Air Products (APD)

$251.06 (As of 02/06/20)

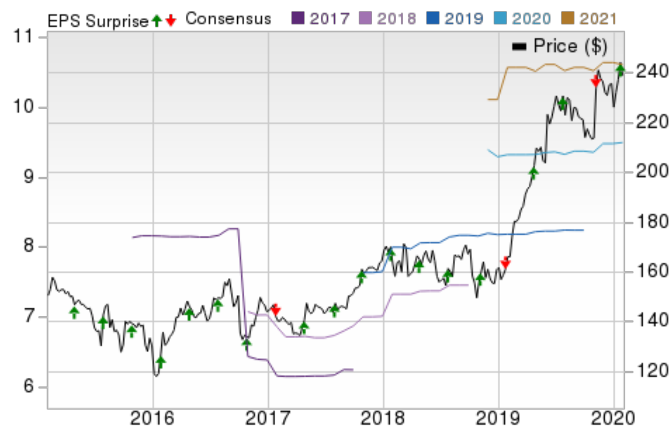
Price Target (6-12 Months): **$264.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 02/07/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: B | Momentum: A	

Summary

Air Products' earnings and sales for the fiscal first quarter topped the respective Zacks Consensus Estimate. 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. The company 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 headwinds from higher maintenance costs and unfavorable currency swings. Its Asia unit's sales are also likely to be hurt by the expected slowdown in China. Modification of Indian hydrogen supply contract will also affect the company's EMEA unit.

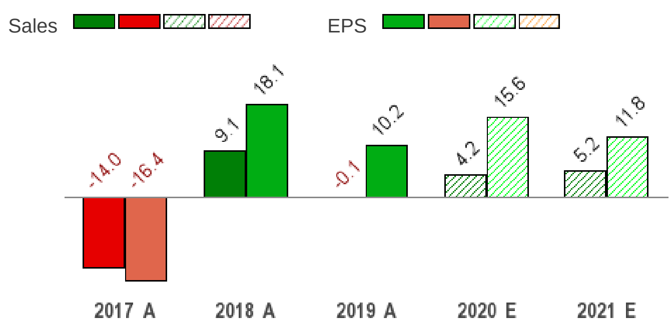
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$251.62 - $163.53**
20 Day Average Volume (sh)	**1,220,450**
Market Cap	**$55.4 B**
YTD Price Change	**6.8%**
Beta	**0.86**
Dividend / Div Yld	**$5.36 / 1.8%**
Industry	**Chemical - Diversified**
Zacks Industry Rank	**Bottom 12% (224 out of 255)**
Last EPS Surprise	**2.9%**
Last Sales Surprise	**0.6%**
EPS F1 Est- 4 week change	**0.3%**
Expected Report Date	**04/22/2020**
Earnings ESP	**0.0%**
P/E TTM	**29.5**
P/E F1	**26.5**
PEG F1	**2.2**
P/S TTM	**6.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,348 E	2,392 E	2,479 E	2,575 E	9,779 E
2020	2,255 A	2,202 E	2,304 E	2,389 E	9,296 E
2019	2,224 A	2,188 A	2,224 A	2,283 A	8,919 A

EPS Estimates

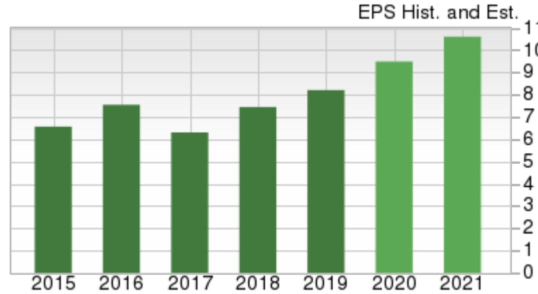
	Q1	Q2	Q3	Q4	Annual*
2021	$2.51 E	$2.56 E	$2.74 E	$2.85 E	$10.61 E
2020	$2.14 A	$2.17 E	$2.57 E	$2.61 E	$9.49 E
2019	$1.86 A	$1.92 A	$2.17 A	$2.27 A	$8.21 A

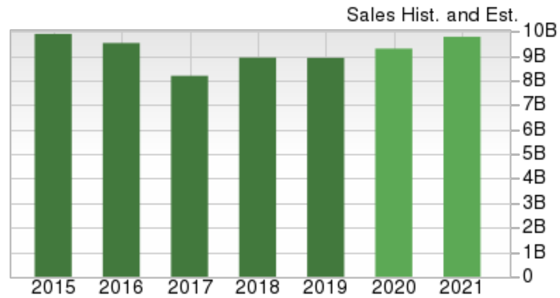
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

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

- 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 51.3% over this period against the 23.4% 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. It 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 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. 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. 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. 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. 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. Air Products' board also recently 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. Strong cash flow enables the company to boost shareholders' value by increasing dividends and capital deployment.

Reasons To Sell:

Air Products faces headwinds from higher maintenance costs, an expected slowdown in China and unfavorable currency swings. Modification of Indian hydrogen supply contract will also affect the company's EMEA sales.

