

Air Products (APD)

\$289.27 (As of 07/28/20)

Price Target (6-12 Months): **\$304.00**

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:D

Value: D

Growth: C

Momentum: F

Summary

Air Products' earnings and sales for the fiscal third quarter missed 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. It is also seeing positive impact of its productivity actions. Also, it is committed to maximize returns to shareholders. Air Products has also outperformed the industry over a year. However, it 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. Higher maintenance costs are also likely to hurt margins in the fiscal fourth quarter. High debt level and stretched valuation are other concerns.

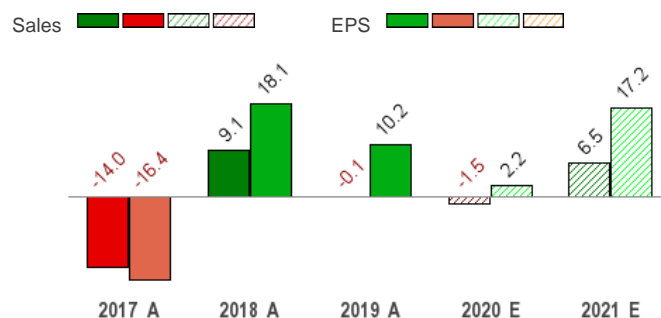
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$299.82 - \$167.43
20 Day Average Volume (sh)	1,365,442
Market Cap	\$63.9 B
YTD Price Change	23.1%
Beta	0.85
Dividend / Div Yld	\$5.36 / 1.9%
Industry	Chemical - Diversified
Zacks Industry Rank	Top 47% (118 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.0%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	11/05/2020
Earnings ESP	0.0%
P/E TTM	34.2
P/E F1	34.5
PEG F1	2.9
P/S TTM	7.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,478 E	2,543 E	2,527 E	2,622 E	9,360 E
2020	2,255 A	2,216 A	2,065 A	2,221 E	8,789 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	\$2.26 E	\$2.35 E	\$2.42 E	\$2.54 E	\$9.83 E
2020	\$2.14 A	\$2.04 A	\$2.01 A	\$2.18 E	\$8.39 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 07/28/2020. The reports text is as of 07/29/2020.

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:

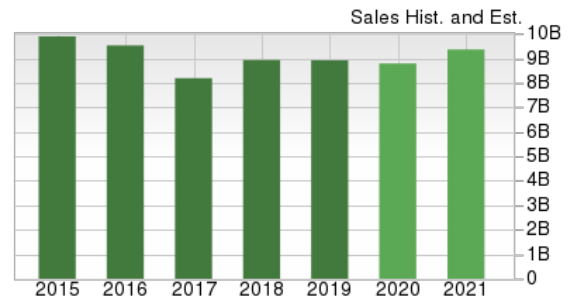
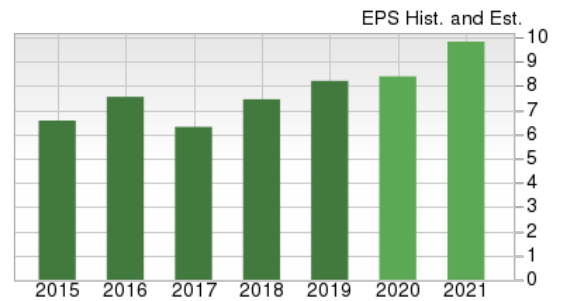
Industrial Gases – Americas (43% of fiscal 2019 sales), Industrial Gases – Europe, Middle East, and Africa/EMEA (23%) and Industrial Gases – Asia (30%) segments include the results of the company's regional industrial gases businesses. These businesses sell atmospheric gases such as oxygen, nitrogen 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 24.7% over a year, outperforming the 5.7% 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) \$17.6 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. Air Products expects to complete the \$12-billion Jazan gasification project by October 2020. 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. 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. Strong cash flow enables the company to boost shareholders' value by increasing dividends and capital deployment. As such, the company's dividend is perceived to be safe and reliable.

