

Air Products (APD)

\$231.14 (As of 01/02/20)

Price Target (6-12 Months): **\$243.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/23/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: A

Summary

Earnings estimates for Air Products for the first quarter of fiscal 2020 have been stable over the past month. Strategic investments in high-return projects, cost-saving through productivity actions, new business deals and acquisitions are expected to drive the company's results in fiscal 2020. The company is also seeing positive impact of its productivity initiatives. Air Products is expected to gain from additional productivity and cost-improvement programs. Also, the company is committed to maximize returns to shareholders. Moreover, Air Products has outperformed the industry it belongs to in the past year. However, Air Products faces headwind from unfavorable currency swings. Its global gases sales are also under pressure. Modification of Indian hydrogen supply contract will also hurt the company's EMEA sales.

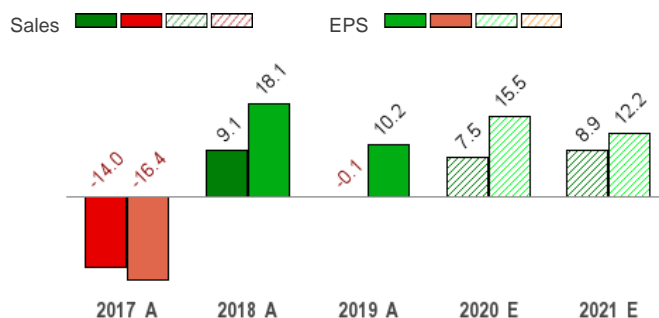
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$241.90 - \$153.63
20 Day Average Volume (sh)	847,720
Market Cap	\$51.0 B
YTD Price Change	-1.6%
Beta	0.85
Dividend / Div Yld	\$4.64 / 2.0%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 25% (191 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.9%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/24/2020
Earnings ESP	0.0%
P/E TTM	28.1
P/E F1	24.4
PEG F1	2.1
P/S TTM	5.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,365 E	2,391 E	2,481 E	2,566 E	10,441 E
2020	2,241 E	2,272 E	2,325 E	2,395 E	9,590 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	\$2.50 E	\$2.55 E	\$2.71 E	\$2.81 E	\$10.64 E
2020	\$2.08 E	\$2.31 E	\$2.53 E	\$2.54 E	\$9.48 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 01/02/2020. The reports text is as of 01/03/2020.

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:

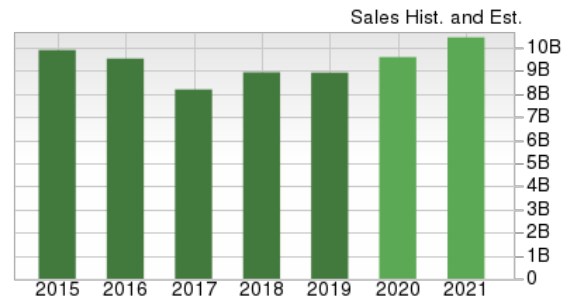
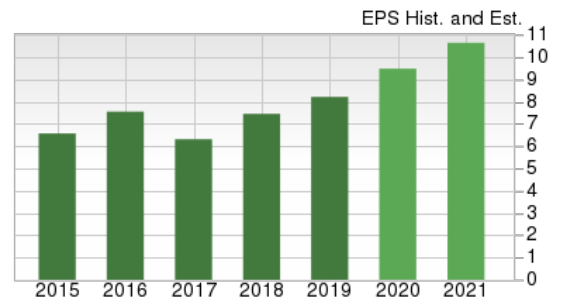
Industrial Gases – Americas (43% of fiscal 2019 sales), Industrial Gases – Europe, Middle East, and Africa/EMEA (23%) and Industrial Gases – Asia (30%) segments include the results of the company's regional industrial gases businesses. These businesses sell atmospheric gases such as oxygen, nitrogen 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:

