



Cummins

®

Investment Thesis



Recommendation: **BUY**

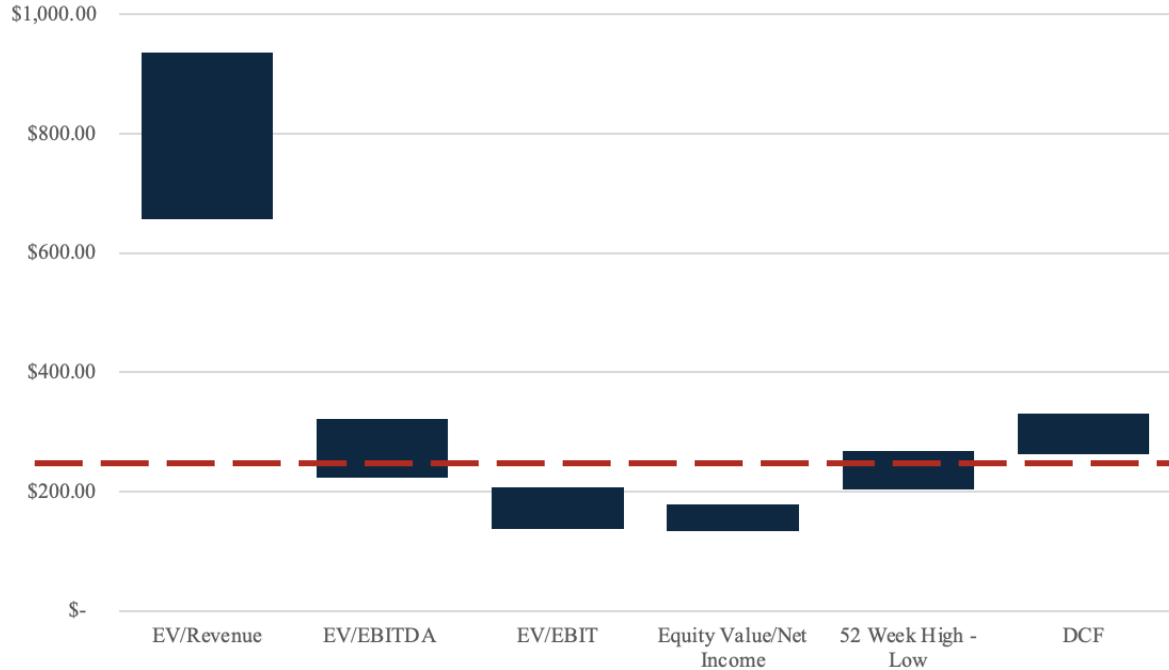
Current Price: 266.48 (**Upside: 12.58%**)

- **Market Leadership:** Cummins is a global leader in power solutions offering best-in-class products in diverse set of verticals
- **Effective Capital Allocation:**
 - Shareholder Friendly: Consistent dividend payout & share repurchase engagements
 - Growth Initiatives: Bolsters product offerings through M&A and R&D spend
- **Capitalizing on Industry Trends:** Promising growth on their clean energy solutions segment and natural gas engines align with global shifts towards greenification
- **Legislative Momentum: IIJA & IRA Set to Make Most Effect in 24' & 25'**
 - Provides counter-cyclical product demand & accelerate adoption of newer segments
- **Financial Strength:** Cummins has a strong balance sheet (A+ & strong cash balance)

Company Overview



CMI Valuation Summary



Market cap
\$37.8B

Revenue
\$34.06B

PE
51.74

EBITDA Margin
7.1%

ROIC
4.9%

Gross Margin
24.2%

Company Overview



Components

- Supplies products which complement Engine and Power Systems segments (axles, brakes, engine components, etc)

