

Air Products (APD)

\$241.65 (As of 05/29/20)

Price Target (6-12 Months): **\$254.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/07/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Earnings estimates for Air Products for the fiscal third quarter have been stable over the past month. Strategic investments in high-return projects, cost-saving actions, new business deals and acquisitions are expected to drive the company's results in fiscal 2020. It is also seeing positive impact of its productivity actions and is likely to gain from additional productivity and cost-improvement programs this year. Also, it is committed to maximize returns to shareholders. Air Products has also outperformed the industry over a year. However, the company faces challenges from lower merchant volumes in the Americas and EMEA. Lower industrial activities due to coronavirus-induced disruptions are hurting volumes. The company is also exposed to headwind from unfavorable currency swings. Its stretched valuation is another concern.

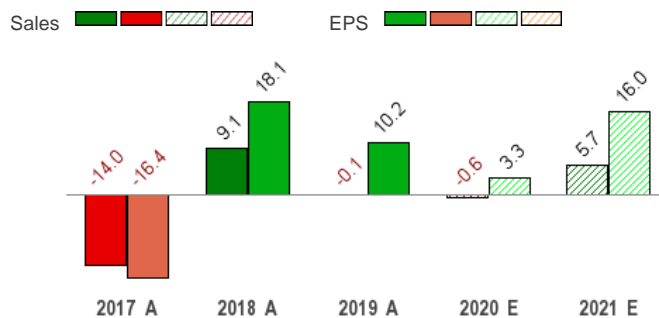
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$257.01 - \$167.43
20 Day Average Volume (sh)	939,014
Market Cap	\$53.4 B
YTD Price Change	2.8%
Beta	0.86
Dividend / Div Yld	\$5.36 / 2.2%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 39% (154 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.5%
Last Sales Surprise	3.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	28.0
P/E F1	28.5
PEG F1	2.4
P/S TTM	5.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,314 E	2,392 E	2,421 E	2,510 E	9,369 E
2020	2,255 A	2,216 A	2,084 E	2,274 E	8,862 E
2019	2,224 A	2,188 A	2,224 A	2,283 A	8,919 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.35 E	\$2.44 E	\$2.57 E	\$2.70 E	\$9.84 E
2020	\$2.14 A	\$2.04 A	\$2.05 E	\$2.24 E	\$8.48 E
2019	\$1.86 A	\$1.92 A	\$2.17 A	\$2.27 A	\$8.21 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/29/2020. The reports text is as of 06/01/2020.

Overview

Pennsylvania-based Air Products and Chemicals Inc. makes industrial gases as well as a variety of polymer and performance chemicals. It also supplies processing equipment. Air Products' reporting segments are as follows:

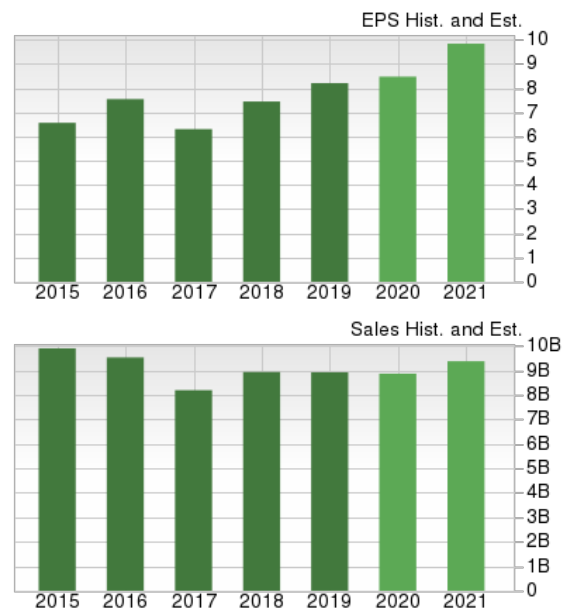
Industrial Gases – Americas (43% of fiscal 2019 sales), Industrial Gases – Europe, Middle East, and Africa/EMEA (23%) and Industrial Gases – Asia (30%) segments include the results of the company's regional industrial gases businesses. These businesses sell atmospheric gases such as oxygen, nitrogen and argon and processes gases to a number of industries. Process gases such as carbon di oxide, helium, hydrogen, etc. are produced by other methods that exclude air separation. The largest cost component of the atmospheric gases is electricity.

