

Ball Corporation (BLL)

\$64.17 (As of 01/06/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/05/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: C

Summary

Ball Corporation anticipates achieving EBITDA of \$2 billion and free cash flow of \$900 million in 2019. In 2019 and beyond, the company expects to exceed its targeted earnings per share growth goal of 10-15%. Overall global beverage can demand continues to improve as customers are preferring cans over glass and plastic. The Aerospace segment's earnings and revenues are expected to deliver strong double-digit growth over the next several years. The company's balance sheet remains healthy and thereby provides its flexibility to invest in capacity while returning value to shareholders. Focus on new products and cost cutting will drive Ball Corporation's results. However, headwinds related to currency and higher freight rates remain concerns. The North and Central America segment remains under pressure thanks to U.S. aluminum scrap headwinds.

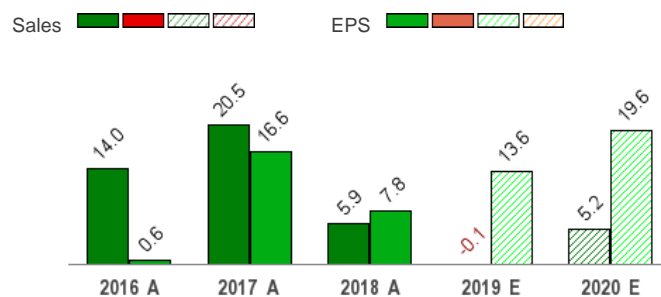
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.88 - \$46.35
20 Day Average Volume (sh)	1,793,627
Market Cap	\$21.0 B
YTD Price Change	-0.8%
Beta	0.67
Dividend / Div Yld	\$0.60 / 0.9%
Industry	Containers - Metal and Glass
Zacks Industry Rank	Bottom 4% (244 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.1%
Last Sales Surprise	-3.7%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	01/30/2020
Earnings ESP	0.0%
P/E TTM	27.0
P/E F1	21.5
PEG F1	3.9
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,817 E	3,087 E	3,112 E	3,040 E	12,232 E
2019	2,785 A	3,017 A	2,953 A	2,887 E	11,629 E
2018	2,785 A	3,101 A	2,946 A	2,803 A	11,635 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.63 E	\$0.76 E	\$0.80 E	\$0.78 E	\$2.99 E
2019	\$0.49 A	\$0.64 A	\$0.70 A	\$0.68 E	\$2.50 E
2018	\$0.50 A	\$0.58 A	\$0.56 A	\$0.55 A	\$2.20 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/06/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/07/2020.

Overview

Headquartered at Broomfield, CO, Ball Corporation is one of the world's leading suppliers of metal packaging to the beverage, personal care and household products industries. Its packaging products compete with plastics and glass and are produced for a variety of end uses to large, multinational beverage, personal care and household products companies. The company also provides aerospace and other technologies and services to governmental and commercial customers.

The company's operations are organized along its product lines and geographical areas and presented in the four reportable segments –

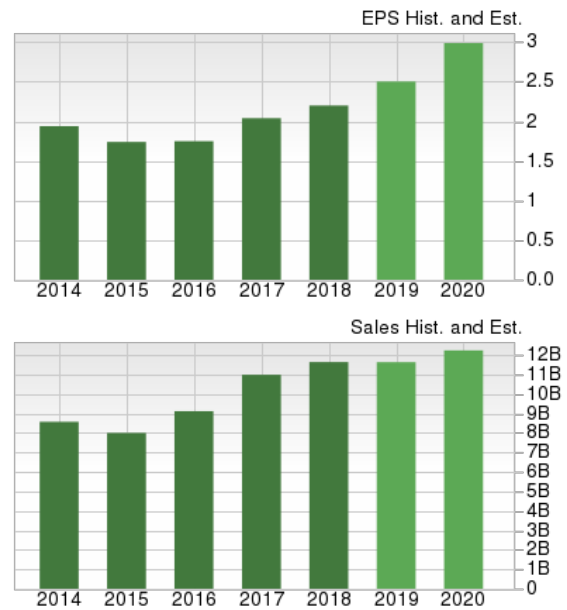
Beverage packaging, North and Central America (44% of 2018 sales) - Consists of operations in the United States, Canada and Mexico that manufacture and sell metal beverage containers throughout those countries.