- ▲ Given its leading position in the gases business, Air Products is well positioned to capitalize on the cyclical recovery in its core industrial end-markets. It has sufficient capacity to meet the expected upturn in demand without incurring additional capital expenditures. 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. Moreover, Air Products has outperformed the industry it belongs to in the past year. The company's shares have gained 43% over this period against the 18.4% 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 a total available capacity to deploy roughly \$16 billion in high-return investments over the next five years, aimed at creating significant shareholder value. These include the roughly \$2 billion Jazan project in Saudi Arabia, which successfully achieved the mechanical completion in February 2019, and the \$1.3 billion Lu'An syngas joint venture project in China. In the last reported quarter, the company's volumes in the Industrial Gases — Asia segment soared nearly 16% on the back of new projects, including the Lu'An gasification project. Moreover, the company's earnings per share guidance for fiscal 2020 indicates 14-17% growth, courtesy of strong fiscal 2019 performance. The projection includes expected contribution from the Jazan project.
- ▲ 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. The acquisition opened up a \$1.5 billion opportunity in Latin America, the second-highest growth region in the world following Asia. Moreover, the EPCO acquisition has allowed Air Products expand its market share by offering an extended product portfolio. It will also provide cost and revenue synergies to Air Products. In March 2019, the company completed the purchase of ACP Europe SA, the biggest independent carbon dioxide business in Continental Europe. The buyout enables Air Products to serve existing customers better and also tap new industrial gas growth opportunities.
- ▲ Air Products remains committed to maximize returns to shareholders. In January 2019, the company raised its quarterly dividend by more than 5% to \$1.16 per share. In fiscal 2018, it returned about \$900 million (roughly 40% of its distribution cash flow) to shareholders through dividends. Also, the company generated more than \$12 per share or more than \$2.7 billion of distributable cash flow during fiscal 2019. This marks an increase of nearly 20% or from fiscal 2018 levels. 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. Strong cash flow enables the company to boost shareholders' value by increasing dividends and capital deployment.

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

Reasons To Sell:

- ▼ Air Products is exposed to headwind from unfavorable currency movements. Currency swings had an unfavorable impact of 3 cents per share on the company's earnings and 2% on sales in the last reported quarter, mostly related to Chinese yuan, the British pound and the euro. Unfavorable currency also impacted the company's fiscal 2019 sales by 3%. As such, unfavorable currency translation may continue to affect the company's sales and margins.
- ▼ Air Products witnessed pressure on its sales in the fiscal fourth quarter due to the restructuring of its hydrogen supply agreement in India. The conversion of the hydrogen plant in India into a tolling arrangement reduced sales by 12% in the company's EMEA gases business in the last reported quarter and also impacted 2% of fiscal 2019 sales. Contract modification may have a sustained unfavorable impact on sales and volumes in this business in first-quarter fiscal 2020 as well.
- ▼ The company is seeing lower sales in its Global Gases unit due to lower activity from the Jazan project in Saudi Arabia as the company approaches towards the end of the sale of equipment project. Lower Jazan sales equipment activity lowered sales by 2% in the last reported quarter. Lower expected Jazan-related sales may continue to exert pressure on revenues and profits in the company's global gases business in fiscal 2020.

Air Products faces headwind from unfavorable currency swings. Its global gases sales also remain under pressure. Modification of Indian hydrogen supply contract will also affect the company's EMEA sales.

Last Earnings Report

Air Products' Earnings and Sales Miss Estimates in Q4

Air Products recorded profit from continuing operations of \$503.2 million or \$2.27 per share in fourth-quarter fiscal 2019 (ended Sep 30, 2019), up from \$452.9 million or \$2.05 in the year-ago quarter. Earnings per share (EPS) missed the Zacks Consensus Estimate of \$2.29.

