

Ashland Global(ASH)

\$69.10 (As of 06/18/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: C

Summary

We initiate our coverage on specialty chemicals maker, Ashland. The company's recent restructuring actions have provided it with a diverse business portfolio focused on high-quality markets and better positioned it for future growth. Its actions to reduce operating costs should also support its margins. Moreover, the company remains committed to boost its free cash flows through a number of initiatives including reduction in capital spending and net working capital. However, Ashland faces headwind from weak industrial demand. Softer demand across certain markets, including construction and automotive, is likely to hurt sales in the fiscal third quarter. The company's inventory management actions are also expected to affect volumes. Ashland's high debt level is another concern. It has also underperformed the industry over a year.

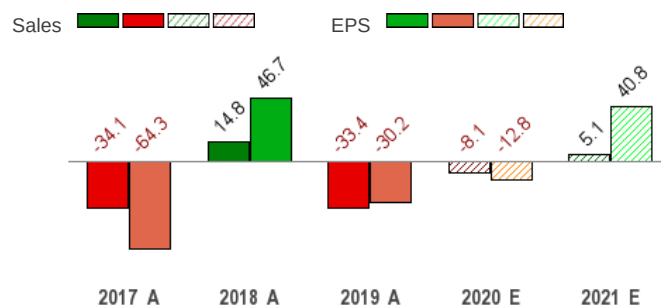
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.82 - \$38.88
20 Day Average Volume (sh)	417,398
Market Cap	\$4.2 B
YTD Price Change	-9.7%
Beta	1.46
Dividend / Div Yld	\$1.10 / 1.6%
Industry	Chemical - Specialty
Zacks Industry Rank	Bottom 39% (154 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	1.0%
Expected Report Date	08/04/2020
Earnings ESP	-3.9%
P/E TTM	27.5
P/E F1	31.8
PEG F1	3.0
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	530 E	634 E	639 E	616 E	2,406 E
2020	533 A	610 A	560 E	567 E	2,290 E
2019	576 A	667 A	641 A	609 A	2,493 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.39 E	\$0.93 E	\$1.02 E	\$0.97 E	\$3.07 E
2020	\$0.13 A	\$0.84 A	\$0.57 E	\$0.62 E	\$2.18 E
2019	\$0.14 A	\$0.83 A	\$0.77 A	\$0.77 A	\$2.50 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 06/18/2020. The reports text is as of 06/19/2020.

Overview

Covington, KY-based Ashland Global Holdings Inc. is a leading specialty chemicals company serving a vast range of consumer and industrial markets including automotive, construction, architectural coatings, adhesives, energy, food & beverage and pharmaceutical. The company has a diverse business portfolio with different value propositions, with respect to the markets served. Ashland has a controlling interest in leading consumer-branded lubricant supplier, Valvoline Inc.

Ashland, in August 2019, completed the divestiture of its Composites unit and the butanediol (BDO) manufacturing facility in Marl, Germany, to London-based INEOS Enterprises in a deal worth around \$1 billion. The sale of these businesses is in sync with its strategy of having a more streamlined and focused product portfolio that will reduce earnings volatility and improve margins.

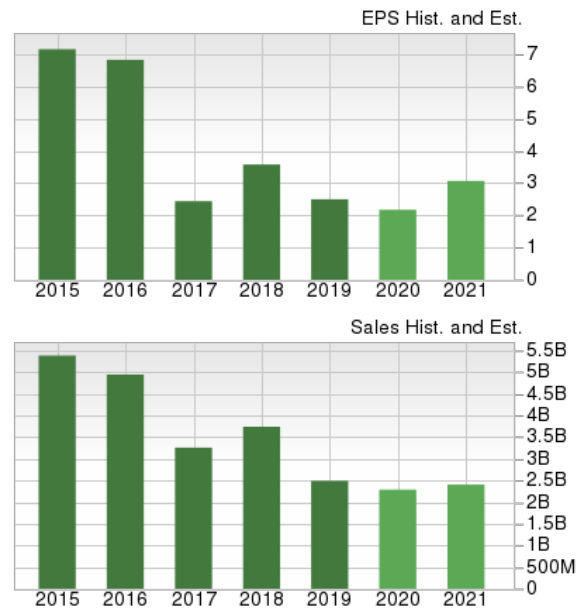
Effective second-quarter fiscal 2020, the company restructured its business into three primary external-reporting segments and a corporate reporting segment. The changes allow the company to align its resources, cost structure and business models with each business unit's specific needs.