The Americas segment operates through more than 400 distribution and production facilities in the South and North America. The EMEA division operates through 180 distribution and production facilities in the Europe, Middle East and Africa. The Asia unit operates from more than 170 facilities in the region.

The Industrial Gases – Global (3%) division designs and manufactures cryogenic and gas-processing equipment for air separation. It has majority or fully-owned subsidiaries in Canada, Asian countries, European countries, Latin American countries, African countries and in the Middle East.

The Corporate and other (1%) segment includes Air Products' liquefied natural gas (LNG) sale of equipment business and helium storage and distribution vessel sale of equipment business, the polyurethane intermediates (PUI) business which the company exited in early fiscal 2014 as well as corporate support functions that benefit all the divisions.

In February 2019, the company successfully achieved the mechanical completion of the world's largest industrial gas complex in Jazan, Saudi Arabia. The industrial gas complex is expected to be onstream in phases in 2019. Notably, this is one of the largest projects executed by Air Products till date and demonstrates its engineering capabilities and expertise.



Reasons To Buy:

- ▲ Air Products' shares have gained 15.7% over a year, outperforming the 13% decline of the industry. The spin-off of the Materials Technologies unit has allowed Air Products to direct resources to grow its core and stable industrial gases business. These actions (part of the company's strategic five-point plan) are expected to enable the company to achieve its goal of becoming the safest and most profitable industrial gas company globally. The company has built a strong project backlog. These projects are expected to be accretive to earnings and cash flow as they come on stream over the next few years. The company has total available capacity to deploy (over fiscal 2018-2022) more than \$18 billion in high-return investments, aimed at creating significant shareholder value. These include the Jazan project in Saudi Arabia and the Lu'An syngas joint venture project in China. Moreover, the company's latest project in the United States, which is worth \$500 million, marks its largest investment so far in the country. The project will likely boost the size and supply capacity of Air Products' extensive hydrogen pipeline system in the Gulf Coast.
- ▲ Air Products remains committed to boost productivity to improve its cost structure. The company benefited from its \$600 million cost-cutting program which supported its earnings in fiscal 2018. The company is seeing positive impact of its productivity actions as witnessed in the last reported quarter and expects to continue to benefit from additional productivity and cost improvement programs in fiscal 2020. The company's cost reduction actions are expected to drive cost synergies within the Industrial Gases – EMEA unit as well as the Industrial Gases – Americas unit.
- ▲ Acquisitions and new business wins are expected to continue to drive results in the near term. The acquisition of a 67% stake in Chilean industrial gas company, Indura S.A. has ushered in substantial growth opportunity for Air Product, placing it as Latin America's second largest industrial gas producer. Moreover, the EPCO acquisition has allowed Air Products expand its market share by offering an extended product portfolio. The buyout of ACP Europe SA, the biggest independent carbon dioxide business in Continental Europe, also enabled Air Products to tap new industrial gas growth opportunities. The company also recently completed the buyout of five steam methane reformer hydrogen production plants for \$530 million from PBF Energy. The PBF deal is expected to be accretive to the company's bottom line in fiscal 2020.
- ▲ Air Products remains committed to maximize returns to shareholders leveraging strong balance sheet and cash flows. The company generated more than \$2.7 billion of distributable cash flow during fiscal 2019, up roughly 20% year over year. This distributable cash flow enabled it to pay roughly \$1 billion or around 40% as dividends to shareholders and the company still has nearly \$1.7 billion of investable cash flows available for high return projects in core industrial gas business. Air Products' board, earlier this year, also increased its quarterly dividend by more than 15% to \$1.34 per share from \$1.16 per share, marking the largest dividend hike in the company's history. This also marks the 38th straight year of dividend increase. As such, the company's dividend is perceived to be safe and reliable. Strong cash flow enables the company to boost shareholders' value by increasing dividends and capital deployment. The company also remains committed to deleverage its balance sheet. It had total debt of \$3,312.6 million at the end of the most recent quarter, down from \$3,326 million at the end of fiscal 2019. Its total debt-to-total capital also stood at 21.9% as of Mar 31, 2020, lower than its industry's 43.9%. As such, the company appears to have a lower default risk.

