

# Commercial Trucks

## Summer Slowdown? More Like Summer Surge

- **Class-8 (Heavy Duty) Orders** — North America Class-8 preliminary truck orders, as reported by ACT Research (Aug 4), reached 29,900 units in July. In a month that typically sees a seasonal slowdown, July orders were meaningfully above expectations and reached a six-month high. Specifically, the order rate was 12% higher than June's 27k rate and 70% above July 2013 orders. Per figures from ACT Research, adjusting for seasonal factors, the July SAAR equates to an order volume of 36,500 units, the best order month on a seasonally adjusted basis since April 2011. In addition to the factors we have highlighted in the past, including robust freight data, high replacement demand, and improving manufacturing sector confidence, July orders could have benefitted from demand related to the decreasing supply of available build slots in 2014.

- **2014 Forecasts:** Both ACT Research and FTR Associates currently anticipate 2014 production volumes to increase 20% y-o-y (293k-297K range). See page 3.

- **Class 5-7 (Medium Duty Orders)** — Preliminary medium duty orders were in the 15,500 unit range, similar to range of orders seen during May and June. On a y-o-y basis up the orders were 4% lower (but up 3% sequentially). According to ACT, the negative y-o-y figures can be attributed partly to tough comps, as the medium duty market showed significant improvement during 2Q last year.

- **2014-2016 Forecasts:** ACT's 2014-2016 build forecast (see page 4) remains in the 215-230K unit range, implying gradual y-o-y improvement.

- **Market Share Data** — See pages 2-4 for updated trends. NAV's Class-8 retail market share has remained fairly stable in the 15% range. Meanwhile the Company's medium duty share was ~16% in June (consistent with prior months).

- **June European Truck Orders** — Per ACEA data (July 29), registrations of trucks over 16T (heavy duty) fell 0.7% y-o-y to 17,692 during June, with France and UK declining, offset by improvement in Germany (+21% y-o-y) and Spain (+37% y-o-y). YTD, this segment is up 5.7% y-o-y. Registrations of new commercial vehicles over 3.5T (medium duty) declined 4.2% y-o-y in June to 22,817 units owing to declines in Italy/France/UK, offset by expansion in Germany & Spain. YTD +1.6% y-o-y.

- **Top Picks** — We maintain Buy ratings on MTOR 6.75% & 6.25% senior notes and DAN 5.375% senior notes. We remain Neutral on NAV 8.25% senior notes and believe ACW could potentially access the market in coming months to refinance its 9.5% secured notes. See page 2 for relative value. See links: [MTOR](#) [DAN](#) [ACW](#)

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# Relative Value & Industry Charts

