Zacks Equity Research

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CTS Corporation (CTS-NYSE)

CTS: Zacks Company Report - Outperform

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	08/24/2009
Current Price (02/09/10)	$7.05
Six- Month Target Price	**$12.00**

OUTLOOK

CTS Corporation designs, manufactures, assembles, and sells electronic components and sensors worldwide. Despite challenging business conditions, the firm delivered on an aggressive cost containment plan and had significant design wins during 2009. These wins should translate into meaningful revenue growth in 2010 and beyond. Several of the new business is wins are related to clean technology applications. The global movement to energy efficiency or so called green technology is prompting consumers and governments to look for other options. This should be a tail wind for CTS. We see value in the shares at current prices and rate the stock Outperform.

SUMMARY DATA

52-Week High	**$10.53**
52-Week Low	**$2.17**
One-Year Return (%)	**57.11**
Beta	**2.14**
Average Daily Volume (sh)	**321,070**
Shares Outstanding (mil)	**34**
Market Capitalization ($mil)	**$272**
Short Interest Ratio (days)	**8.96**
Institutional Ownership (%)	**80**
Insider Ownership (%)	**4**
Annual Cash Dividend	**$0.12**
Dividend Yield (%)	**1.49**
5-Yr. Historical Growth Rates	
Sales (%)	**-0.3**
Earnings Per Share (%)	**-6.6**
Dividend (%)	**0.0**
P/E using TTM EPS	**22.9**
P/E using 2009 Estimate	**14.2**
P/E using 2010 Estimate	**11.5**
Zacks Rank	**2**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Value**
Industry	**Elec-Misc Compn**
Zacks Rank in Industry	**26 of 47**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2007	163 A	170 A	175 A	178 A	686 A
2008	173 A	186 A	170 A	163 A	692 A
2009	118 A	120 A	127 A	134 A	499 A
2010	138 E	140 E	145 E	155 E	578 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2007	$0.13 A	$0.15 A	$0.20 A	$0.25 A	$0.71 A
2008	$0.18 A	$0.27 A	$0.16 A	$0.15 A	$0.77 A
2009	-$0.03 A	$0.06 A	$0.13 A	$0.19 A	$0.35 A
2010	$0.08 E	$0.11 E	$0.13 E	$0.16 E	$0.48 E

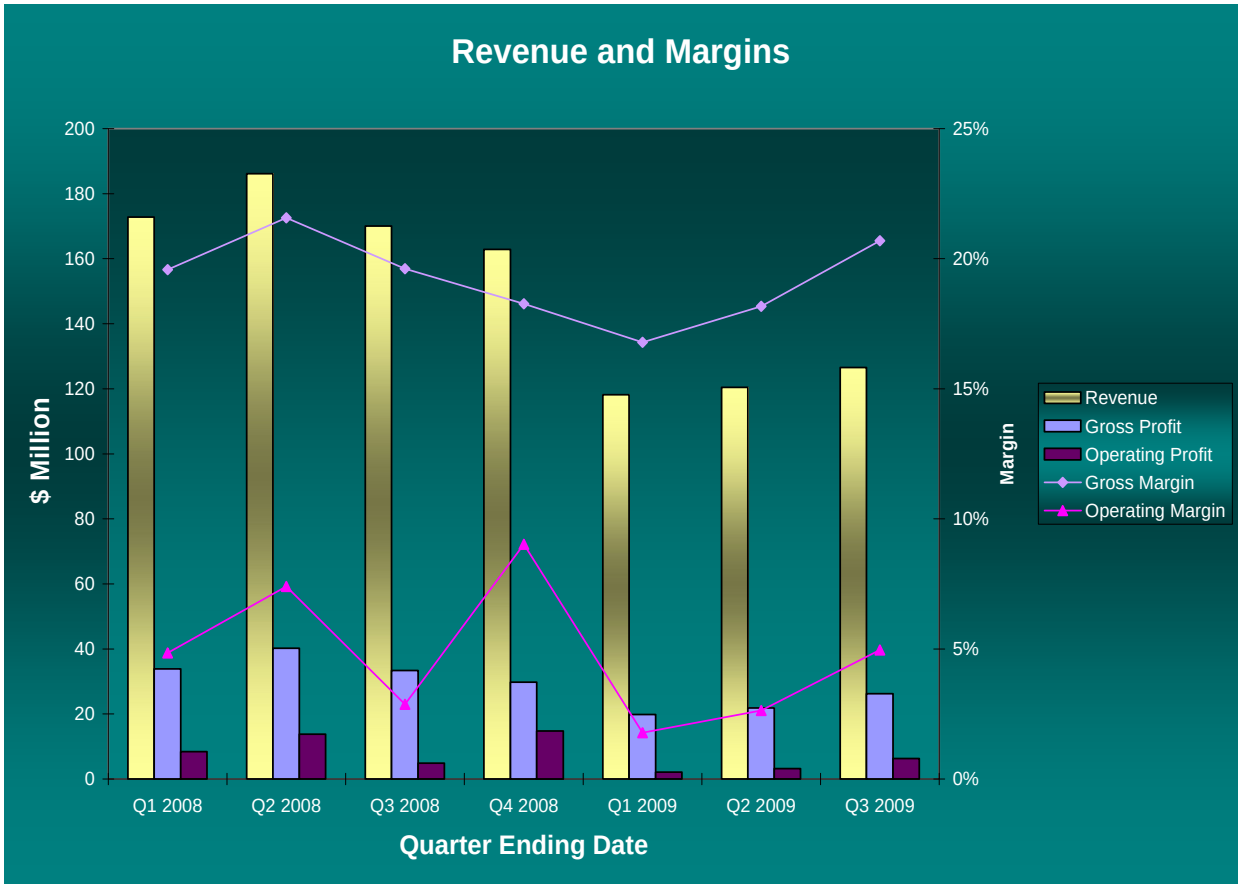
Zacks Projected EPS Growth Rate - Next 5 Years % **15**

