCID US	John Murphy, CFA
	Luminar Technologies	LAZR	LAZR US	John P. Babcock
	Tesla Motors	TSLA	TSLA US	John Murphy, CFA
<b>UNDERPERFORM</b>				
	American Axle	AXL	AXL US	John Murphy, CFA
	America's Car-Mart, Inc.	CRMT	CRMT US	John Murphy, CFA
	CarMax, Inc.	KMX	KMX US	John Murphy, CFA
	Mobileye	MBLY	MBLY US	John Murphy, CFA
	OPENLANE	KAR	KAR US	John Murphy, CFA
	Sonic Automotive	SAH	SAH US	John Murphy, CFA

## US - Automotives Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>RVW</b>	Fisker	FSR	FSR US	John P. Babcock

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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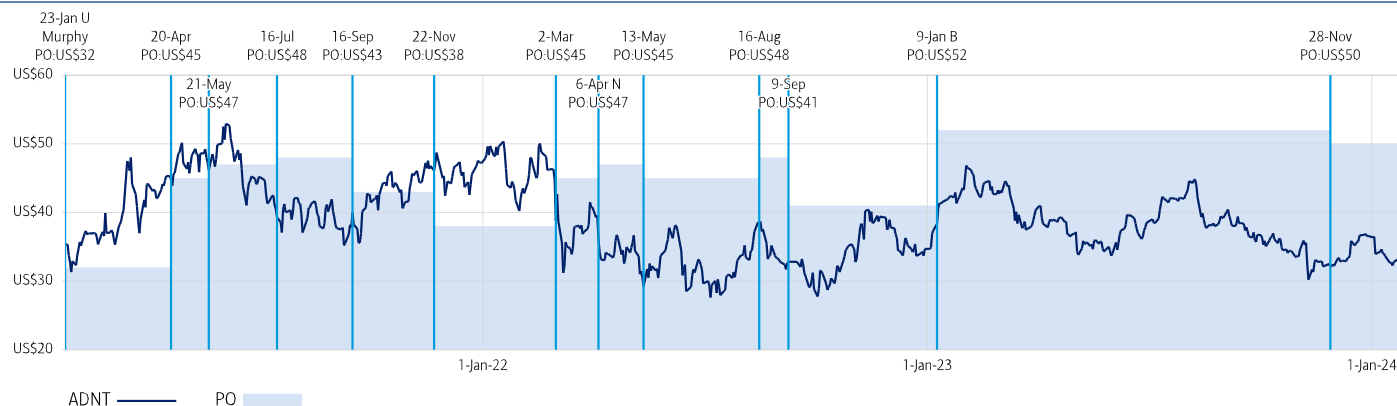
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### Adient Plc (ADNT) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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