Figure 1. Commercial Trucks – Relative Value

Coupon	Description	Citi Rating	Maturity	Ratings (Moody's/S&P)	Amount Outst.	Current Prices				Next Call Data		YTD Total Return	Sales LTM	EBITDA LTM	EBITDA Margin	Cash Balance	Net Leverage	EV/EBITDA	Mkt Cap
						Bid	YTW (%)	Z-Spr (bp)	YTW Date	Date	Price							LTM Date:	
<b>ACCURIDE CORP (ACW) - Marketweight</b>																			
9.500%	Sr Sec Nts	Neutral (2)	8/1/2018	B3(N)/B-(N)	\$310	104.875	6.66%	611	8/1/2015	9/5/2014	104.75	7.1%	\$647	\$57	8.8%	\$22	5.2x	6.7x	3/31/2014 \$238
Accuride Corporation is one of the largest manufacturers and suppliers of commercial vehicle components in North America, offering a broad range product lines to the commercial vehicle industry.																			
<b>ALLISON TRANSMISSION (ALS) - Overweight</b>																			
L+275bp	Term Loan		8/7/2017	Ba3(S)/BB(S)	\$424	99.750	3.95%						\$1,963	\$652	33.2%	\$160	3.1x	11.3x	3/31/2014 \$5,248
L+275bp/100bp	Term Loan		8/23/2019	Ba3(S)/BB(S)	\$1,775	99.625	4.73%										3.1x		
7.125%	Sr Nts	Neutral (2)	5/15/2019	B3(S)/B(S)	\$471	105.250	4.69%	423	5/15/2015	5/15/2015	103.56	1.6%					3.8x		
Allison Transmission, owned by Carlyle and Onex, is the pre-eminent global manufacturer of automatic transmissions for medium-and heavy-duty commercial vehicles.																			
<b>COMMERCIAL VEHICLE GROUP (CVGI) - Marketweight</b>																			
7.875%	2nd Lien Nts	Neutral (2)	4/15/2019	B2(N)/B(N)	\$250	104.125	6.18%	520	4/15/2017	9/5/2014	105.91	8.6%	\$768	\$27	3.5%	\$74	6.6x	8.6x	3/31/2014 \$278
Commercial Vehicle Group supplies interior systems, vision safety solutions and other cab-related products for the heavy-duty truck market, the construction market, and other specialized transportation markets																			
<b>DANA (DAN) - Overweight</b>																			
6.500%	Sr Nts	Neutral (2)	2/15/2019	B2(S)/BB+(S)	\$400	104.250	4.39%	404	2/15/2015	2/15/2015	103.25	1.3%	\$6,781	\$754	11.1%	\$1,116	0.6x	5.3x	3/31/2014 \$3,556
6.750%	Sr Nts	Neutral (2)	2/15/2021	B2(S)/BB+(S)	\$350	105.750	4.94%	431	2/15/2016	2/15/2016	103.38	3.1%					0.6x		
5.375%	Sr Nts	Buy (1)	9/15/2021	B2(S)/BB+(S)	\$450	101.750	4.98%	318	9/15/2019	9/15/2016	104.03	4.4%					0.6x		
6.000%	Sr Nts	Neutral (2)	9/15/2023	B2(S)/BB+(S)	\$300	104.250	5.27%	308	9/15/2021	9/15/2018	103.00	7.0%					0.6x		
Dana Holding Corp engineers, manufactures, and distributes components and systems for worldwide automotive, heavy truck, off-highway, engine, and industrial markets.																			
<b>MERITOR (MTOR) - Marketweight</b>																			
8.125%	Sr Nts	Neutral (2)	9/15/2015	B3(P)/B-(P)	\$84	104.260	4.13%	355	9/15/2015	NC	NC	0.3%	\$3,771	\$305	8.1%	\$233	2.8x	7.1x	3/31/2014 \$1,269
6.750%	Sr Nts	Buy (1)	6/15/2021	B3(P)/B-(P)	\$275	104.750	5.62%	389	6/15/2019	6/15/2016	105.06	4.8%					2.8x		
6.250%	Sr Nts	Buy (1)	2/15/2024	B3(P)/B-(P)	\$225	101.750	5.96%	371	2/15/2022	2/15/2019	103.13	4.8%					2.8x		
4.625%	Sr Converts		3/1/2026	NA/B-(P)	\$55	105.859	0.85%	21	3/1/2016	3/1/2016	100.00						2.8x		
4.000%	Sr Converts		2/15/2027	NA/B-(P)	\$200	106.500	2.47%	80	2/15/2019	2/15/2019	100.00						2.8x		
	5Y CDS					280 bp													
Meritor, Inc. provides the global transportation industry with integrated systems, modules, and components. The Company serves light vehicle, commercial truck, trailer, and specialty original equipment manufacturers and related aftermarkets.																			
																	3.9x	← including pension	
<b>NAVISTAR INTL CORP (NAV) - Marketweight</b>																			
L+450bp/125bp	Term Loan B		8/17/2017	Ba3(S)/B	\$698	100.500	5.80%						\$10,448	\$0	0.0%	\$563	NA	19.9x	4/30/2014 \$2,868
L+300bp	Finco Term Loan		12/2/2016	NA/NA	\$289	98.375	4.65%										NA		
8.250%	Sr Nts	Neutral (2)	11/1/2021	B3(S)/CCC-	\$1,200	101.250	7.80%	661	11/1/2017	11/1/2014	104.13	2.6%					NA		
3.000%	Sr Sub Converts		10/15/2014	B3(S)/CCC-	\$166	100.250	1.64%	143	10/15/2014	NC	NC						NA		
4.500%	Sr Sub Converts		10/15/2018	B3(S)/CCC-	\$200	101.500	4.10%	255	10/15/2018	NC	NC						NA		
4.750%	Sr Sub Converts		4/15/2019	B3(S)/CCC-	\$411	106.875	3.16%	146	4/15/2019	NC	NC						NA		
	5Y CDS					610 bp													
<b>OSHKOSH CORP (OSK) - Overweight</b>																			
L+150bp	Term Loan B		3/21/2019	Ba2(S)/BB(S)	\$400	97.500	3.76%						\$7,139	\$647	9.1%	\$420	0.0x	7.1x	3/31/2014 \$4,036
8.500%	Sr Nts	Neutral (2)	3/1/2020	Ba3(S)/BB+(S)	\$250	106.625	4.02%	366	3/1/2015	3/1/2015	104.25	1.5%					0.8x		
5.375%	Sr Nts	Buy (1)	3/1/2022	Ba3(S)/BB+(S)	\$250	102.000	4.96%	305	3/1/2020	3/1/2017	104.03	4.7%					0.8x		
Oshkosh is a designer, manufacturer, and marketer of a broad range of specialty vehicles and vehicle bodies. The company operates in four segments: access equipment, defense, fire & emergency and commercial.																			

