

Ball Corporation (BLL)

\$76.72 (As of 02/10/20)

Price Target (6-12 Months): **\$81.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/05/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

Ball Corporation's fourth-quarter 2019 earnings beat the Zacks Consensus Estimate, while sales missed the same. Despite a decline in revenues, the bottom-line figure improved year over year. The company expects to exceed its targeted earnings per share growth goal of 10-15% going forward. Overall global beverage can demand continues to grow 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. Ball Corporation'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 also drive Ball Corporation's results. However, headwinds related to currency and higher freight rates remain concerns.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$82.82 - \$53.72
20 Day Average Volume (sh)	2,457,474
Market Cap	\$25.1 B
YTD Price Change	18.6%
Beta	0.62
Dividend / Div Yld	\$0.60 / 0.8%
Industry	Containers - Metal and Glass
Zacks Industry Rank	Top 44% (112 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.4%
Last Sales Surprise	-5.8%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	30.2
P/E F1	26.2
PEG F1	4.8
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,860 E
2020	2,825 E	3,126 E	3,142 E	2,976 E	12,203 E
2019	2,785 A	3,017 A	2,953 A	2,719 A	11,474 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.73 E	\$0.90 E	\$0.93 E	\$0.88 E	\$3.40 E
2020	\$0.61 E	\$0.75 E	\$0.83 E	\$0.75 E	\$2.93 E
2019	\$0.49 A	\$0.64 A	\$0.70 A	\$0.71 A	\$2.53 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 02/10/2020. The reports text is as of 02/11/2020.

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 –

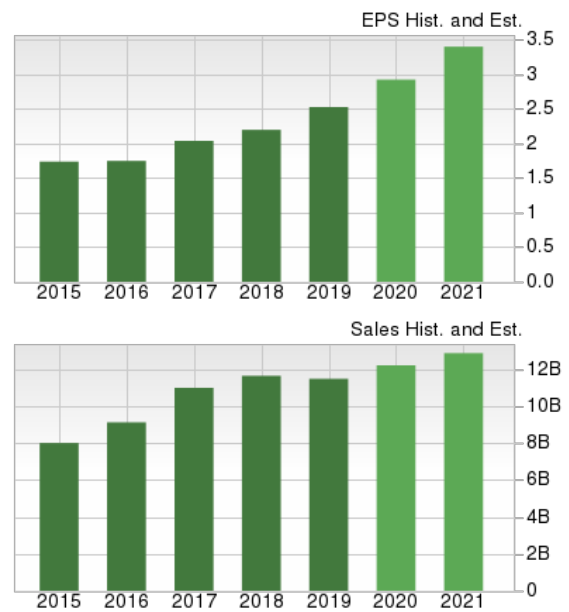
Beverage packaging, North and Central America (41% of 2019 sales) - Consists of operations in the United States, Canada and Mexico that manufacture and sell metal beverage containers throughout those countries.

Beverage packaging, South America (15%) - Consists of operations in Brazil, Argentina and Chile that manufacture and sell metal beverage containers throughout most of South America.

Beverage packaging, Europe (23%) - 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, operational efficiency, benefits from new customer contracts, mitigation of U.S. aluminum scrap headwinds and increased availability of cans are expected to significantly back results this year. The Beverage Packaging, South America segment is also poised well for improved results in 2020 driven by favorable market trends for cans across the regions, better customer mix and improved manufacturing efficiencies. The new beverage-can manufacturing plant in Paraguay is on track and the company is poised to add additional capacity in Brazil during fourth-quarter 2020. The Beverage Packaging, Europe segment will gain on customers' growing preference for cans as well as investment in incremental capacity in the company's existing facilities that will start contributing to production in the current year. The Aerospace segment's year-end backlog increased 14%. The segment's contracts already won, but not yet booked into the fourth-quarter contracted backlog, is \$4.2 billion. The company expects the segment's earnings and revenue to register strong double-digit growth over the next several years.
- ▲ 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 of \$800 million and free cash flow of \$600 million in 2020. Further, the company has taken actions to improve operational performance in aluminum aerosol business, while initiating additional products to expand aerospace infrastructure and testing capabilities.
- ▲ The company is largely investing in aluminum packaging production to capitalize on the rising demand for aluminum cans, bottles and cups. Ball Corporation is also focused on improving operational efficiencies, sustainability benefits and ramping-up the previously-announced line additions, speed-ups and greenfield-plant expansions. Additionally, it has successfully launched lightweight aluminum cups. With the line additions at existing facilities in Georgia and Texas start up in the second half of the current year, the company also announced its plan to construct two new specialty beverage can manufacturing facility in Glendale, AZ, and in the Northeast U.S to support the new can-filling facility for customers. The company has completed the sale of its China beverage can business and its Argentine steel aerosol business. Ball Corporation's recently-launched infinity bottle will provide sustainable solution for personal care products, as customers are shifting from small- to mid-sized plastic containers at hotels and stores. Ball Corporation expects its previously-announced aluminum beverage can and cup projects to add at least 8 billion units of capacity by the end of 2021.
- ▲ Ball Corporation remains on track with its commitment to lower net debt. Net debt to EBITDA was at 3.2x at the end of 2019. 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. In 2019, the company returned more than \$1.1 billion to shareholders, paying out dividends around \$182 million and repurchasing shares worth \$945 million. Ball Corporation plans to return nearly \$1 billion to shareholders in 2020 as well. The company continues to anticipate long-term earnings per share growth of 10-15% and EVA dollar growth as multiple growth projects are coming online. The company is committed to improving earnings and cash flow, in order to support disciplined capital investments and return value to shareholders.