Air Products has a strong project backlog. Moreover, strategic investments in high-return projects, new business deals, cost cuts and acquisitions should drive its results.

Reasons To Sell:

- ▼ Air Products faces headwind from lower merchant volumes in the Americas and EMEA. Disruptions due to coronavirus hurt merchant volumes across these regions in the last reported quarter. The company sees volume pressure to continue moving ahead and expects it to be more significant in the fiscal third quarter amid the pandemic. Lower industrial production is hurting merchant volumes. Lower volumes are likely to hurt the company's earnings in the fiscal third quarter.
- ▼ Air Products is exposed to headwind from unfavorable currency movements. Currency swings had an unfavorable impact of 2% on sales in the last reported quarter, mostly related to Chinese yuan and the euro. Currency had a negative impact on sales across all segments in the quarter. Unfavorable currency impact on the company's adjusted earnings was 5 cents for the quarter. Unfavorable currency translation, due to weaker foreign currencies, may continue to affect the company's sales and margins.
- ▼ The company's stretched valuation is another concern. In case of Air Products, the trailing 12-month EV/EBITDA multiple (a preferred valuation metric for cyclical industries) is 16.21x while its industry's trailing 12-month EV/EBITDA multiple is lower at 7.38x. As such, investors might not want to pay more for the stock at present.

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Last Earnings Report

Air Products' Q2 Earnings Miss, Sales Beat Estimates

Air Products logged earnings from continuing operations of \$2.21 per share in second-quarter fiscal 2020 (ended Mar 31, 2020), up 16% from \$1.90 recorded in the year-ago quarter. The bottom line in the reported quarter was driven by higher volumes and pricing across all regions.

Barring one-time items, earnings were \$2.04 per share for the quarter, missing the Zacks Consensus Estimate of \$2.05.

The company delivered fiscal second-quarter revenues of \$2,216.3 million, up 1.3% year over year. It also beat the Zacks Consensus Estimate of \$2,142.6 million.

Volumes rose 6%, while pricing increased 2%. These were offset by 2% unfavorable currency, 1% unfavorable impact from the coronavirus pandemic and 5% lower energy pass-through.

Volume gains were supported by base business growth, new plants, acquisitions and a short-term contract in Asia.

Segment Highlights

Revenues in the Industrial Gases — America segment fell 6% year over year to \$932 million. Higher pricing and volumes were more than offset by lower energy pass-through and unfavorable currency.

Sales in the Industrial Gases — EMEA segment totaled \$493 million, in line with the year-ago quarter figure. Higher pricing and volumes were offset by unfavorable currency and lower energy pass-through.

Sales in the Industrial Gases — Asia segment rose 5% year over year to \$658 million. The upside was driven by higher volumes (supported by new plants) and pricing. These were partly offset by unfavorable currency and impact from coronavirus.

Financials

Air Products ended the quarter with cash and cash equivalents of \$2,220.1 million, down 18.9% year over year. Long-term debt was down 0.4% year over year to \$2,922.1 million.

Net cash from operating activities was \$1,238.5 million, down 3.7% year over year.

Outlook

Air Products has withdrawn its earnings guidance for 2020 due to the unknown duration and impacts of the coronavirus pandemic. The company also has not provided earnings guidance for the fiscal third quarter due to uncertainties.

Air Products expects declines in the Americas and EMEA merchant volumes to sustain. Further, in the fiscal third quarter, it expects it to be more pronounced and potentially longer, depending on the duration and impacts of the coronavirus pandemic.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	3.44%
EPS Surprise	-0.49%
Quarterly EPS	2.04
Annual EPS (TTM)	8.62

Recent News

Air Products Inks Agreement to Invest \$2B in Indonesia - May 18, 2020

Air Products has announced that it signed a definitive deal to invest roughly \$2 billion for a world-scale coal-to-methanol manufacturing facility in East Kalimantan, Indonesia.

Per the long-term on-site contract, PT. Ithaca Resources and PT. Bakrie Capital Indonesia are expected to supply the coal feedstock and have agreed to offtake the methanol production for sale in Indonesia.

Notably, Air Products will develop, own and operate the air separation, gasification, syngas clean-up, utilities and methanol production assets to manufacture methanol. Per management, the investment in Indonesia is in sync with Air Products' long-term plan to deploy capital into high-return industrial gas projects.

