

THE MONTHLY RESEARCH CONFERENCE CALL

TRANSPORTATION: OPPORTUNITIES & CHALLENGES



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11:00 a.m. ET

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ARGUS RESEARCH COMPANY



WHAT'S NEW AT ARGUS

FEBRUARY 2020

■ **New to Coverage**

- Argus added over 35 names to coverage in 2019
- We continued to add new names in January
- Avery Dennison: labels, fasteners, office supplies
- MongoDB: cloud database solutions
- Alcon: eye-care business spun off from Novartis
- Pioneer Natural: Permian-basin pure play
- We will continue to add to coverage across 2020

■ **ETF Model Portfolios Updated**

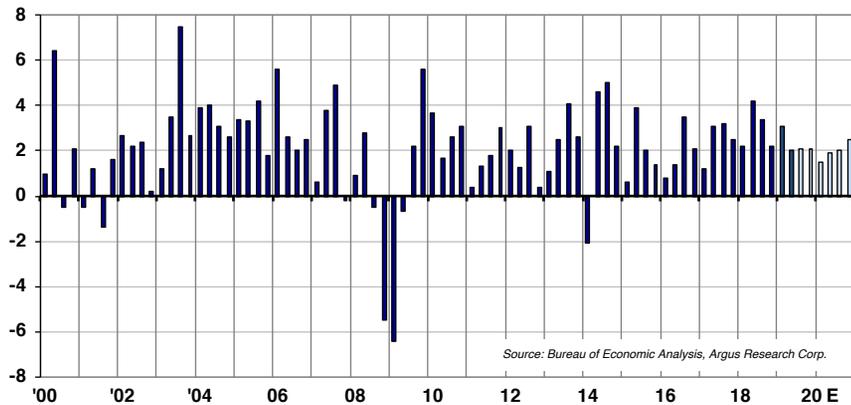
- Investment strategy team has reviewed & updated its three ETF MPs
- Leveraging multiple inputs: asset allocation, sector weights, market outlook, etc.
- Three portfolios: Aggressive Growth, Growth, Conservative
- Find it on the site: ETF Research

■ **Argus Dividend Growth Portfolio**

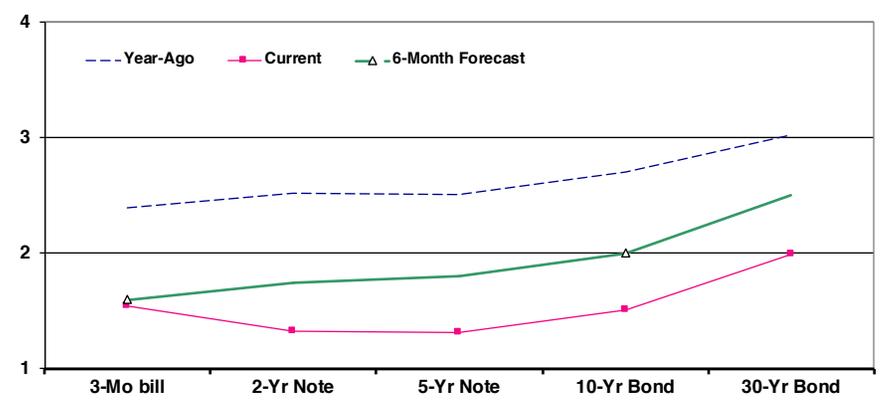
- Dividend growth is an important element of return
- Prioritizing companies that consistently raise payouts at above average rates
- Balance sheet strength, strong outlook
- Focus on shareholder return
- Find it on the site: Portfolio Strategy, Theme Portfolios

MACRO FORECASTS

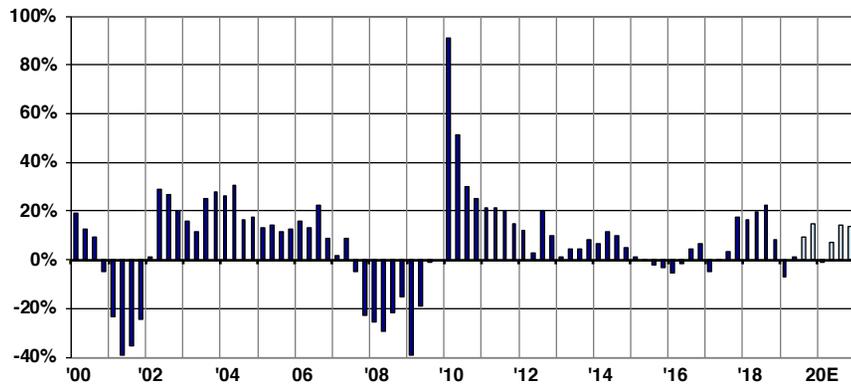
REAL GDP W/FORECASTS (%)