Beverage packaging, South America (14%) - Consists of operations in Brazil, Argentina and Chile that manufacture and sell metal beverage containers throughout most of South America.

Beverage packaging, Europe (25%) - Consists of operations in several countries in Europe, including Russia, that manufacture and sell metal beverage containers throughout most of Europe.

Aerospace (13%) - Consists of operations that manufacture and sell aerospace and other related products and provide services to the defense, civil space and commercial space industries.

In December 2018, the company announced an agreement to sell its metal beverage packaging business in China for approximately \$225 million, plus potential additional consideration related to the relocation of an existing facility in China in the coming years. The transaction received all necessary antitrust approvals during the first quarter of 2019. The transaction is expected to close during the second half of 2019.



Reasons To Buy:

- ▲ For the Beverage Packaging, North and Central America segment, volume growth, product introductions and capacity expansion are expected to add significantly to results in the balance of 2019. The Beverage Packaging, South America segment is also poised well for improved results in 2019 driven by product launches for beer, wine, energy and still water in cans, as well as multiple brewery expansions. The Beverage Packaging, Europe segment will gain on customers' growing preference for cans and increased production in new lines in the company's existing facilities. The Aerospace segment's contracts already won, but not yet booked into the third-quarter contracted backlog is \$4.5 billion. The company expects the segment's earnings and revenue to register strong double-digit growth over the next several years. The company expects to achieve EBITDA of \$2 billion and free cash flow of \$900 million in 2019, backed by continued strong demand for aluminum packaging and robust aerospace backlog. In 2019 and beyond, it expects to exceed its targeted earnings per share growth goal of 10-15%.
- ▲ Overall global beverage can demand continues to grow as customers are now preferring cans over glass and plastic. Ball Corporation continues to execute its strategies of achieving better value for standard products and higher growth for specialty products. The company focuses on pursuing cost-out programs, completing growth capital projects and commercializing on the inherent sustainability attributes of metal packaging, which will benefit it in the months to come. Ball Corporation expects capital spending to be more than \$600 million in 2019 and beyond. Further, it is initiating additional products to expand aerospace infrastructure and testing capabilities.
- ▲ The company is largely investing in aluminum packaging production to serve the rising demand for aluminum cans, bottles and cups. Ball Corporation is focused on improving operational efficiencies and ramping-up the previously-announced line additions, speed-ups and greenfield-plant expansions to add at least 5 billion units of capacity over the next 12-18 months. Additionally, it has successfully launched lightweight aluminum cups. The company also announced its plan to construct a new beverage can manufacturing facility in Glendale, AZ, to support the new can-filling facility for customers. The company has completed the sale of its China beverage can business and expects to receive the cash proceeds in the ongoing quarter. It also announced the sale of the Argentine steel aerosol business, subsequently closing on the deal in October.
- ▲ Ball Corporation remains on track with its commitment to lower net debt. Net debt was \$6.5 billion at the end of the third quarter. Roughly 90% of Ball Corporation's balance sheet debt is at fixed rates, and it reached the post-Rexam target leverage level. Its balance sheet remains healthy and provides flexibility to invest in capacity while returning value to shareholders. Ball Corporation targets year-end 2019 net debt at around \$6 billion. So far, this fiscal, Ball Corporation made share repurchases worth \$800 million and paid out approximately \$130 million in dividends. Also, the company will invest capital with an eye on EVA returns.

Ball Corporation will benefit from lower debt level, growing preference for aluminium packaging, strong aerospace backlog, new products and focus on cost-cutting actions.

Reasons To Sell:

- ▼ Headwinds related to currency; higher freight rates will likely affect Ball Corporation's results.
 - ▼ In order to serve strong demand growth, particularly in specialty can sizes, the North and Central America segment has been battling short-term costs due to tight inventories. Also, the business remains challenged with U.S. aluminum scrap headwinds. Further, year-over-year segment volume growth has been limited by the availability of cans. Thus, until new production comes online, the segment's volume is likely to be suppressed.
 - ▼ The company's performance will be marred by volatile volumes in the EMEA beverage can business due to governmental regulation. Additionally, conflicts in the Middle Eastern will likely impact volumes.
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Ball Corporation's performance will be hurt by headwinds related to currency, higher freight rates and tight metal supply in the United States.