Ball Corporation will benefit from growing preference for aluminium packaging, strong aerospace backlog, low debt level, 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. 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 in the first half of the current year.
- 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.

Ball Corporation's performance will be impacted by headwinds related to currency, higher freight rates and lower volumes in the North and Central America segment.

Last Earnings Report

Ball Corp's Earnings Beat, Sales Trail Estimates in Q4

Ball Corporation reported fourth-quarter 2019 adjusted earnings of 71 cents per share, beating the Zacks Consensus Estimate of 68 cents. The reported figure improved 29% on a year-over-year basis.

On a reported basis, the company posted earnings of 48 cents per share compared with 44 cents in the prior-year quarter.

Total sales came in at \$2,719 million in the reported quarter, down from \$2,803 million in the year-ago quarter. The top line missed the Zacks Consensus Estimate of \$2,887 million.

The fourth-quarter results reflect the 2019 sale of the company's Argentine steel aerosol business and Chinese beverage can assets, and the 2018 sale of the company's U.S. steel food and steel aerosol business.

Operational Update

Cost of sales declined to \$2,159 million from \$2,246 million the year-ago quarter. Gross profit was up \$560 million from the year-ago quarter's \$557 million. Gross margin came in at 20.5% during the fourth quarter compared with the prior-year quarter figure of 19.8%.

Selling, general and administrative expenses fell 29.3% year over year to \$89 million. Adjusted operating income increased 14% to \$340 million from the year-ago quarter figure of \$298 million. The company reported operating margin of 12.5% compared with 10.6% in the year-ago comparable period.

Segment Performance

The Beverage packaging's North and Central America segment revenues decreased to \$1,111 million in the fourth quarter from \$1,113 million a year ago. Operating earnings went up 8.6% year over year to \$139 million.

Sales at the Beverage packaging, Europe segment came in at \$599 million in the reported quarter, declining 4% year over year. Operating earnings increased 6.3% year over year to \$67 million. Segment volume was driven by customers' increasing preference for can over glass packaging, strong growth for energy drinks and growing demand for specialty cans.

The Beverage packaging South America segment's revenues declined to \$460 million during the fourth quarter from \$472 million in the prior-year comparable period. Operating earnings moved up to \$95 million from \$78 million in the year-earlier quarter. Industry beverage can demand in South America remains strong as customers are shifting from glass packaging to aluminum cans.

In the Aerospace segment, sales rose 10.8% year over year to \$398 million. Operating earnings fell to \$37 million from year-ago quarter figure of \$38 million. As of the end of 2019, the segment's contracted backlog increased to \$2.5 billion. Since then, the company has won contracts worth \$4.2 billion, which have not yet been included in the backlog.

Financial Condition

Ball Corp reported cash and cash equivalents of \$1,798 million at the end of 2019, up from \$721 million at the end of the prior year. Cash flow from operating activities were \$1,548 million during 2019, compared with the \$1,566 million in 2018. The company's long-term debt decreased to \$6,337 million as of Dec 31, 2019, from \$6,510 million as of Dec 31, 2018.

The company has returned more than \$1 billion to shareholders in 2019 through dividends and share repurchases.