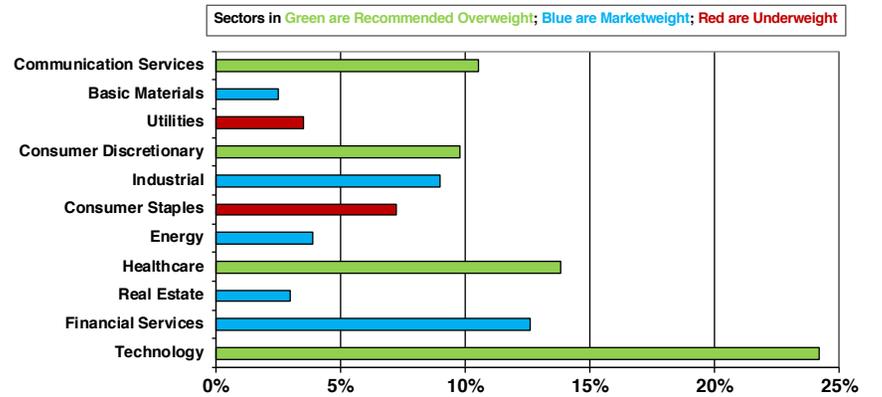
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH



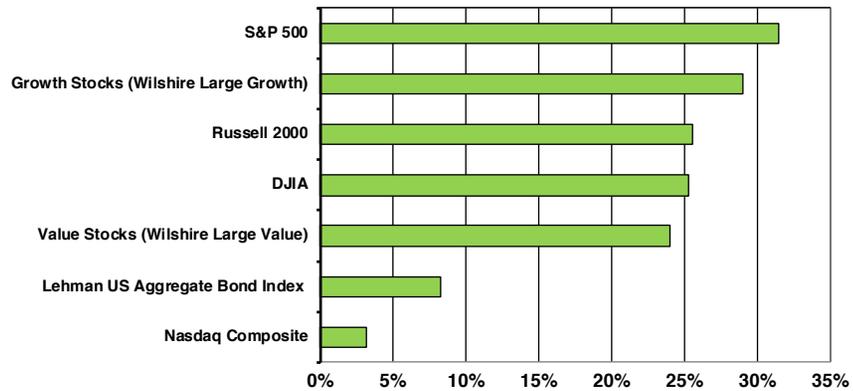
MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500



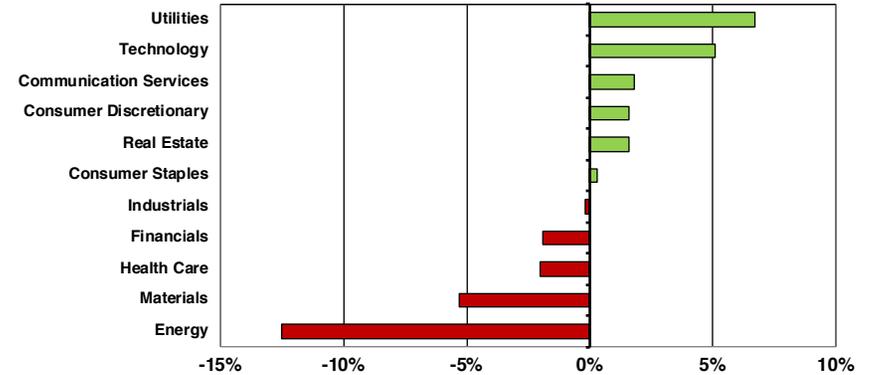
MARKET PERFORMANCE

DATA AS JANUARY 31, 2020

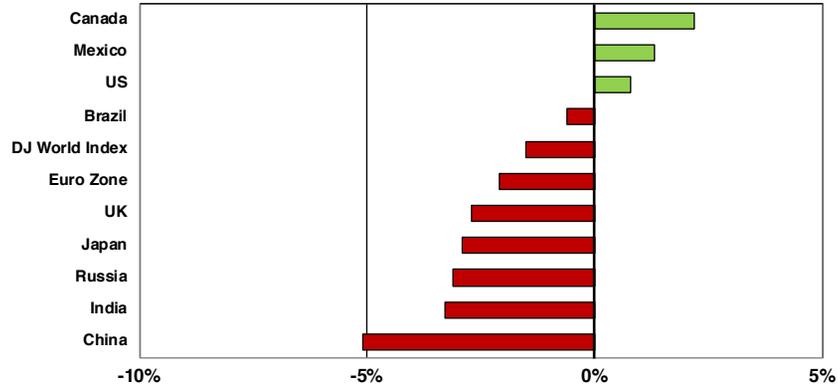
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



CORONAVIRUS: 2020'S BLACK SWAN

- **Coronavirus incubated in a wild animal market in Hubei province in 2019 to emerge as 2020's first real crisis.**
- **Current indications are that it spreads more easily and rapidly than past pandemics, but has a lower mortality rate.**
- **Once vaccines were developed for SARS and MERS, both receded with little lasting damage and are largely forgotten today.**
- **Loss of commerce and contagion fears are hitting commodity stocks (energy down 12%) as well as airlines and shippers.**
- **Less hard hit are rails, auto complex, and industrial.**

TRANSPORTATION: OPPORTUNITIES AND CHALLENGES

■ AUTOMOTIVE OEMs:

We remain BEARISH following peak profits in 2017

- The auto industry's strong performance from 2010-2017 was largely due to high volume growth, a product mix that favored higher-margin vehicles (like SUVs) and strong growth in China.
- Profit peaked in 2017 at \$130 billion. Since then, profit generation has lagged significantly. We believe the industry is in a cyclical downturn. In our view, prospects still remain dim.
- Vehicle sales continue to fall. In 2020, light vehicle sales are expected to drop 1%-2% from 2019, continuing the trend since 2018. Incentive spending has risen by 12% over the past few years, to an average of \$4,500.
- U.S. GDP growth is expected to slow in 2020. While consumer confidence remains high, we expect car buyers to think twice about spending for a new vehicle. The average price of a new vehicle is \$36,700. We also expect job growth to slow.
- Finally, with consumer loan delinquencies on the rise, we see too many obstacles to prevent us from becoming more positive.