The company also stated that the facility, which includes its Syngas Solutions dry-feed gasifier, is expected to manufacture approximately two million tons of methanol per year from roughly six million tons of coal per year. The project is anticipated to come online in 2024.

Air Products and Haldor Topsoe Ink Alliance Agreement - May 15, 2020

Air Products and Haldor Topsoe have announced the signing of a global alliance agreement.

Haldor Topsoe is a global leader in high-efficiency catalysts and proprietary technology for chemical and refining industries. Notably, the two companies have agreed to work to develop and build large-scale ammonia, methanol and/or dimethyl ether plants.

The alliance agreement offers Air Products with access to Topsoe's technology license. It also supplies certain engineering design, facilities, high-performance catalysts and technical services. Notably, the alliance enables the integration of Topsoe's technology into several technologies of Air Products such as gasification of several feedstocks, and synthesis gas processes.

Per Air Products' management, the alliance agreement will bolster the company's offerings and customer confidence in the quality and reliability of project development and efficiency.

The involvement of Air Products in the projects is expected to offer sustainability benefits. Notably, the projects can serve as carriers of renewable hydrogen molecules.

Air Products Awarded Onsite Contract by PCB Manufacturer - May 14, 2020

Air Products has announced that a world-leading printed circuit board (PCB) and contract manufacturer in China has awarded it another long-term onsite supply contract.

Notably, Air Products' latest win is expected to further strengthen its strong supply position and onsite ability to serve the customer and the rapidly rising electronics markets.

Air Products plans to add one large-volume High Purity Nitrogen (HPN) generator to assist growth of the PCB and contract manufacturer in Northern China.

The company intends to substantially enhance its gas capacity for consumers by combining the new facility with the several existing HPN generators brought on-stream throughout the country over the last three years.

Additionally, Air Products has provided its proprietary NitroFAS Intelligent Nitrogen Control System (INCS) units and associated application solutions built by its Asia Technology Center in Shanghai.

Notably, the innovative offerings further improved the customer's product quality, productivity and environmental sustainability with lower emissions. Further, the INCS' remote monitoring and control function has allowed the realization of the benefits of Industrial Internet of Things.

Air Products Closes Buyout of Five Hydrogen Plants for \$530M - Apr 20, 2020

Air Products has closed the buyout of five steam methane reformer ("SMR") hydrogen production plants for \$530 million from PBF Energy Inc. Notably, the deal was initially announced on Mar 30.

Per management, the deal showcases Air Products' capability to pursue its policy of investing in long-term onsite transactions such as the acquisition of five SMRs hydrogen production plants that it completed.

The company has also started the long-term supply of hydrogen from five SMR hydrogen production plants to refineries of PBF Energy.

The SMRs, located in Torrance and Martinez, CA, and Delaware City, DE, have an approximate combined production capacity of 300 million standard cubic feet per day. Reportedly, the SMR being purchased in Delaware City marks Air Products' first major asset operating in the state of Delaware.

Presently, the company operates 12 industrial gas facilities in California, which includes five hydrogen production plants. Such plants use hydrogen to produce ultra-low sulfur transport fuels (gasoline, petrol and jet). Also, the company supplies hydrogen for fueling infrastructure in California to support the increasing fleet of hydrogen fuel-cell electric vehicles.

Valuation

Air Products' shares are up 2.9% in the year-to-date period and up 15.7% over the trailing 12-month period. Stocks in the Zacks Chemical -

Diversified industry and Zacks Basic Materials sector are down 18.7% and 11.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 13% and 3.9%, respectively.

The S&P 500 index is down 5.4% in the year-to-date period and up 11.1% in the past year.

The stock is currently trading at 16.21X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.38X for the Zacks sub-industry, 8.88X for the Zacks sector and 11.27X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.35X and as low as 10.65X, with a 5-year median of 12.81X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$254 price target reflects 27.1X forward 12-month earnings per share.

