

Air Products (APD)

\$280.99 (As of 07/14/20)

Price Target (6-12 Months): **\$295.00**

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:C

Value: C

Growth: B

Momentum: F

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.

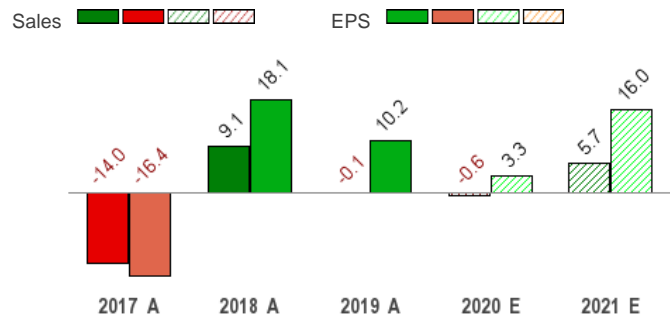
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$281.55 - \$167.43
20 Day Average Volume (sh)	1,232,165
Market Cap	\$62.1 B
YTD Price Change	19.6%
Beta	0.85
Dividend / Div Yld	\$5.36 / 1.9%
Industry	Chemical - Diversified
Zacks Industry Rank	Top 42% (105 out of 251)

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	32.6
P/E F1	33.1
PEG F1	2.8
P/S TTM	6.9

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 07/14/2020. The reports text is as of 07/15/2020.

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:

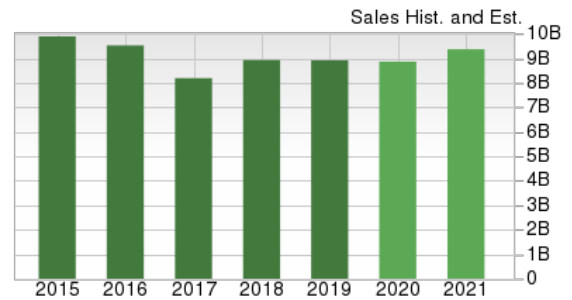
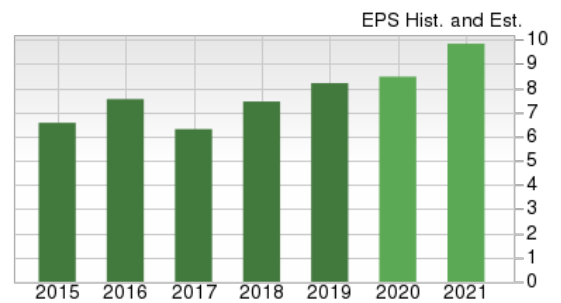
Industrial Gases – Americas (43% of fiscal 2019 sales), Industrial Gases – Europe, Middle East, and Africa/EMEA (23%) and Industrial Gases – Asia (30%) segments include the results of the company's regional industrial gases businesses. These businesses sell atmospheric gases such as oxygen, nitrogen 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 23.7% over a year, outperforming the 11.7% 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 18.8x while its industry's trailing 12-month EV/EBITDA multiple is lower at 7.7x. As such, investors might not want to pay more for the stock at present.

Air Products faces headwinds from lower merchant volumes in the Americas and EMEA and unfavorable currency swings. Its stretched valuation is another concern.

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 Deal for \$5B Green Hydrogen Project - Jul 7, 2020

Air Products has inked a deal with ACWA Power and NEOM for a \$5-billion green hydrogen-based ammonia manufacturing facility, powered by renewable energy.

The project, which Air Products will own equally with ACWA Power and NEOM, will be situated in northwestern Saudi Arabia and is expected to produce green ammonia for export in global markets.

Scheduled to be onstream in 2025, the project is NEOM's first partnership with leading international and national partners in the renewable energy field.

The joint venture is based on world-class technology and will include the innovative integration of more than four gigawatts of renewable power from solar, wind and storage.

Notably, the project will produce 650 tons of hydrogen per day by electrolysis using Thyssenkrupp technology, nitrogen by air separation using Air Products' technology, and 1.2 million tons per year of green ammonia using Haldor Topsoe technology.

Air Products will be the exclusive off-taker of the green ammonia. Further, the company stated that it plans to transport it globally to produce green hydrogen for the transportation market.

Per Air Products' management, the project will yield a totally clean source of energy on a massive scale and will save more than three million tons of carbon dioxide emissions a year. It will also eliminate smog-forming emissions and other pollutants from the equivalent of more than 700,000 cars.

Air Products & Thyssenkrupp Ink Green Hydrogen Deal - Jul 5, 2020

Air Products has inked a cooperation agreement with Thyssenkrupp Uhde Chlorine Engineers to develop projects supplying green hydrogen. Per the agreement, the two companies will use their complementary technology, engineering and project execution expertise to develop projects.

Notably, Thyssenkrupp will provide engineering, equipment and technical services for water electrolysis plants, which Air Products will build, own and operate.

Through the collaboration, Thyssenkrupp will support Air Products' development of green hydrogen, which can be used for sustainable transportation, chemicals and power generation segments.

Per Air Products' management, the cooperation agreement with Thyssenkrupp is a vital element of its value chain in developing, building, owning, and operating world-scale projects and supplying green hydrogen for mobility, energy and industrial applications.

As part of the partnership, Air Products and Thyssenkrupp are expected to deploy economic green hydrogen plants in the gigawatt size.

Air Products Starts Production at SMR in Louisiana - Jul 1, 2020

Air Products has announced that its new steam methane reformer (SMR) and cold box in Geismar, LA, are onstream and supplying neighboring industrial operations of Huntsman Corporation.