Last Earnings Report

Ball Corp Q3 Earnings & Sales Miss Estimates, Rise Y/Y

Ball Corp reported third-quarter 2019 adjusted earnings of 70 cents per share, missing the Zacks Consensus Estimate of 73 cents. The reported figure, however, improved 25% on a year-over-year basis on strong demand trends in both aluminum beverage packaging and aerospace businesses.

On a reported basis, the company posted earnings of 27 cents per share compared with 17 cents in the prior-year quarter.

Total sales went up to \$2,953 million in the reported quarter from \$2,946 million in the year-ago quarter. The top line, however, missed the Zacks Consensus Estimate of \$3,052 million. Global beverage can volumes were up 4% and aerospace contracted backlog increased 9% in the quarter.

Operational Update

Cost of sales inched up to \$2,363 million from \$2,362 million the year-ago quarter. Gross profit rose to \$590 million from the year-ago quarter's \$584 million. Gross margin came in at 19.9% during the third quarter compared with the prior-year quarter's 19.8%.

Selling, general and administrative expenses dropped 20.3% year over year to \$90 million. Adjusted operating income increased 8.5% to \$369 million from the year-ago quarter's \$340 million. The company reported operating margin of 12.5% compared with 11.5% in the comparable period last year.

Segment Performance

The Beverage packaging's North and Central America segment revenues edged down to \$1,230 million in the September-end quarter from \$1,237 million a year ago. Operating earnings went up 2.6% year over year to \$157 million.

Sales at the Beverage packaging, Europe segment came in at \$699 million in the reported quarter, improving 2.3% year over year. Operating earnings grew 7.1% year over year to \$90 million. Segment volume was driven by customers' increasing preference for cans over glass packaging, strong growth for energy drinks and growing demand for specialty cans.

The Beverage packaging South America segment's revenues climbed to \$392 million during the July-September quarter from \$391 million in the comparable period last year. Operating earnings moved down to \$60 million from \$71 million in the year-earlier quarter. Industry beverage can demand in Brazil is solid as customers are shifting from glass packaging to aluminum cans.

In the Aerospace segment, sales rose 32.2% year over year to \$374 million. Operating earnings increased 34.6% year over year to \$35 million. As of the end of the third quarter, the segment's contracted backlog increased to \$2.2 billion. Since then, the company has won contracts worth \$4.5 billion, which have not yet been included in the backlog.

Financial Condition

Ball Corp reported cash and cash equivalents of \$483 million at the end of the third quarter, down from \$598 million at the end of the year-earlier quarter. Cash flow from operating activities were \$656 million during the nine-month period ended Sep 30, 2019, compared with \$1,027 million recorded in the prior-year comparable period. The company's long-term debt increased to \$6,623 million as of Sep 30, 2019, from \$6,523 million as of Sep 30, 2018.

The company has returned more than \$900 million to shareholders so far in 2019 through dividends and share repurchases.

Outlook

In 2019, the company expects to meet its long-term target for earnings per share and EVA dollar growth goal.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-3.74%
EPS Surprise	-4.11%
Quarterly EPS	0.70
Annual EPS (TTM)	2.38

Valuation

Ball Corporation's shares are up 36.8% over the trailing 12-month period. Stocks in the Zacks Containers - Metal and Glass industry and the Zacks Industrial Products sector are up 38.6% and 19.3% over the past year, respectively.

The S&P 500 index has gained 25.1% in the past year.

The stock is currently trading at 21.41X forward 12-month earnings, which compares with 17.18X for the Zacks sub-industry, 18.13X for the Zacks sector and 18.79X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.25X and as low as 14.16X, with a 5-year median of 18.39X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$68 price target reflects 22.68X forward 12-month earnings.