The table below shows summary valuation data for APD:

Valuation Multiples - APD					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	16.21	7.38	8.88	11.27
	5-Year High	17.35	13.36	18.31	12.86
	5-Year Low	10.65	5.37	6.47	8.26
	5-Year Median	12.81	7.57	10.48	10.81
P/E F 12M	Current	25.74	16.76	16.48	22.09
	5-Year High	26.27	16.76	21.06	22.09
	5-Year Low	15.28	8.25	9.79	15.23
	5-Year Median	21.25	12.27	13.46	17.49
P/B TTM	Current	4.55	1.6	2.69	4.17
	5-Year High	4.75	3.55	3.43	4.56
	5-Year Low	2.92	0.89	1.22	2.83
	5-Year Median	3.84	1.79	2.18	3.65

As of 05/29/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (154 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Air Liquide (AIQUY)	Neutral	3
Albemarle Corporation (ALB)	Neutral	4
BASF SE (BASFY)	Neutral	3
Brenntag AG (BNTGY)	Neutral	3
Dow Inc. (DOW)	Neutral	3
Linde plc (LIN)	Neutral	4
LyondellBasell Industries N.V. (LYB)	Neutral	3
The Chemours Company (CC)	Underperform	5

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	APD	X Industry	S&P 500	AIQUY	BASFY	LIN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	B	-	-	A	C	B
Market Cap	53.37 B	2.61 B	21.48 B	64.33 B	49.93 B	106.27 B
# of Analysts	7	3	14	3	3	8
Dividend Yield	2.22%	2.11%	1.96%	1.61%	4.70%	1.90%
Value Score	C	-	-	B	A	D
Cash/Price	0.04	0.12	0.06	0.02	0.07	0.04
EV/EBITDA	15.50	7.02	12.56	NA	6.94	14.67
PEG Ratio	2.42	3.08	2.87	4.29	14.09	2.49
Price/Book (P/B)	4.55	1.95	2.92	2.97	1.05	2.25
Price/Cash Flow (P/CF)	18.34	6.12	11.74	13.12	5.70	12.69
P/E (F1)	28.53	19.42	21.35	26.00	18.88	27.44
Price/Sales (P/S)	5.94	0.72	2.27	NA	0.73	3.79
Earnings Yield	3.51%	4.53%	4.52%	3.85%	5.30%	3.64%
Debt/Equity	0.28	0.55	0.76	0.65	0.35	0.21
Cash Flow (\$/share)	13.17	3.41	6.96	2.08	2.38	15.95
Growth Score	B	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	4.81%	9.92%	10.87%	NA	-1.82%	NA
Proj. EPS Growth (F1/F0)	3.29%	-27.74%	-10.48%	-1.87%	-35.71%	0.46%
Curr. Cash Flow Growth	10.98%	-7.54%	5.39%	7.05%	-19.09%	33.98%
Hist. Cash Flow Growth (3-5 yrs)	5.70%	6.01%	8.55%	6.71%	-3.10%	23.52%
Current Ratio	2.59	1.87	1.29	0.88	1.87	0.74
Debt/Capital	21.68%	37.09%	44.54%	39.57%	26.17%	17.66%
Net Margin	21.66%	4.87%	10.59%	NA	13.70%	8.35%
Return on Equity	16.36%	12.74%	16.26%	NA	8.06%	8.06%
Sales/Assets	0.46	0.79	0.55	NA	0.69	0.33
Proj. Sales Growth (F1/F0)	-0.64%	-8.05%	-2.53%	-10.63%	-9.48%	-5.73%
Momentum Score	B	-	-	B	D	C
Daily Price Chg	0.40%	-0.72%	-0.11%	2.67%	-1.81%	1.15%
1 Week Price Chg	2.77%	5.49%	4.99%	4.99%	6.72%	4.53%
4 Week Price Chg	7.12%	6.41%	4.40%	7.40%	5.92%	9.97%
12 Week Price Chg	3.27%	-2.32%	-2.75%	-3.36%	-8.05%	2.97%
52 Week Price Chg	18.32%	-18.43%	0.07%	19.26%	-18.43%	10.32%
20 Day Average Volume	939,014	105,360	2,425,602	104,387	291,700	1,785,701
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-3.55%	-1.70%	0.00%	-9.62%	-2.27%
(F1) EPS Est 12 week change	-10.83%	-34.09%	-16.00%	-9.22%	-31.86%	-10.32%
(Q1) EPS Est Mthly Chg	0.00%	-43.71%	-3.25%	NA	-58.82%	-9.74%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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