Engine

- Manufactures diesel and natural gas-powered engines for trucks

Distribution

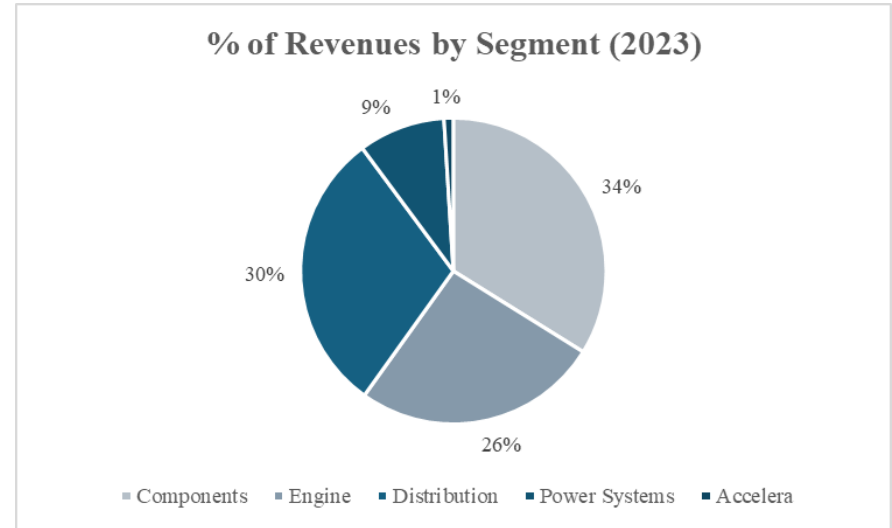
- Primary sales, service, and support channel

Power Systems

- Offers power generations (generators + more), industrial engines, and other generators

Accelera

- Designs and manufactures hydrogen production technologies



Company Overview



Customer Base

PACCAR



STELLANTIS

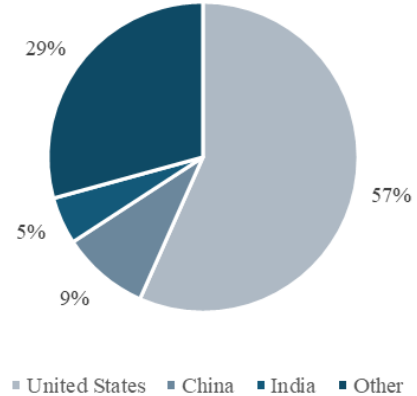
TRATON



DAIMLER

- PACCAR accounts for ~16% of net sales
- PACCAR, Traton, Daimler, and Stellantis are collectively ~37% of net sales

% of Revenues by Geography (2023)



Industry Overview - Trends



- **Electrification and Alternative Fuels:** There's a significant shift towards electrification and the use of alternative fuels like hydrogen and biofuels in response to environmental concerns and regulatory standards.
 - **Regulatory and Environmental Pressures:** Companies face stringent regulations aimed at reducing emissions and promoting sustainability, requiring significant investments in R&D.
- **Renewable Energy Integration:** The increasing integration of renewable energy sources into the grid, requiring advancements in storage and distribution technologies.
- **Digitalization and Smart Technologies:** The use of digital technologies to improve efficiency, reliability, and sustainability in power generation and distribution.



Industry Overview



1. Energy & Utilities: Electric Utilities, Renewable Energy
2. Industrial & Manufacturing: Manufacturing, Oil & Gas, Chemicals & Pharma
3. Transportation & Infrastructure: Railways, Airports & Ports, EV Charging
4. Commercial & Residential: Real Estate (Ventilation and Heating), Data Centers
5. Telecommunications: Cell Towers
6. Healthcare: Hospitals & Clinics, Research
7. Agriculture: Irrigation Systems
8. Government & Public Services: Military, Municipal Services
9. Mining & Construction: Power for Equipment
10. Marine: Ship Propulsion

Diversified!

Porter's Five Forces



01	Threat of New Entrants - Low	Highly specialized and capital intensive manufacturing. Long-term relationships and backlogs. Strategic subsidiaries and joint ventures.
02	Threat of Substitutes - Moderate	Electrification and lower-emission movements. Strides towards new technologies.
03	Bargaining Power of Suppliers - Moderate	Joint ventures and relationships with suppliers. Highly dependent on raw materials and high switching costs.
04	Competitive Rivalry - High	Must compete in new technologies, price, value, emissions. Fragmented Market.
05	Bargaining Power of Buyers - Moderate	Four customers account for 37% percent of sales. High switching costs and long-term relationships.