The primary external-reporting segments are Consumer Specialties, Industrial Specialties, and Intermediates & Solvent.

The **Consumer Specialties** segment serves the Life Sciences business, and Personal Care & Household business units. The Life Sciences business consists of pharmaceuticals, nutrition, nutraceuticals, agricultural chemicals, advanced materials and fine chemicals. The Personal Care & Household unit comprises biofunctionals, preservatives, skin care, sun care, oral care, hair care and household. The segment accounted for 55% of fiscal second quarter sales.

The **Industrial Specialties** segment caters to the Specialty Additives and Performance Adhesives business units. The segment accounted for 39% of fiscal second quarter sales.

The **Intermediates & Solvents** segment comprises the production of 1,4 BDO and related derivatives, including nmethylpyrrolidone that are used as chemical intermediates and specialty process solvents. The segment accounted for 6% of fiscal second-quarter sales.



Reasons To Buy:

- ▲ Ashland has restructured its businesses from a functionally led organization to a business-unit focused company to have a profitable, high-margin portfolio with focus on high-quality markets. The changes have provided the company with a diverse business portfolio with different value propositions with respect to the markets served. It also allows Ashland to create greater accountability and ownership for both short-term and long-term results. The company's new business model is designed to help it to sail through the current difficult environment and better position it for future growth.
- ▲ The company is taking a number of actions including reduction of operating costs to boost profitability. It has identified new cost-saving opportunities of more than \$40 million on an annual basis. Ashland expects to achieve run rate savings of around \$40 million by the end of fiscal 2020. The company plans to employ part of the savings on growth initiatives.
- ▲ Ashland remains committed to boost its free cash flows through several initiatives including reduction in capital spending and net working capital. Healthy cash flows are also expected to support its dividend payouts. The company raised its quarterly dividend by 10% in May 2019. It remains committed to maintain its dividend amid the challenging environment due to the coronavirus outbreak. It also has an \$800 million share repurchase authorization.

Ashland's restructuring actions have better positioned it for future growth. Its cost actions should also support its margins. The company also remains focused on boosting its free cash flows.

Reasons To Sell:

- ▼ Ashland's shares have lost 11.7% over the past year, underperforming its industry's gain of 32.1%. The company faces headwind from weak demand in certain markets due to disruptions from coronavirus. It is seeing softer demand in global industrial markets. Lower demand across construction, automotive and a number of performance specialties end markets hurt sales in the Industrial Specialties unit in the most recent quarter. The company sees weaker demand across a number of industrial businesses to continue in the fiscal third quarter and expects more pronounced softness in transportation, building & construction and energy markets.
- ▼ The company is taking actions to manage its high inventory levels, which are expected to help it generate additional cash in the second half of 2020. However, Ashland faces near-term headwinds associated with inventory management including pressure on its sales volumes and EBITDA margins. Inventory actions in the Consumer Specialties unit hurt volumes in the fiscal second quarter and the same is likely to continue in the third quarter.
- ▼ Ashland's high debt level is a concern. At the end of the fiscal second quarter, the company's long-term debt was \$1,666 million, slightly higher than \$1,645 million in the sequentially previous quarter. Its total debt-to-total capital stood at 42% as of Mar 31, 2020, higher than 33.8% as of Dec 31, 2019. The company also ended the fiscal second quarter with cash of \$353 million, lower than its current debt of \$494 million. As such, Ashland may not be able to meet its short-term debt obligations.

