



Position Close Update: Tenneco, Inc. (TEN)

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Tenneco Inc. (TEN: \$63/share) – Closing Long Position – Up 4% since 5/1/17 publish date (vs. +7% S&P 500) and 19% since 8/24/17 position update (vs. +4% S&P 500).

Tenneco (TEN) was originally selected as a [Long Idea on 5/1/17](#). At the time of the report, the stock received a Very Attractive Rating. Our investment thesis highlighted a [PEBV](#) valuation that implied a permanent 30% decline in after-tax profits ([NOPAT](#)) and TEN's shareholder friendly executive compensation plan.

TEN was downgraded to Neutral by our rating system on 8/10/17 due to lower profitability in its most recent 10-Q. Specifically, NOPAT margin declined to 4% (TTM) from 6% in 2016. Despite the downgraded risk/reward rating, we [maintained our Long recommendation](#) on 8/24/17 due to better-than-expected 2Q17 earnings, expectations for better 2H17 margins, and the stock's low valuation.

Following our late-August update, TEN's Neutral rating was suspended due to the disclosure of a material weakness in TEN's internal controls related to overseas (i.e. China) operations. While the errors themselves were noted to be "immaterial" in TEN's amended filings, the combination of an accounting-related rating suspension and a Neutral risk/reward represents too high of a hurdle to continue recommending the stock. As such, we are closing out of our long recommendation on TEN with a modest gain.

Figure 1: Current Rating Overview

Risk/Reward Rating [?] <i>Suspended</i>		Quality of Earnings		Valuation		
		Econ vs Reported EPS [?]	ROIC [?]	FCF Yield [?]	Price to EBV [?]	GAP [?]
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1 < 0	> 50	
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4 < 3.5 or < -1	20 < 50	
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20	
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10	
Very Attractive	Rising EE	Top Quintile	> 10%	0 < 1.1	0 < 3	
Actual Values						
TEN	\$3.93 vs. \$4.92	13%	7%	0.8	< 1 yr	
Benchmarks [?]						
Sector ETF (XLY)	Positive EE	13%	3%	4.3	28 yrs	
S&P 500 ETF (SPY)	Positive EE	18%	2%	2.5	25 yrs	
Small Cap ETF (IWM)	Positive EE	6%	-1%	3.0	35 yrs	

Sources: New Constructs, LLC and company filings

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Disclosure: David Trainer, Kyle Guske II, and Kenneth James receive no compensation to write about any specific stock, style, or theme.

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