AUTOMOTIVE AFTERMARKET: WE REMAIN BULLISH ON AUTO PARTS

■ AUTOMOTIVE AFTERMARKET: We remain BULLISH on Auto Parts

- **CAR PRICE:** With high new car prices and affordability concerns, consumers continue to drive their cars longer, creating the need for frequent trips to the auto parts stores. The typical car on the road in the U.S. is a record-high 11.5 years old.
- **MILES DRIVEN:** The U. S. Department of Transportation (DOT) states that traffic volume trends have increased by about 10% since 2010 (or about 1% higher each successive year). This becomes a supporting factor for auto parts suppliers.
- **VEHICLE USAGE:** Increased motor vehicle usage results in faster wear of auto parts, increasing demand for replacements. Therefore, an increase in total vehicle miles positively affects demand for auto parts stores.
- **AWARENESS:** Today, consumers are more proactive about the importance of preventive maintenance in maintaining their vehicles and avoiding costly repairs.
- **OLDER VEHICLES:** Older vehicles are simply lasting longer. The number of vehicles on the road that are at least 25 years old is about 14 million. That's up from about 8 million in 2002. Also, the number of vehicles that are 16 to 24 years old is 44 million. That's up from 26 million in 2002 and supports car parts retailers.

TOP STOCK PICKS

■ **AUTOMOTIVE OEMs:**

- Tesla Inc. (TSLA) (Special Situation)

■ **AUTOMOTIVE AFTERMARKET:**

- AutoZone Inc. (AZO)
- Genuine Parts Co. (GPC)
- Advance Auto Parts Inc. (AAP)

THE TRANSPORTATION SECTOR & SUSTAINABILITY

- **Shift in assets out of Energy stocks in past 2-3 years – now 3.9% of market cap**
- **GMO's Jeremy Grantham has been focused on clean-tech, green-tech for years**
- **Lawrence Fink says Blackrock will begin to redirect investment to reflect climate crisis**
- **The Tesla model (TSLA: BUY)**
 - **Mission: The faster the world stops relying on fossil fuels, and moves to a zero-emissions future, the better**
 - **Products: Electric cars, scalable clean energy generation and storage products**
 - **Manufacturing Processes: Compressed Air, Injection Moldings, Water Test Booth & Cooling Towers, Energy-Efficient Paint Shop**
 - **IP Approach: Open-Source Patents**

THE TRANSPORTATION SECTOR & SUSTAINABILITY

■ Elsewhere in the Industry

- **Paccar (PCAR: HOLD)**

- » Diesel, natural gas & hydrocarbon engines
- » Lighter-weight materials
- » Outfit trucks for platooning
- » New electric truck for refuse segment

- **Cummins (CMI: BUY)**

- » Planet 2050 program: Net-zero carbon emissions
- » Facilities, new products, paint
- » Electric school bus
- » Electric trucks

- **Old Dominion Freight Line (ODFL: BUY)**

- » Young fleet
- » Skirts, deflectors, telematics systems
- » Recycle truck wash water

- **JB Hunt (JBHT: HOLD)**

- » Converting truckload to intermodal
- » Electric trucks
- » Biofuel

- **Norfolk Southern Corp. (NSC: BUY)**

- » New class of low-emission locomotives
- » Sleeper plug-in system that charges batteries & heats engines, so trains don't have to idle
- » Reforesting 10k acres in Mississippi Delta

- **Union Pacific (UNP: BUY)**

- » Precision Scheduled Railroading
- » On-time delivery +5%, car velocity +9%, terminal dwell – 15%

AIRLINES

- **American (AAL), Delta (DAL) and United (UAL) have canceled all flights to China.**
- **Once virus is contained, all will benefit from drop in oil prices (down over 15%).**
- **Flights to China represent about 3% of Delta's capacity and revenue. A one-sixth drop in fuel prices should offset lower revenue.**
- **Trading at 7.3 times our 2020 EPS estimate, the shares appear to reflect the impact of risks related to China; we think the stocks' 2.9% dividend yield and potential upside are attractive.**

CRUISE INDUSTRY

- **Shares of Royal Caribbean Cruises Ltd. (RCL) are down 10%.**
- **The company expects the coronavirus to reduce 2020 EPS by a dime, or less than 1% of our 2020 estimate.**
- **The Spectrum of the Seas is the only RCL ship sailing from China and it has canceled three cruises from there.**
- **At current prices, the RCL shares yield 2.7%**

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