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RECENT NEWS

On January 27th 2009 CTS announced results for the fourth quarter of fiscal year 2009 ending December 2009. Revenue for the period was $126.6 million rising 5.8% sequentially from $126.6 million and down 17.8% year over year.

Broken down by segment, the **Components and Sensors** segment increased revenue $9.7 million, up 17.4% quarter over quarter and up 12.9% year over year. The sequential improvement reflected improved automotive product sales primarily in Asia. Management reported Electronic component product demand increased approximately 5%. The growth was primarily from higher demand for wireless infrastructure applications. EMS sales were down $2.3 million from the third quarter 2009, and down 34.7% year over year. Weaker numbers in EMS were primarily due to lower sales in the defense and aerospace market.



Management anticipates full-year 2009 adjusted diluted earnings per share in the range of $0.27-$0.31.

Investors have recently become concerned the Toyota Motor sudden acceleration recall was perhaps about to impact CTS. The shares which traded as high as $10.36 in early January traded down to $7.68 as of yesterday's close.

The firm issued two press releases and spent a great deal of time on its quarterly conference call trying to ease investors concern.

Specifically, CTS stated that since the problem of sudden unintended acceleration has been reported to have existed in some Lexus vehicles and Toyota vehicles going back to 1999 when CTS did not even make this product for any customer. CTS believes that the rare slow return pedal phenomenon, which may occur in extreme environmental conditions, should absolutely not be linked with any sudden unintended acceleration incidents.

Further the firm went on to say it is not aware of any accidents and injuries caused by the rare slow return pedal condition, to the best of its knowledge.

Management pointed out it does not, and has never made, any accelerator pedals for Lexus vehicles and that CTS also has no accelerator pedals in Toyota vehicles prior to model year 2005.

VALUATION

CTS remains well positioned to achieve solid revenue growth and operating leverage as end markets turn around in the long run, given the company's competitive advantage led by innovation and laser-like focus on expense management. The slower growing EMS segment has been exceptionally diversified since 2004 and is a complement to the faster growing Sensors and Actuators and Electronic Components business. The company is trading at a reasonable 18.6x 2010 Adjusted EPS and 18.3x free cash flow.