Note: EV/EBITDA multiple based on 2014 fiscal year consensus estimate. Bonds, loans, and CDS without Citi ratings are not covered by Citi Research.

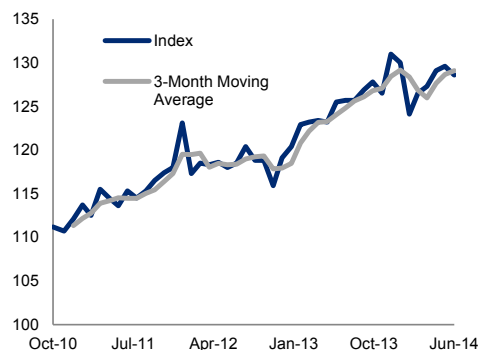
Source: Citi Research, Bloomberg.

Figure 2. NA Heavy Duty (Class-8) Truck Market

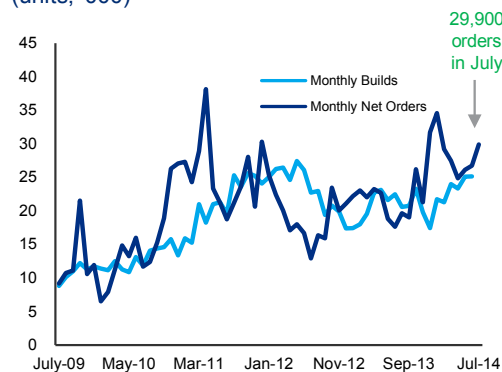
# NA Heavy Duty (Class-8) Truck Market

Class 8 builds are expected to increase 20% in 2014, buoyed by improving manufacturing sector, high used truck prices, and replacement demand (relatively old fleet and more fuel efficient engines).

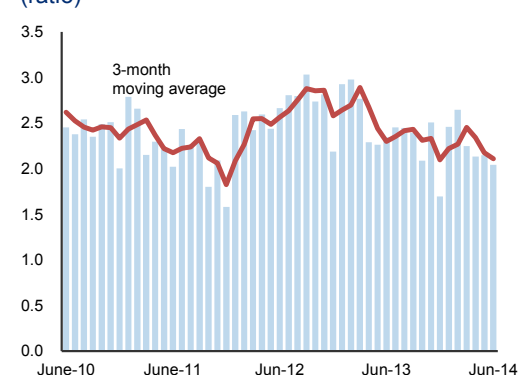
ATA Freight Index  
(2000 = 100)



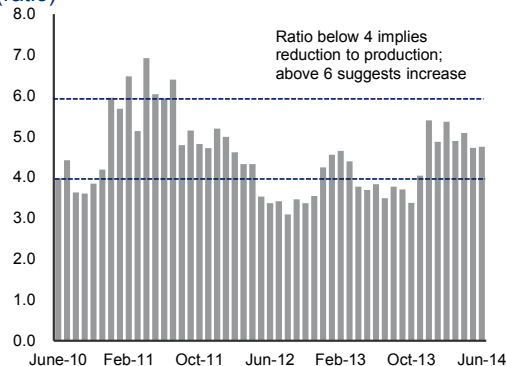
HD Net Orders & Builds  
(units, '000)