Per the deal, Air Products builds, owns, and operates the facility in Geismar, supplying hydrogen, carbon monoxide (CO) and steam produced from it to Huntsman. Notably, Air Products' SMR is also connected to its Gulf Coast hydrogen pipeline and network system ("GCP").

Air Products' new Geismar facility meets the desired schedule and product requirements of customers. Per the company, the new state-of-the-art facility delivers high sustainability and reliability, with increased energy efficiency and reduced emissions.

The new facility is situated on land leased from Huntsman. Notably, the facility produces 6.5 million standard cubic feet per day ("MMSCFD") of CO, 50 MMSCFD of hydrogen and up to 50,000 pounds per hour of steam. Moreover, there is scope of expansion of the facility to increase the CO supply in the future to support additional growth.

Valuation

Air Products' shares are up 19.6% in the year-to-date period and up 23.7% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 13.1% and 5.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 11.7% and 4.4%, respectively.

The S&P 500 index is down 1.7% in the year-to-date period and up 5.8% in the past year.

The stock is currently trading at 18.8X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.74X for the Zacks sub-industry, 9.51X for the Zacks sector and 11.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.8X and as low as 10.65X, with a 5-year median of 12.83X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$295 price target reflects 30.89X 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	18.8	7.74	9.51	11.72
	5-Year High	18.8	13.21	18.38	12.86
	5-Year Low	10.65	5.27	6.56	8.25
	5-Year Median	12.83	7.46	10.4	10.87
P/E F 12M	Current	29.41	18.64	15.49	22.45
	5-Year High	29.41	18.64	21.05	22.45
	5-Year Low	15.28	8.95	9.86	15.25
	5-Year Median	21.38	13.04	13.53	17.52
P/B TTM	Current	5.29	1.71	2.88	4.32
	5-Year High	5.29	2.97	3.07	4.56
	5-Year Low	2.92	0.88	1.23	2.83
	5-Year Median	3.86	1.76	2.21	3.7

As of 07/14/2020

Industry Analysis Zacks Industry Rank: Top 42% (105 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Air Liquide (AIQY)	Neutral	2
BASF SE (BASFY)	Neutral	3
Brenntag AG (BNTGY)	Neutral	3
The Chemours Company (CC)	Neutral	3
Dow Inc. (DOW)	Neutral	3
Linde plc (LIN)	Neutral	3
LyondellBasell Industries N.V. (LYB)	Neutral	2
Albemarle Corporation (ALB)	Underperform	4

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	APD	X Industry	S&P 500	AIQY	BASFY	LIN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	B	C	B
Market Cap	62.06 B	2.67 B	21.89 B	73.31 B	53.60 B	122.44 B
# of Analysts	7	3	14	3	3	8
Dividend Yield	1.91%	1.87%	1.86%	1.41%	4.57%	1.65%
Value Score	C	-	-	C	A	C
Cash/Price	0.04	0.11	0.07	0.02	0.06	0.03
EV/EBITDA	17.98	7.48	12.84	NA	7.35	16.79
PEG Ratio	2.81	3.01	2.92	4.86	17.95	2.87
Price/Book (P/B)	5.29	1.76	3.06	3.39	1.13	2.60
Price/Cash Flow (P/CF)	21.33	6.66	11.89	14.95	6.12	14.62
P/E (F1)	33.14	19.74	21.54	29.44	24.05	31.59
Price/Sales (P/S)	6.91	0.78	2.27	NA	0.78	4.37
Earnings Yield	3.02%	4.70%	4.38%	3.41%	4.18%	3.17%
Debt/Equity	0.28	0.62	0.76	0.65	0.35	0.21
Cash Flow (\$/share)	13.17	3.41	6.94	2.08	2.38	15.95
Growth Score	B	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	4.81%	9.93%	10.85%	NA	-1.82%	NA
Proj. EPS Growth (F1/F0)	3.29%	-30.33%	-9.64%	-1.24%	-45.83%	0.54%
Curr. Cash Flow Growth	10.98%	-8.41%	5.51%	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	1.88	1.30	0.88	1.87	0.74
Debt/Capital	21.68%	39.57%	44.46%	39.57%	26.17%	17.66%
Net Margin	21.66%	4.85%	10.54%	NA	13.70%	8.35%
Return on Equity	16.36%	12.72%	15.75%	NA	8.06%	8.06%
Sales/Assets	0.46	0.78	0.54	NA	0.69	0.33
Proj. Sales Growth (F1/F0)	-0.64%	-7.36%	-2.52%	-9.95%	-5.54%	-5.64%
Momentum Score	F	-	-	D	F	C
Daily Price Chg	2.42%	1.82%	1.60%	1.02%	2.86%	3.24%
1 Week Price Chg	10.42%	0.00%	-0.41%	2.65%	-0.14%	2.12%
4 Week Price Chg	18.04%	-0.30%	-0.71%	10.05%	-1.49%	11.93%
12 Week Price Chg	35.49%	23.62%	15.18%	23.50%	24.17%	30.33%
52 Week Price Chg	23.73%	-16.25%	-6.45%	24.28%	-15.96%	15.07%
20 Day Average Volume	1,232,165	102,485	2,246,780	53,063	214,554	2,066,664
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-11.65%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.63%	-15.74%	0.08%
(F1) EPS Est 12 week change	-6.62%	-11.65%	-6.22%	-1.55%	-23.85%	-3.34%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	-11.77%	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	C
Growth Score	B
Momentum Score	F
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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