Catalysts & Risks



Catalysts

1. Global Expansion and Emerging Markets
1. Aftermarket Service Growth
1. Infrastructure Development
1. Government Incentives

Risks

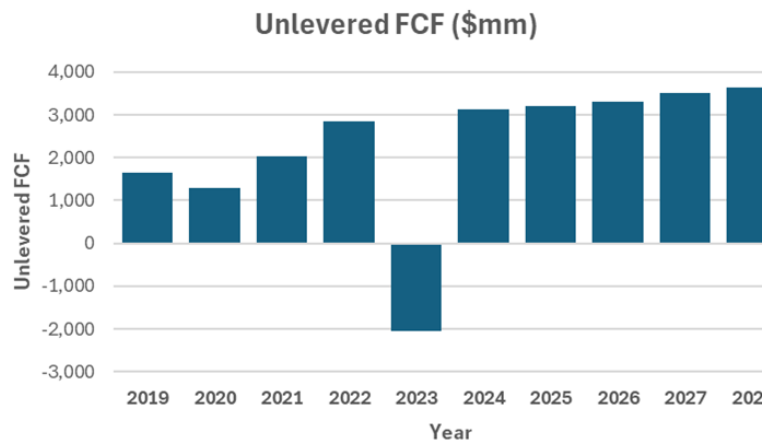
1. Continual Regulatory Compliance Issues
1. Global Supply Chain Issues
1. Reliance On Key Customers
1. Competitive Landscape

Comparables



<u>Company Name</u>	<u>EV/Revenue</u>	<u>EV/EBITDA</u>	<u>EV/EBIT</u>	<u>P/E</u>
Cummins	1.2x	17.7x	31.9x	48.6x
Caterpillar	2.9x	12.8x	14.9x	15.6x
Westinghouse	3.0x	16.6x	22.3x	32.3x
Eaton Corporation	5.1x	24.6x	30.4x	34.5x
Honeywell	3.9x	17.3x	20.2x	23.1x
Parker Hannifin	4.1x	18.2x	22.5x	32.2x
Li Auto	1.5x	24.4x	34.2x	35.0x
Median	3.5x	17.7x	22.4x	32.2x
25th Percentile	2.9x	16.8x	20.7x	25.3x
75th Percentile	4.1x	22.9x	28.4x	33.9x
Cummins	1.2x	17.7x	31.9x	48.6x

DCF



WACC	9.0%
% Debt	17%
% Equity	83%
Interest on Debt	3.31%
Risk Free Rate	4.30%
Equity Risk Premium	4.60%
Adjusted Beta	1.31
Tax Rate	23%

CMI CAPM	10.3%
Weighted Cost of Equity	8.6%
Weighted Cost of Debt	0.4%

Implied Share Price- Gordon Growth **\$300.00**

Market Share Price	266.48
Implied Upside	12.58%

Discount & Growth Rate Sensitivity Analysis

WACC

	7.00%	8.00%	9.00%	10.00%	11.00%
1.50%	\$280.51	\$263.05	\$246.83	\$231.76	\$217.74
2.00%	\$299.63	\$280.96	\$263.62	\$247.51	\$232.53
2.50%	\$318.75	\$298.88	\$280.42	\$263.27	\$247.32
3.00%	\$337.88	\$316.79	\$297.22	\$279.03	\$262.11
3.50%	\$357.00	\$334.71	\$314.02	\$294.78	\$276.90
4.00%	\$376.12	\$352.63	\$330.81	\$310.54	\$291.69
4.50%	\$395.24	\$370.54	\$347.61	\$326.30	\$306.48

Analyst Reports



Analyst Ratings

	3M Ago	1M Ago	Current
Buy	6	6	6
Overweight	3	2	1
Hold	11	13	14
Underweight	0	1	1
Sell	1	1	1
Consensus	Hold	Hold	Hold

Stock Price Target

High	\$300.00
Low	\$231.00
Average	\$264.63
Current Price	\$265.80

TD Cowen:

Rating: Outperform

Price Target: \$272

JP Morgan:

