

Mossberg's Investor Digest

Best Idea Profile:

American Axle (NYSE:AXL)

DESCRIPTION:

Headquartered in Detroit, Michigan; American Axle is a Tier I supplier to the automotive industry. The Company manufactures, engineers, designs and validates drivetrain systems and related components and chassis modules for light trucks, sport utility vehicles (SUVs), passenger cars, crossover vehicles and commercial vehicles. Driveline and drivetrain systems include components that transfer power from the transmission and deliver it to the drive wheels. American Axle's product line includes axles, chassis modules, driveshafts, power transfer units, transfer cases, chassis and steering components, drive heads, crankshafts, transmission parts and metal-formed products. American Axle derives the majority of its revenues from sales to GM and Chrysler. In addition to its domestic operations in 4 US states, the Company maintains offices in a variety of locations around the world and is working to expand international sales.

KEY INVESTMENT CONSIDERATIONS:

Global Footprint – American Axle has nearly 8,500 associates operating in over 30 locations in 13 countries. The Company serves more than 100 customers.

Restructured For A Slow Growth Economy - American Axle has completed a restructuring program that has repositioned its business model to meet current demand. The Company is well positioned to operate in a slow growth economy while benefiting from any global economic recovery. The Company has reduced operating breakeven to ≈ 10 M vehicle units. Q3FY11 marked the 9th consecutive profitable quarter for the Company.

High Efficiency Axles – American Axle is a leading developer of new technologies (EcoTrac Line) for fuel efficiency. The Company has proprietary technologies that deliver world-class axle efficiency by reducing friction and optimizing design, packaging and lubrication.

Geographic Diversification – American Axle is rapidly diversifying its revenues by both geography and customers. In past years the Company has derived nearly 75% of its revenues from General Motors. The Company now has a \$1.1 billion three year backlog. 75% of these backlog awards were non-GM awards (names like Volkswagen, Daimler, Fiat and Navistar) with 70% of the projects being sourced outside the US.

New Sales Mix/Product Diversification – The Company is also changing its sales mix as it diversifies its product line. From FY2011 to FY2014 (Pro-Forma) American Axle expects the backlog for global light truck products to grow from 3% to 9%. The Company also expects the passenger car/crossover utility vehicle backlog to grow from 10% to 24%.

Financial Position – American Axle's Q3 liquidity position (September 30, 2011) of \$400 million improved by the issuance of \$200 million in 7.75% Notes due 2019. There are no significant maturities of outstanding debt until 2014.

Profitability – The Company is profitable and is issuing guidance of \$ 363MM to \$390MM in adjusted Ebtida for FY2011.

VALUATION:

Analyst's estimates are currently looking for revenue growth of 13.5% in FY2011 and 9.2% in FY2012. The Company is solidly profitable and currently trades at a forward P_x/EPS multiple of just 3.6x. The stock is priced far below its growth rate and investors should be looking for an entry point in the current volatile market.

American Axle (NYSE:AXL) Investment Data (as of 11/25/11)	
Recent Price	\$7.51
52-Week Range	\$6.77 - \$16.20
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	75MM
Average Trading Volume (3 mos)	2.2MM
Market Capitalization	\$566MM
Cash	\$114MM
Long Term Debt	\$1B
Enterprise Value (EV)	\$1.5B
Book Value	N/A
TTM Revenue	\$2.6B
P/ Revenue	0.2x
TTM EPS	1.95
P/ EPS	4x
TTM EBITDA	\$378MM
EV/ EBITDA	4x