Ashland faces headwind from weak industrial demand. The company's inventory management actions are also expected to affect volumes. High debt level is also a concern.

Last Earnings Report

Ashland's Q2 Earnings In Line, Revenues Beat Estimates

Ashland slipped to a loss from continuing operations of \$575 million or \$9.48 per share in the second quarter of fiscal 2020 (ended Mar 31, 2020) from profit of \$45 million or 71 cents per share in the prior-year quarter.

Barring one-time items, adjusted earnings were 84 cents per share, up from 83 cents in the year-ago quarter. The bottom line matched the Zacks Consensus Estimate.

Sales fell 9% year over year to \$610 million. The figure squeaked past the Zacks Consensus Estimate of \$609.4 million. Sales were hurt by the effects of prior-year business losses in oral care and the legacy Pharmachem business.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	0.11%
EPS Surprise	0.00%
Quarterly EPS	0.84
Annual EPS (TTM)	2.51

Segment Highlights

Consumer Specialties: Sales in the segment fell 9% year over year to \$343 million in the reported quarter, impacted by business losses in oral care and Pharmachem as well as unfavorable currency swings.

Industrial Specialties: Sales in the division slipped 7% year over year to \$240 million, hurt by reduced demand in certain industrial end markets and lower pricing.

Intermediates & Solvents: Sales in the segment dropped 16% year over year to \$37 million, impacted by reduced pricing and lower intercompany volumes.

Financials

The company ended the quarter with cash and cash equivalents of \$353 million, a more than two fold year over year increase. Long-term debt was \$1,535 million at the end of the quarter, down 33% year over year.

Cash provided by operating activities from continuing operations was \$47 million, up from \$15 million in the prior-year quarter.

Outlook

Moving ahead, Ashland expects relative strength across Consumer Specialties and certain end markets within Industrial Specialties in the second half of the year. It expects stable demand for its defensive end markets. The company, however, sees increased global uncertainties to impact demand in more industrial-focused businesses.

Ashland has identified incremental cost-saving opportunities of more than \$40 million on an annual basis. It is targeting run rate savings of roughly \$40 million by the end of fiscal 2020.

Recent News

Ashland Announces Quarterly Dividend – May 20, 2020

Ashland's board has declared a quarterly cash dividend of 27.5 cents per share on the company's common stock. The dividend was paid on Jun 15, 2020 to shareholders of record at the close of business as of Jun 1, 2020.

Valuation

Ashland's shares are down 9.7% in the year-to-date period and down 11.7% over the trailing 12-month period. Stocks in the Zacks Chemicals-Specialty industry and Zacks Basic Materials sector are up 30% and down 9.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 32.1% and down 8.4%, respectively.

The S&P 500 index is down 3.3% in the year-to-date period and up 5.4% in the past year.

The stock is currently trading at 24.74X forward 12-month earnings, which compares to 33.51X for the Zacks sub-industry, 16.03X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.91X and as low as 11.91X, with a 5-year median of 20.15X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$73 price target reflects 26.16X forward 12-month earnings per share.

The table below shows summary valuation data for ASH:

Valuation Multiples - ASH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	24.74	33.51	16.03	22.4
	5-Year High	34.91	33.68	21.05	22.4
	5-Year Low	11.91	14.59	9.86	15.23
	5-Year Median	20.15	17.89	13.53	17.49
EV/EBITDA TTM	Current	10.07	30.9	9.1	11.53
	5-Year High	13.23	34.09	18.54	12.85
	5-Year Low	5.92	14.71	6.5	8.25
	5-Year Median	9.87	22.35	10.54	10.82
P/B TTM	Current	1.4	9.45	2.75	4.26
	5-Year High	2.94	10.51	3.39	4.56
	5-Year Low	0.66	4.22	1.23	2.83
	5-Year Median	1.47	7.48	2.2	3.66