The company delivered fiscal fourth-quarter revenues of \$2,283.2 million, down 0.7% year over year. Volumes and pricing rose 5% and 3%, respectively, which were offset by 2% unfavorable currency, 3% from a contract modification in India and 4% lower energy cost pass-through. Revenues missed the Zacks Consensus Estimate of \$2,321.9 million.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	-1.67%
EPS Surprise	-0.87%
Quarterly EPS	2.27
Annual EPS (TTM)	8.22

FY19 Results

For fiscal 2019, adjusted earnings rose 10.2% year over year to \$8.21 per share, while consolidated sales were essentially flat at \$8,918.9 million on a year-over-year basis.

Segment Highlights

Revenues in the *Industrial Gases — America* segment fell around 5% year over year to \$937 million. Higher pricing was more than offset by lower energy pass-through, lower volumes and unfavorable currency.

Sales in the *Industrial Gases — Europe, Middle East, and Africa* segment rose 11.8% year over year to \$489.3 million. Strong pricing and higher volumes were offset by unfavorable currency, decline from the India contract modification and lower energy pass-through.

Sales in the *Industrial Gases — Asia* segment rose 15.6% year over year to \$732 million. The upside was primarily driven by higher volumes (supported by new projects, including the Lu'An gasification project) and pricing. These were partly offset by unfavorable currency.

Financial Position

Air Products ended fiscal 2019 with cash and cash equivalents of \$2,248.7 million, down 19.4% year over year. Long-term debt was down roughly 2% year over year to \$2,907.3 million.

Net cash from operating activities were \$2,969.9 million during fiscal 2019, up 16.6% year over year.

Outlook

Air Products expects adjusted EPS for fiscal 2020 in the range \$9.35-\$9.60, which calls for a 14-17% rise year over year. The projection includes the expected contribution from the Jazan gas and power project.

The company expects adjusted EPS for first-quarter fiscal 2020 in the band of \$2.05-\$2.10, which indicates 10-13% rise year over year.

Air Products expects capital expenditure for fiscal 2020 in the range of \$4-\$4.5 billion, which includes expected spending for the Jazan gas and power project.

Recent News

Air Products Wins Contract to Supply On-Site Nitrogen - Oct 2, 2019

Air Products has received a contract to supply on-site nitrogen to Samwha Capacitor's new multi-layer ceramic capacitor (MLCC) facility in Yongin, South Korea. The new MLCC plant is being built adjacent to Samwha Capacitor's existing facility.

Air Products supplies on-site nitrogen to the Yongin site that produces MLCCs for electronics and automotive industries. Notably, Samwha Capacitor is a leading supplier of MLCC in the country.

Per the new contract, Air Products will boost its nitrogen capacity to support increasing demand from the existing and new facilities of Samwha Capacitor. Developments in 5G, automotive and other modern technologies are likely to drive demand for MLCC.

Air Products to Hike Liquid and Bulk Industrial Gas Prices - Sep 24, 2019

Air Products announced that it will raise the product pricing, surcharges and monthly service charges for merchant customers in North America.

The pricing adjustment includes up to 15% hike in prices of liquid and bulk hydrogen. Prices of liquid argon will increase up to 20%. Liquid nitrogen and liquid oxygen prices will rise up to 10%. Also, prices for liquid carbon dioxide and monthly service charges will increase up to 10%.

The company also stated that certain price adjustments may be outside the stated ranges based on specific situations. Moreover, prices of helium will be increased on the basis of demand-supply as well as cost situations and may also be customer specific. Air Products is making these price adjustments in response to higher sourcing, production and delivery costs.

Valuation

Air Products' shares are up 43% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 18.4% and up 5% over the past year, respectively.

The S&P 500 index is up 26.3% in the past year.