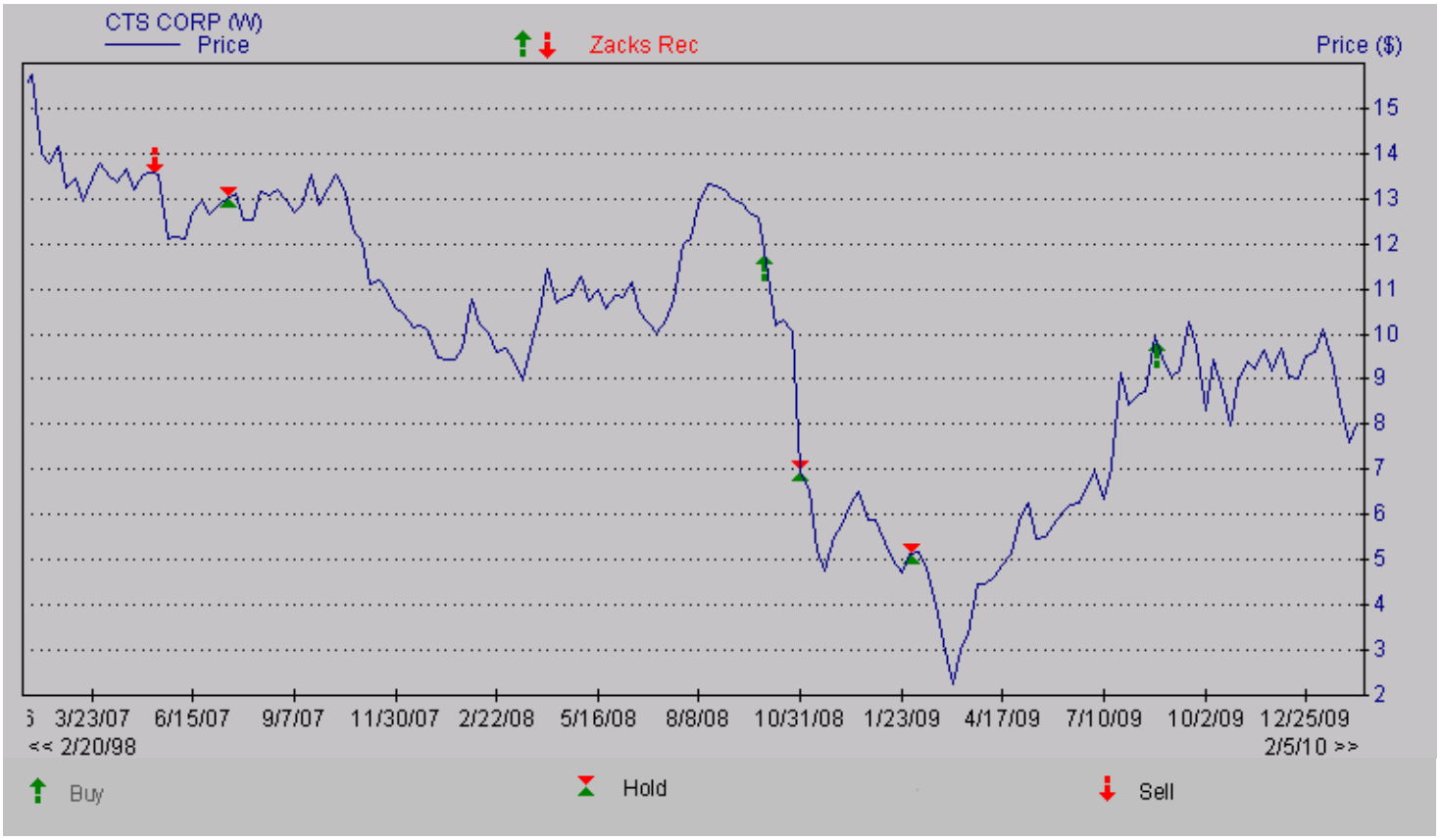
We value the company based on the average of our P/E multiple (23.5x 2010 estimated EPS) and our two stage intrinsic model. The semiconductor/Electronic group average P/E is between 22x-26x and EMS firms tend to be lower. We feel CTS should trade at a premium to its peers, given the fact that the company has high growth/ high margin products.

The intrinsic value is essentially a sum of the company's future earnings, minus any long-term debt. Dividing the intrinsic value by the number of shares outstanding yields an intrinsic stock price. We used the following inputs:

- A 10-year period with an earnings growth rate of 12.0% (average forecast) and a discount rate of 10%.
- A continuing period assumed to go on forever, with earnings growing at 6% and a discount rate of 12%.

With these inputs we arrive at a target price of $12.00.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The analysts contributing to this report do not hold any shares of CTS. Zacks EPS and revenue forecasts are not consensus forecasts. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers. **Outperform**- Zacks expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. **Neutral**- Zacks expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. **Underperform**- Zacks expects the company will under perform the broader U.S. Equity market over the next one to two quarters. The current distribution of Zacks Ratings is as follows on the 1094 companies covered: Outperform- 14.3%, Neutral- 78.7%, Underperform – 6.2%. Data is as of midnight on the business day immediately prior to this publication.