As of 06/18/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (154 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Albemarle Corporation (ALB)	Neutral	4
Axalta Coating Systems Ltd. (AXTA)	Neutral	3
Cabot Corporation (CBT)	Neutral	3
Celanese Corporation (CE)	Neutral	3
Ferro Corporation (FOE)	Neutral	2
Huntsman Corporation (HUN)	Neutral	3
Valvoline Inc. (VTV)	Neutral	3
W.R. GraceCo. (GRA)	Underperform	4

Industry Comparison Industry: Chemical - Specialty				Industry Peers		
	ASH	X Industry	S&P 500	CE	GRA	VTV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	A	C	A
Market Cap	4.16 B	1.17 B	21.93 B	10.42 B	3.29 B	3.72 B
# of Analysts	4	2	14	9	3	4
Dividend Yield	1.59%	0.56%	1.93%	2.81%	2.42%	2.25%
Value Score	B	-	-	B	C	B
Cash/Price	0.09	0.09	0.06	0.06	0.06	0.22
EV/EBITDA	11.63	9.49	12.69	9.15	14.00	12.96
PEG Ratio	3.00	3.16	2.97	3.35	NA	6.08
Price/Book (P/B)	1.40	1.58	3.02	3.67	8.58	NA
Price/Cash Flow (P/CF)	9.11	8.44	11.62	6.82	8.44	11.67
P/E (F1)	32.14	17.81	21.45	13.06	17.82	15.63
Price/Sales (P/S)	1.74	1.48	2.33	1.72	1.72	1.53
Earnings Yield	3.14%	5.37%	4.37%	7.66%	5.62%	6.37%
Debt/Equity	0.56	0.64	0.77	1.25	5.09	-9.41
Cash Flow (\$/share)	7.58	2.37	7.01	12.92	5.88	1.72
Growth Score	B	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	-23.20%	6.79%	10.87%	14.98%	-0.06%	3.04%
Proj. EPS Growth (F1/F0)	-13.00%	-16.10%	-10.65%	-29.17%	-36.38%	-7.55%
Curr. Cash Flow Growth	-10.53%	4.04%	5.46%	-15.99%	3.41%	5.19%
Hist. Cash Flow Growth (3-5 yrs)	-11.65%	5.99%	8.55%	5.47%	-2.23%	9.06%
Current Ratio	1.69	2.26	1.29	1.48	1.49	3.45
Debt/Capital	35.84%	41.27%	45.14%	55.46%	83.58%	NA
Net Margin	-3.05%	6.02%	10.53%	12.08%	7.52%	9.39%
Return on Equity	4.63%	10.03%	16.06%	37.21%	68.38%	-120.89%
Sales/Assets	0.32	0.69	0.55	0.64	0.50	1.05
Proj. Sales Growth (F1/F0)	-8.15%	-7.15%	-2.61%	-17.86%	-12.50%	-4.73%
Momentum Score	C	-	-	B	A	A
Daily Price Chg	-0.23%	0.00%	-0.07%	-1.03%	0.53%	1.21%
1 Week Price Chg	-7.54%	-9.38%	-7.25%	-9.41%	-12.79%	-4.90%
4 Week Price Chg	7.95%	3.65%	6.92%	2.35%	-3.20%	10.44%
12 Week Price Chg	34.23%	24.96%	16.91%	16.69%	27.33%	45.05%
52 Week Price Chg	-11.61%	-11.61%	-5.63%	-16.15%	-32.78%	5.18%
20 Day Average Volume	417,398	180,118	2,574,456	929,225	496,322	1,940,438
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.05%	0.00%	0.00%	0.53%	0.00%	1.78%
(F1) EPS Est 12 week change	-20.50%	-22.53%	-14.21%	-36.29%	-40.07%	-10.97%
(Q1) EPS Est Mthly Chg	1.78%	0.00%	0.00%	1.16%	0.00%	4.60%

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	B
Growth Score	B
Momentum Score	C
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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