The table below shows summary valuation data for BLL:

Valuation Multiples - BLL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.41	17.18	18.13	18.79
	5-Year High	33.25	19.8	19.9	19.34
	5-Year Low	14.16	12.02	12.59	15.17
	5-Year Median	18.39	16.23	16.54	17.44
P/S F12M	Current	1.72	1.32	2.75	3.48
	5-Year High	2.2	1.5	2.75	3.48
	5-Year Low	0.91	0.91	1.51	2.54
	5-Year Median	1.24	1.1	1.96	3
EV/EBITDA TTM	Current	14.96	12.53	17	11.99
	5-Year High	20.62	16.46	17.43	12.86
	5-Year Low	9.71	9.02	10.89	8.48
	5-Year Median	12.55	11.84	14.71	10.67

As of 01/06/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (244 out of 254)



Top Peers

Berry Global Group, Inc. (BERY)	Outperform
AptarGroup, Inc. (ATR)	Neutral
Crown Holdings, Inc. (CCK)	Neutral
Owens-Illinois, Inc. (OI)	Neutral
Packaging Corporation of America (PKG)	Neutral
Sealed Air Corporation (SEE)	Neutral
Silgan Holdings Inc. (SLGN)	Neutral
Sonoco Products Company (SON)	Neutral

Industry Comparison Industry: Containers - Metal And Glass				Industry Peers		
	BLL Neutral	X Industry	S&P 500	BERY Outperform	CCK Neutral	SLGN Neutral
VGM Score	C	-	-	A	D	B
Market Cap	20.99 B	6.53 B	23.72 B	6.05 B	9.72 B	3.35 B
# of Analysts	7	6	13	7	6	6
Dividend Yield	0.94%	1.20%	1.79%	0.00%	0.00%	1.46%
Value Score	D	-	-	A	C	B
Cash/Price	0.02	0.03	0.04	0.12	0.03	0.03
EV/EBITDA	16.57	13.96	13.90	11.57	11.35	8.33
PEG Ratio	3.89	1.79	2.00	0.90	1.86	1.71
Price/Book (P/B)	6.15	4.14	3.34	3.74	4.81	3.47
Price/Cash Flow (P/CF)	14.74	10.31	13.67	5.65	8.65	7.82
P/E (F1)	21.41	15.12	18.72	11.23	13.05	13.09
Price/Sales (P/S)	1.82	1.33	2.66	0.68	0.84	0.74
Earnings Yield	4.66%	6.73%	5.31%	8.90%	7.66%	7.64%
Debt/Equity	1.91	1.89	0.72	6.96	4.06	1.87
Cash Flow (\$/share)	4.35	4.11	6.94	8.12	8.29	3.86
Growth Score	B	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	6.37%	8.36%	10.56%	22.76%	10.60%	8.75%
Proj. EPS Growth (F1/F0)	19.41%	12.27%	7.42%	19.65%	9.43%	7.28%
Curr. Cash Flow Growth	1.37%	20.17%	14.83%	7.93%	41.18%	17.96%
Hist. Cash Flow Growth (3-5 yrs)	13.35%	11.69%	9.00%	15.70%	15.14%	4.01%
Current Ratio	1.01	1.01	1.23	1.84	1.12	1.01
Debt/Capital	65.65%	65.40%	42.92%	87.44%	80.23%	65.14%
Net Margin	4.82%	4.60%	11.08%	4.55%	4.10%	4.37%
Return on Equity	22.86%	24.46%	17.16%	29.77%	41.91%	26.05%
Sales/Assets	0.69	0.72	0.55	0.82	0.75	0.92
Proj. Sales Growth (F1/F0)	5.18%	3.12%	4.15%	38.94%	1.99%	0.46%
Momentum Score	C	-	-	A	B	C
Daily Price Chg	-0.93%	-0.84%	0.10%	-1.50%	-0.76%	-1.69%
1 Week Price Chg	0.12%	-0.49%	-0.30%	-1.19%	-1.30%	-1.09%
4 Week Price Chg	0.06%	-0.97%	2.33%	-2.90%	-2.87%	-0.89%
12 Week Price Chg	-12.00%	1.59%	7.02%	19.04%	12.00%	0.77%
52 Week Price Chg	38.18%	31.48%	24.61%	-5.80%	59.94%	24.77%
20 Day Average Volume	1,793,627	632,132	1,589,897	1,126,749	863,107	401,158
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.18%	0.00%	-0.36%
(F1) EPS Est 4 week change	-0.14%	-0.25%	0.00%	0.18%	0.00%	-0.36%
(F1) EPS Est 12 week change	-2.44%	-0.78%	-0.56%	0.00%	0.27%	-1.83%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.32%	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	C
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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