- Air Products witnessed pressure on its sales in the fiscal first 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 8% in the company's EMEA gases business in the last reported quarter and also had an impacted of 2% on overall sales for the quarter. Contract modification may have a sustained unfavorable impact on sales and volumes in second-quarter fiscal 2020 as well.

- Air Products is exposed to headwind from unfavorable currency movements. Currency swings had an unfavorable impact of 1% on sales in the last reported quarter, mostly related to Chinese yuan and the euro. Unfavorable currency also had a 3% impact on the company's fiscal 2019 sales. Unfavorable currency translation, due to weaker foreign currencies, may continue to affect the company's sales and margins.

- Air Products faces headwind from higher expected maintenance spending in the fiscal second quarter. It expects higher maintenance costs for the quarter due to planned life extension work on certain facilities. Higher costs are likely to affect margins in its Americas business. The company also sees maintenance cost for fiscal 2020 to be in the range of roughly $250-$260 million.

- While the company's Industrial Gases — Asia segment delivered healthy results in the most recent quarter, the business faces headwind in the fiscal second quarter from the Chinese Lunar New Year holiday which has been extended by the Chinese authorities to contain the outbreak of coronavirus. The company expects slowdown due to the Chinese New Year to dampen growth in the second quarter. This is likely to impact sales and margins in the Air Products' Asia unit.

Last Earnings Report

Air Products' Earnings and Sales Top Estimates in Q1

Quarter Ending	12/2019
Report Date	**Jan 24, 2020**
Sales Surprise	**0.63%**
EPS Surprise	**2.88%**
Quarterly EPS	**2.14**
Annual EPS (TTM)	**8.50**

Air Products logged earnings from continuing operations of $2.14 per share in first-quarter fiscal 2020 (ended Dec 31, 2019), up 36% from $1.57 recorded in the year-ago quarter. Earnings topped the Zacks Consensus Estimate of $2.08.

The bottom line in the reported quarter was driven by higher volumes and pricing across all regions.

The company delivered fiscal first-quarter revenues of $2,254.7 million, up 1% year over year. It also beat the Zacks Consensus Estimate of $2,240.7 million.

Volumes rose 6% while pricing increased 3%. These were offset by 1% unfavorable currency, 2% from a contract modification in India 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 5% year over year to $936 million. Higher pricing and volumes were more than offset by lower energy pass-through and unfavorable currency.

Sales in the Industrial Gases — EMEA segment dropped 5% year over year to $499 million. Higher pricing and 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 11% year over year to $693 million. The upside was driven by higher volumes (supported by new plants) and pricing. These were partly offset by unfavorable currency.

Financials

Air Products ended the quarter with cash and cash equivalents of $2,406.1 million, down around 18% year over year. Long-term debt was down roughly 1% year over year to $2,937 million.

Net cash from operating activities were $667 million for the quarter, up around 2% year over year.

Outlook

Air Products continues to expect adjusted earnings for fiscal 2020 in the range $9.35-$9.60 per share, which calls for a 14-17% rise year over year.

The company expects adjusted earnings to be in the band of $2.10 to $2.20 per share for second-quarter fiscal 2020, up 9%-15% year over year.

Air Products also expects capital expenditure for fiscal 2020 in the range of $4-$4.5 billion.

Recent News

Air Products Raises Liquid and Bulk Industrial Gas Prices - Jan 31, 2020

Air Products is raising product pricing, surcharges and monthly service charges for merchant customers in North America. The price hike is effective Feb 1, 2020 or as contracts permit.

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

Air Products also stated that certain price adjustments may be outside the above-mentioned ranges based on specific situations.

Air Products is making these price adjustments in response to higher sourcing, production and delivery costs as well as support sustained investments in security, reliability and safety.

Air Products Introduces Freshline QuickChill Injector - Jan 9, 2020

Air Products launched the Freshline QuickChill Injector, its breakthrough in cryogenic food processing solutions, which makes it possible for food producers to chill sauces and liquids quickly and efficiently.

The new Freshline QuickChill Injector is geared to minimize chilling time and increase the throughput of a variety of liquid products such as dressings, marinades, sauces, soups pie fillings and purees.

Notably, the QuickChill Injector uses the rapid cooling power of liquid nitrogen to chill sauces and liquid products in minutes rather than hours, eliminates process bottlenecks and providing food manufacturers the potential to double or even triple production rates. Moreover, it provides food producers with peace of mind to comply with USDA cooling guidelines, which require cooked liquid products to be chilled to 40°F within five to six hours.

The QuickChill unit eliminates the need to invest in additional kettles, equipment or floor space as it comes in a standard model, which can be fitted easily to a variety of new or existing kettles and vessels.

Air Products to Invest $500M to Build Gas Production Facilities – Jan 8, 2020

Air Products is investing $500 million to build, own and operate its biggest-ever Hydrogen steam methane reformer (SMR), a nitrogen air separation unit (ASU) and utilities facilities.