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. Weak industrial production is hurting merchant volumes. While the company is seeing some recovery of late, depressed volumes are likely to continue to hurt its sales in the fiscal fourth 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, Chilean peso, Korean won 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 high debt level is a concern. It had total debt was \$8,198 million at the end of the fiscal third quarter, up from \$3,312 million at the end of the fiscal second quarter. Its total debt-to-total capital also stood at 40.5% as of Jun 30, 2020, higher than 21.9% as of Mar 31, 2020. As such, the company appears to have a higher default risk.
- ▼ Air Products faces headwind from higher expected maintenance spending in the fiscal fourth quarter. It expects higher maintenance costs for the fourth quarter as a number of planned outages by its customers have been deferred from the fiscal third quarter. Higher costs are likely to affect margins in its Americas business.
- ▼ 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 19.55x while its industry's trailing 12-month EV/EBITDA multiple is lower at 8.02x. 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, higher maintenance costs and unfavorable currency swings. Its stretched valuation is another concern.

Last Earnings Report

Air Products' Earnings & Sales Lag Estimates in Q3

Air Products logged earnings from continuing operations of \$2.01 per share in third-quarter fiscal 2020 (ended Jun 30, 2020), down roughly 9% from \$2.20 recorded in the year-ago quarter. The bottom line in the reported quarter was hurt by the impacts of the coronavirus outbreak. Earnings per share for the reported quarter also missed the Zacks Consensus Estimate of \$2.05.

The company delivered fiscal third-quarter revenues of \$2,065.2 million, down 7.1% year over year. It also missed the Zacks Consensus Estimate of \$2,083.6 million.

Pricing increased 2%, which was more than offset by 3% lower volume, 2% unfavorable currency, 9% unfavorable impact from the coronavirus pandemic and 4% lower energy pass-through.

Segment Highlights

Revenues in the Industrial Gases - America segment fell 11% year over year to \$850 million due to lower volume, lower energy pass-through and unfavorable currency.

Sales in the Industrial Gases - EMEA segment decreased 13% year over year to \$430 million. Higher pricing was offset by unfavorable currency, lower energy pass-through and lower volume.

Sales in the Industrial Gases - Asia segment decreased 4% year over year to \$652 million. The downside was due to lower volume and unfavorable currency.

Financials

Air Products ended the quarter with cash and cash equivalents of \$3,921.4 million, up 45.4% year over year. Long-term debt was up 139.6% year over year to \$7,073.2 million.

Net cash from operating activities was \$2,013.2 million for the nine months ended Jun 30, 2020.

Outlook

Air Products said that it will continue to generate value for shareholders over the long term and invest in world-scale, sustainability-focused projects, notwithstanding the challenging environment.

Quarter Ending **06/2020**

Report Date	Jul 23, 2020
Sales Surprise	-0.88%
EPS Surprise	-1.95%
Quarterly EPS	2.01
Annual EPS (TTM)	8.46

Recent News

Air Products Inks Deal for \$5B Green Hydrogen Project

Air Products, on **Jul 7, 2020**, 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

Air Products, on **Jul 5, 2020**, 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

Air Products, on **Jul 1, 2020**, 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 23.1% in the year-to-date period and up 24.7% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 8.1% and up 3.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 5.7% and up 5.4%, respectively.

The S&P 500 index is up 0.8% in the year-to-date period and up 8% in the past year.

The stock is currently trading at 19.55X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 8.02X for the Zacks sub-industry, 10.29X for the Zacks sector and 12.04X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.96X and as low as 10.65X, with a 5-year median of 12.84X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$304 price target reflects 31.6X 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	19.55	8.02	10.29	12.04
	5-Year High	19.96	13.12	18.37	12.85
	5-Year Low	10.65	5.25	6.5	8.25
	5-Year Median	12.84	7.45	10.36	10.88
P/E F 12M	Current	30.08	19.56	16.45	22.63
	5-Year High	30.85	19.56	21.05	22.63
	5-Year Low	15.28	8.97	9.86	15.25
	5-Year Median	21.44	13.08	13.53	17.52
P/B TTM	Current	5.31	1.8	2.83	4.43
	5-Year High	5.43	2.82	3.07	4.56
	5-Year Low	2.92	0.87	1.23	2.83
	5-Year Median	3.87	1.74	2.2	3.71