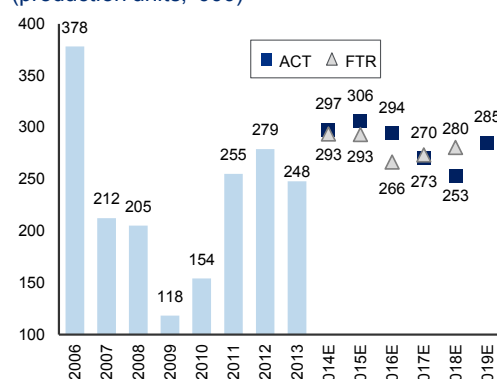
HD Inventory/Retail Sales  
(ratio)



HD Backlog/Builds  
(ratio)



Heavy Duty Forecast (Annual)  
(production units, '000)



Heavy Duty Forecast (Quarterly)  
(production units)

	ACT	y-o-y % Δ	FTR	y-o-y % Δ
1Q14A	67.0	22%	64.6	22%
2Q14A	74.0	10%	74.1	12%
3Q14E	79.6	25%	77.2	22%
4Q14E	76.9	23%	77.5	28%
<b>FY2014E</b>	<b>297.4</b>	<b>20%</b>	<b>293.4</b>	<b>21%</b>

Source: ATA, ACT Research, FTR Associates, Citi Research, Bloomberg.  
HD = Heavy Duty

Source: Citi Research, ATA, ACT Research, FTR Associates, Bloomberg

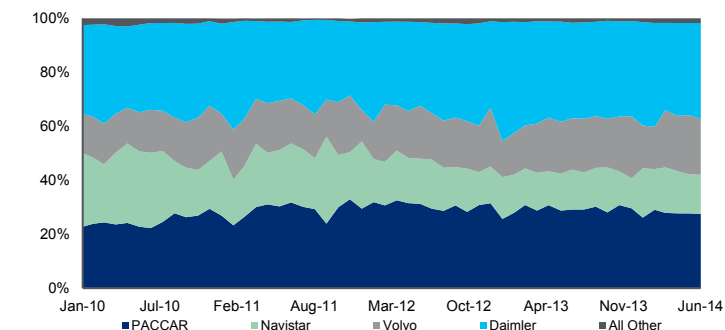


Figure 3. NA Heavy Duty Truck Market Share

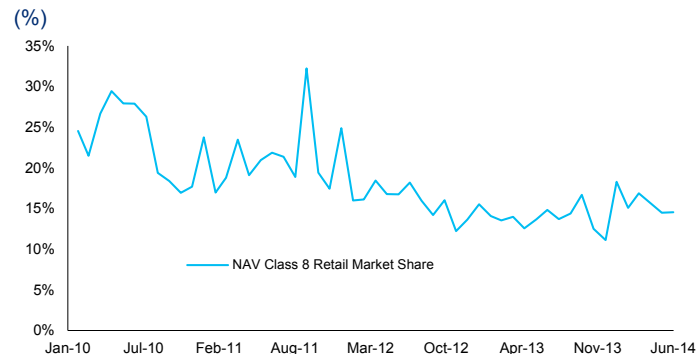
## NA Heavy Duty Truck Market Share

Navistar's heavy duty market share is running at 17% for 2014 YTD (vs. 14% in 2013). Cummin's market share declined further in June (to 35.1%) as OEMs pushed their own engine offerings.

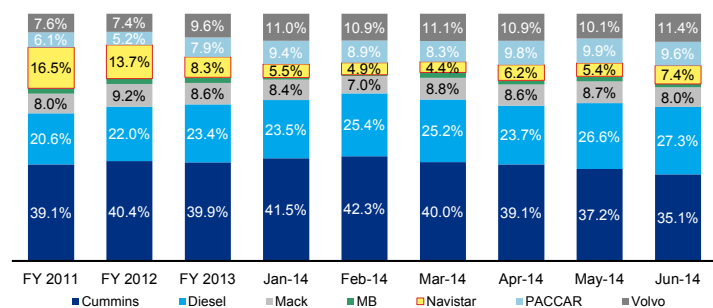
### Heavy Duty Retail Sales Market Share (%)



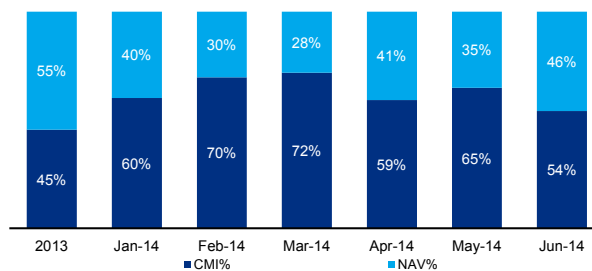
### Navistar: HD Retail Sales Market Share (%)



### Heavy Duty Engine Market Share (%)



### Navistar: Internal vs. CMI Engines (%)



Source: ACT Research, Wards Auto, Citi Research.