The company has clinched a long-term supply agreement for a project with Gulf Coast Ammonia (GCA) in Texas. Air Products will construct and operate the SMR to make hydrogen and the ASU to supply nitrogen. It will also own and operate a steam turbine generator to supply power and other utilities to GCA's new world-scale ammonia production plant. The project will extend the company's existing and world's-largest hydrogen pipeline system in the Gulf Coast. It is the biggest investment by the company for one project in the United States.

The pipeline segment that will transport hydrogen to Texas City is expected to come online in the second half of 2021. The remaining facilities are expected to be in commercial operation in early 2023.

Valuation

Air Products' shares are up 51.3% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 23.4% and 2.8% over the past year, respectively.

The S&P 500 index is up 22.6% in the past year.

The stock is currently trading at 16.2X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.9X for the Zacks sub-industry, 9.01X for the Zacks sector and 11.95X 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 $264 price target reflects 26.69X 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	16.2	6.9	9.01	11.95
	5-Year High	16.66	12.53	18.18	12.85
	5-Year Low	10.68	5.58	7.34	8.49
	5-Year Median	12.8	7.27	10.57	10.66
P/E F 12M	Current	25.39	13.11	13.18	19.09
	5-Year High	26.27	15.19	21.14	19.34
	5-Year Low	15.28	8.25	9.77	15.18
	5-Year Median	21.25	12.47	13.7	17.46
P/B TTM	Current	4.64	1.68	2.26	4.54
	5-Year High	4.75	3.54	3.54	4.54
	5-Year Low	2.92	0.89	1.34	2.85
	5-Year Median	3.87	2.52	2.19	3.62

As of 02/06/2020

Industry Analysis **Zacks Industry Rank:** Bottom 12% (224 out of 255)

Top Peers

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

Industry Comparison Industry: Chemical - Diversified

Industry Peers

	APD Neutral	X Industry	S&P 500	AIQUY Neutral	BASFY Neutral	LIN Neutral
VGM Score	C	-	-	B	D	C
Market Cap	55.40 B	2.61 B	24.40 B	69.96 B	63.37 B	118.11 B
# of Analysts	7	3	13	3	3	7
Dividend Yield	1.85%	1.75%	1.75%	1.63%	3.71%	0.00%
Value Score	D	-	-	D	A	C
Cash/Price	0.05	0.07	0.04	0.02	0.04	0.02
EV/EBITDA	16.03	7.20	14.17	NA	6.97	16.99
PEG Ratio	2.24	1.61	2.05	1.99	1.60	2.10
Price/Book (P/B)	4.64	2.08	3.31	3.46	1.38	2.30
Price/Cash Flow (P/CF)	19.06	6.62	13.63	15.27	5.86	18.42
P/E (F1)	26.38	14.24	19.08	26.12	15.22	26.64
Price/Sales (P/S)	6.19	0.90	2.67	NA	0.90	4.37
Earnings Yield	3.78%	7.01%	5.24%	3.84%	6.55%	3.76%
Debt/Equity	0.27	0.55	0.71	0.68	0.39	0.21
Cash Flow ($/share)	13.17	3.59	6.89	1.94	2.95	11.77
Growth Score	B	-	-	B	F	B
Hist. EPS Growth (3-5 yrs)	4.57%	10.15%	10.80%	NA	1.11%	NA
Proj. EPS Growth (F1/F0)	15.64%	5.15%	7.23%	8.60%	7.60%	11.49%
Curr. Cash Flow Growth	10.98%	-2.60%	9.51%	0.88%	136.40%	125.68%
Hist. Cash Flow Growth (3-5 yrs)	5.70%	6.32%	8.55%	3.33%	-0.12%	17.62%
Current Ratio	2.59	1.83	1.20	0.73	1.78	0.90
Debt/Capital	21.49%	37.78%	42.90%	40.50%	28.03%	17.10%
Net Margin	21.10%	4.69%	11.76%	NA	14.64%	17.59%
Return on Equity	16.20%	11.94%	16.98%	NA	9.36%	10.68%
Sales/Assets	0.46	0.85	0.54	NA	0.69	0.30
Proj. Sales Growth (F1/F0)	4.22%	2.37%	4.15%	2.95%	4.29%	4.15%
Momentum Score	A	-	-	B	D	D
Daily Price Chg	0.31%	-0.50%	-0.11%	-0.05%	-0.63%	0.00%
1 Week Price Chg	-2.15%	-3.31%	-2.60%	0.52%	-3.43%	-3.27%
4 Week Price Chg	7.52%	-2.21%	1.51%	6.82%	-6.17%	3.78%
12 Week Price Chg	5.41%	-6.21%	5.63%	13.58%	-10.69%	3.89%
52 Week Price Chg	51.04%	-5.53%	17.01%	36.99%	-4.78%	34.89%
20 Day Average Volume	1,220,450	113,683	1,961,054	46,177	296,550	1,603,315
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.45%	0.00%
(F1) EPS Est 4 week change	0.29%	0.00%	-0.00%	0.89%	-8.11%	0.00%
(F1) EPS Est 12 week change	0.32%	-2.08%	-0.16%	0.89%	-11.11%	1.79%
(Q1) EPS Est Mthly Chg	-5.41%	-3.27%	0.00%	NA	NA	0.00%

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	C

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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