As of 07/28/2020

Industry Analysis Zacks Industry Rank: Top 47% (118 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Air Liquide (AIQUY)	Neutral	2
BASF SE (BASFY)	Neutral	3
Brenntag AG (BNTGY)	Neutral	2
The Chemours Company (CC)	Neutral	3
Dow Inc. (DOW)	Neutral	4
Linde plc (LIN)	Neutral	3
LyondellBasell Industries N.V. (LYB)	Neutral	3
Albemarle Corporation (ALB)	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	-	-	2	3	3
VGM Score	D	-	-	B	C	B
Market Cap	63.90 B	2.38 B	22.47 B	77.57 B	55.53 B	127.99 B
# of Analysts	7	3	14	3	3	8
Dividend Yield	1.85%	1.88%	1.84%	1.33%	4.41%	1.58%
Value Score	D	-	-	C	A	C
Cash/Price	0.10	0.11	0.07	0.02	0.06	0.03
EV/EBITDA	18.47	8.14	13.04	NA	7.56	17.51
PEG Ratio	2.95	3.25	2.97	5.14	18.29	3.00
Price/Book (P/B)	5.31	1.75	3.11	3.58	1.17	2.71
Price/Cash Flow (P/CF)	21.96	6.49	12.07	15.81	6.34	15.28
P/E (F1)	34.81	19.39	21.52	31.16	24.51	33.02
Price/Sales (P/S)	7.25	0.82	2.35	NA	0.81	4.57
Earnings Yield	2.90%	4.78%	4.34%	3.22%	4.10%	3.03%
Debt/Equity	0.61	0.63	0.76	0.65	0.35	0.21
Cash Flow (\$/share)	13.17	3.41	7.01	2.08	2.38	15.95
Growth Score	C	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	4.94%	8.99%	10.85%	NA	-1.82%	NA
Proj. EPS Growth (F1/F0)	2.24%	-25.58%	-7.56%	-1.24%	-44.94%	0.54%
Curr. Cash Flow Growth	10.98%	-9.39%	5.47%	7.05%	-19.09%	33.98%
Hist. Cash Flow Growth (3-5 yrs)	5.70%	6.32%	8.55%	6.71%	-3.10%	23.52%
Current Ratio	3.48	1.87	1.31	0.88	1.87	0.74
Debt/Capital	37.97%	39.57%	44.41%	39.57%	26.17%	17.66%
Net Margin	21.58%	4.87%	10.44%	NA	13.70%	8.35%
Return on Equity	15.96%	11.05%	15.10%	NA	8.06%	8.06%
Sales/Assets	0.43	0.76	0.54	NA	0.69	0.33
Proj. Sales Growth (F1/F0)	-1.45%	-7.52%	-1.97%	-9.95%	-5.54%	-5.64%
Momentum Score	F	-	-	D	F	D
Daily Price Chg	-1.85%	-1.50%	-0.80%	0.37%	-0.56%	-1.28%
1 Week Price Chg	-0.84%	0.00%	0.37%	1.41%	2.08%	0.61%
4 Week Price Chg	19.80%	6.82%	3.64%	14.11%	7.96%	14.89%
12 Week Price Chg	28.97%	20.88%	11.56%	31.94%	21.89%	33.89%
52 Week Price Chg	24.79%	-10.25%	-3.92%	30.07%	-10.51%	24.02%
20 Day Average Volume	1,365,442	79,087	1,867,919	56,191	181,644	1,958,552
(F1) EPS Est 1 week change	-1.01%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.01%	0.00%	0.21%	0.63%	-14.35%	0.00%
(F1) EPS Est 12 week change	-1.01%	-6.10%	-1.29%	0.63%	-22.59%	-2.19%
(Q1) EPS Est Mthly Chg	-2.60%	0.00%	0.09%	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	D
Growth Score	C
Momentum Score	F
VGM Score	D

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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