Rating: Underweight

Price Target: \$245

Stock Performance



Role in Portfolio

**Current
Sector Postions**



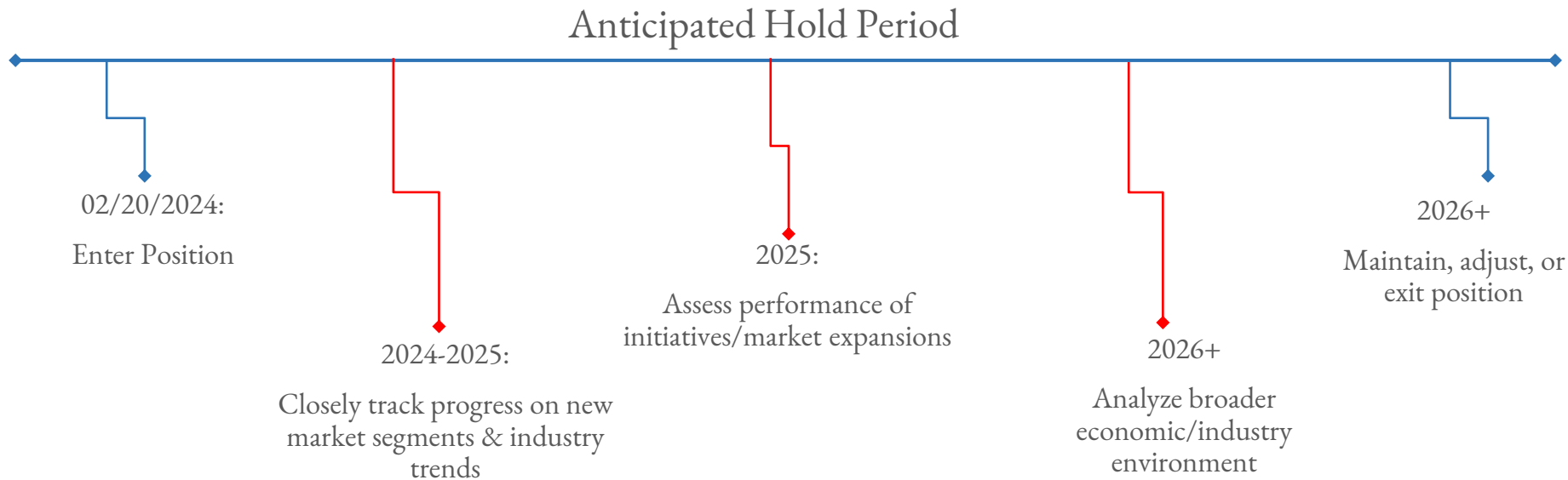
■ CAT ■ UNP

**Projected
Sector Postions**



■ CAT ■ UNP ■ CMI

Investment Timeline



A photograph of a factory floor showing a long line of engines mounted on a yellow overhead conveyor system. The engines are arranged in a row, extending into the distance. The conveyor system consists of yellow vertical supports and horizontal beams. The number '46' is visible on a support on the left, and '148' is visible on a support in the middle. The floor is red and white. The word 'Questions' is overlaid in the center in a large, black, serif font.

Questions

Industry Overview - Additional Information



Key trends

01

The industry is preparing for as much as a **tripling of electricity demand by 2050**. Many companies are increasing load forecasts, assessing infrastructure needs, and estimating costs to expand the grid and meet peak demand.

02

The industry is modernizing and decarbonizing the grid while addressing potential **reliability challenges**. Harnessing distributed energy resources and virtual power plants and **integrating distribution and bulk electric system planning** are among key approaches.

03

Extreme heat and drought conditions will likely continue to **disrupt electric power sector operations** in 2024. But the industry may be inching toward less water-intensive power production over time.

04

Rising power industry capital expenditures are expected to continue into 2024. In addition to rate increases, companies will likely continue to **tap alternative sources to help fund capital programs** and keep customer bills affordable.

05

The power sector has begun **employing generative AI** in multiple use cases. This technology could be transformative, enabling the industry to **address core power industry challenges** such as improving reliability, affordability, efficiency, sustainability, and health and safety.

Source: Deloitte analysis.

<https://www2.deloitte.com/us/en/insights/industry/power-and-utilities/power-and-utilities-industry-outlook.html>