The stock is currently trading at 16.29X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.5X for the Zacks sub-industry, 9.7X for the Zacks sector and 11.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.66X and as low as 10.68X, with a 5-year median of 12.8X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$243 price target reflects 24.85X 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	16.29	7.5	9.7	11.51
	5-Year High	16.66	12.41	18.17	12.86
	5-Year Low	10.68	5.08	7.34	8.49
	5-Year Median	12.8	7.23	10.53	10.66
P/E F 12M	Current	23.64	13.17	13.85	19.07
	5-Year High	26.27	15.05	21.12	19.34
	5-Year Low	15.28	8.18	9.76	15.17
	5-Year Median	21.21	12.34	13.85	17.44
P/B TTM	Current	4.47	1.78	2.37	4.41
	5-Year High	4.75	3.51	3.54	4.42
	5-Year Low	2.92	0.88	1.34	2.85
	5-Year Median	3.87	2.54	2.17	3.6

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (191 out of 253)



Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	APD Neutral	X Industry	S&P 500	AIQUY Neutral	BASFY Neutral	LIN Neutral
VGM Score	B	-	-	C	D	B
Market Cap	50.96 B	2.91 B	23.76 B	66.89 B	70.21 B	114.83 B
# of Analysts	6	3	13	3	3	7
Dividend Yield	2.01%	1.74%	1.78%	1.71%	3.35%	0.00%
Value Score	D	-	-	C	A	C
Cash/Price	0.05	0.07	0.04	0.02	0.04	0.02
EV/EBITDA	14.75	6.74	13.97	NA	7.57	16.55
PEG Ratio	2.04	1.54	2.02	1.79	1.63	2.05
Price/Book (P/B)	4.47	2.04	3.38	3.31	1.53	2.24
Price/Cash Flow (P/CF)	17.55	6.87	13.70	14.60	6.49	17.90
P/E (F1)	24.08	14.80	18.83	25.20	15.49	25.95
Price/Sales (P/S)	5.71	0.92	2.68	NA	1.00	4.25
Earnings Yield	4.10%	6.68%	5.30%	3.98%	6.44%	3.85%
Debt/Equity	0.28	0.61	0.72	0.68	0.39	0.21
Cash Flow (\$/share)	13.17	3.41	6.94	1.94	2.95	11.77
Growth Score	B	-	-	B	F	B
Hist. EPS Growth (3-5 yrs)	4.43%	7.94%	10.56%	NA	1.11%	NA
Proj. EPS Growth (F1/F0)	15.45%	9.04%	7.41%	9.04%	14.19%	11.30%
Curr. Cash Flow Growth	10.98%	3.75%	14.83%	0.88%	136.40%	125.68%
Hist. Cash Flow Growth (3-5 yrs)	5.70%	6.70%	9.00%	3.33%	-0.12%	17.62%
Current Ratio	2.54	1.83	1.23	0.73	1.78	0.90
Debt/Capital	22.08%	39.72%	42.92%	40.50%	28.03%	17.10%
Net Margin	19.73%	5.57%	11.08%	NA	14.64%	17.59%
Return on Equity	15.88%	11.94%	17.10%	NA	9.36%	10.68%
Sales/Assets	0.46	0.85	0.55	NA	0.69	0.30
Proj. Sales Growth (F1/F0)	7.52%	2.80%	4.20%	3.70%	4.65%	4.95%
Momentum Score	A	-	-	F	D	B
Daily Price Chg	-1.64%	0.00%	0.33%	1.20%	2.11%	-1.01%
1 Week Price Chg	0.21%	0.11%	0.13%	0.89%	0.70%	0.07%
4 Week Price Chg	0.30%	2.30%	3.31%	5.22%	1.43%	3.43%
12 Week Price Chg	7.67%	9.90%	9.70%	9.81%	10.78%	10.20%
52 Week Price Chg	48.83%	10.97%	30.28%	31.59%	10.98%	38.38%
20 Day Average Volume	847,720	135,478	1,603,615	173,512	189,442	1,144,012
(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%	0.00%	0.00%	0.00%	-3.27%	0.00%
(F1) EPS Est 12 week change	1.16%	-2.78%	-0.57%	-2.92%	1.93%	1.61%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	0.00%	0.00%

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	D
Growth Score	B
Momentum Score	A
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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