Source: Citi Research, ACT Research, Wards Auto

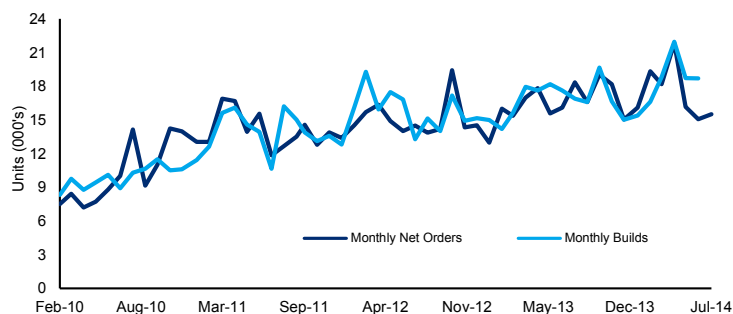


Figure 4. NA Medium Duty (Class 5-7) Truck Market

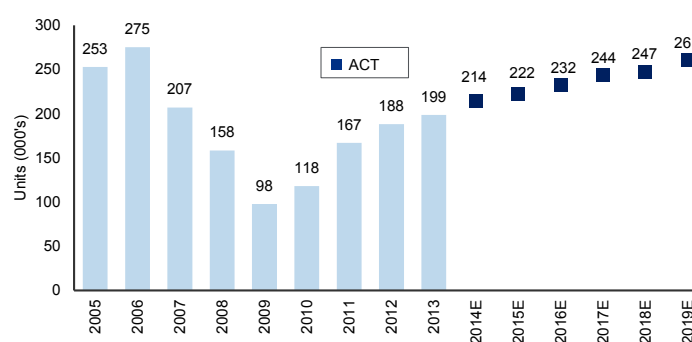
## NA Medium Duty (Class 5-7) Truck Market

Navistar's medium duty market share remained stable in June at 16%. Medium duty orders expected to show steady growth in coming years.

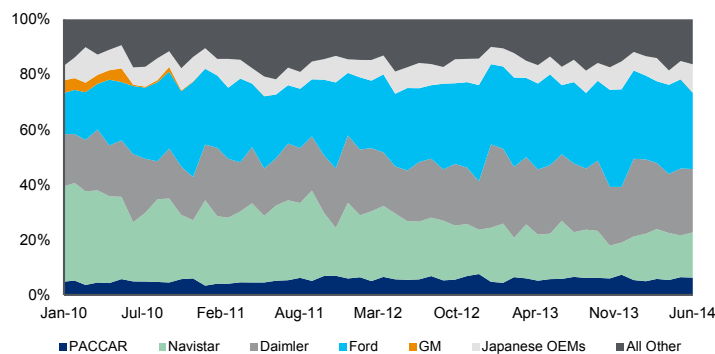
Medium Duty Net Order and Builds  
(units)



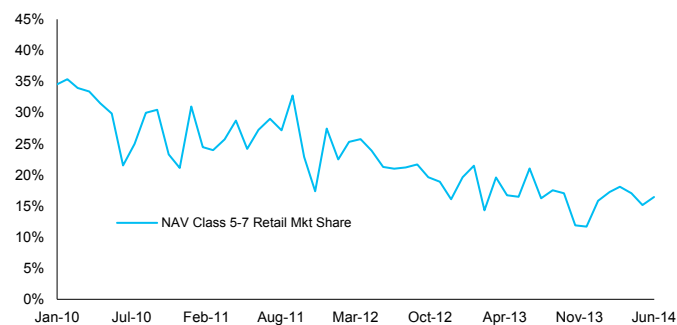
Medium Duty Production Forecasts  
(units)



Medium Duty Retail Sales Market Share  
(%)



Navistar: MD Retail Sales Market Share  
(%)



Source: ACT Research, FTR, Citi Research.  
MD = Medium Duty

Source: Citi Research, ACT Research, FTR Associates



## Appendix A-1

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