2019 Performance

Adjusted earnings per share for 2019 came in at \$2.53, an improvement of 15% from the prior year. Earnings beat the Zacks Consensus Estimate of \$2.50. Including one-time items, earnings in the period came in at \$1.66, up 29% year over year.

Revenues were at \$11.5 billion in 2019, reflecting year-over-year decline of 1.4%. The top line missed the Zacks Consensus Estimate of \$11.6 billion.

Outlook

Ball Corp continues to anticipate long-term earnings per share growth of 10-15% and EVA dollar growth in the current year. The company is committed to improving earnings and cash flow in order to support disciplined capital investments and return value, worth \$1 billion, to shareholders in 2020.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	-5.82%
EPS Surprise	4.41%
Quarterly EPS	0.71
Annual EPS (TTM)	2.54

Valuation

Ball Corporation's shares are up 39.8% over the trailing 12-month period. Stocks in the Zacks Containers - Metal and Glass industry and the Zacks Industrial Products sector are up 37.4% and 8.9% over the past year, respectively.

The S&P 500 index has gained 21.2% in the past year.

The stock is currently trading at 25.52X forward 12-month earnings, which compares with 19.80X for the Zacks sub-industry, 18.28X for the Zacks sector and 19.27X 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 18.45X.

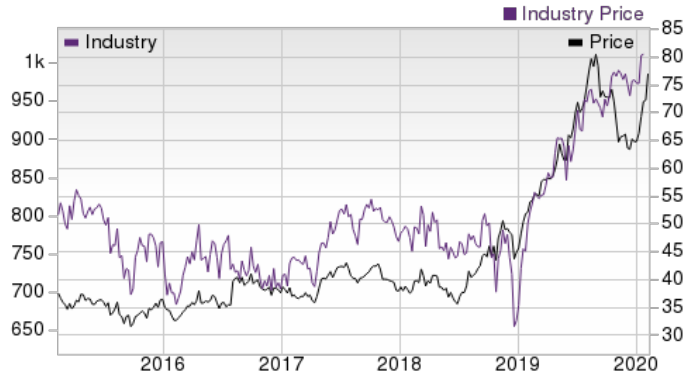
Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$81 price target reflects 26.94X forward 12-month earnings.

The table below shows summary valuation data for BLL:

Valuation Multiples - BLL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.52	19.8	18.28	19.27
	5-Year High	33.25	19.8	19.89	19.34
	5-Year Low	14.16	12.02	12.6	15.18
	5-Year Median	18.45	16.23	16.62	17.47
P/S F12M	Current	2.04	1.51	2.77	3.55
	5-Year High	2.2	1.51	2.77	3.55
	5-Year Low	0.91	0.91	1.51	2.54
	5-Year Median	1.25	1.11	1.98	3
EV/EBITDA TTM	Current	16.12	13.6	16.84	11.36
	5-Year High	20.62	16.46	17.42	12.85
	5-Year Low	9.71	9.02	10.96	8.47
	5-Year Median	12.58	11.93	14.68	10.7

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Top 44% (112 out of 255)



Top Peers

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

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	-	-	B	D	A
Market Cap	25.10 B	7.13 B	24.17 B	5.52 B	10.74 B	3.52 B
# of Analysts	7	5.5	13	7	6	6
Dividend Yield	0.78%	1.08%	1.77%	0.00%	0.00%	1.38%
Value Score	D	-	-	B	C	A
Cash/Price	0.07	0.05	0.04	0.12	0.03	0.06
EV/EBITDA	18.41	10.81	13.89	11.16	12.01	9.03
PEG Ratio	4.80	1.93	2.05	0.81	2.07	1.79
Price/Book (P/B)	8.31	4.38	3.27	3.09	5.31	3.44
Price/Cash Flow (P/CF)	16.31	10.49	13.60	5.13	9.56	7.81
P/E (F1)	26.39	16.61	19.00	10.09	14.46	13.70
Price/Sales (P/S)	2.19	1.56	2.66	0.57	0.92	0.78
Earnings Yield	3.82%	6.12%	5.26%	9.91%	6.91%	7.30%
Debt/Equity	2.10	1.93	0.71	6.24	4.06	1.77
Cash Flow (\$/share)	4.70	4.39	6.89	8.12	8.29	4.07
Growth Score	A	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	8.00%	9.50%	10.85%	19.78%	10.68%	9.98%
Proj. EPS Growth (F1/F0)	15.70%	13.04%	7.22%	21.07%	7.24%	7.41%
Curr. Cash Flow Growth	4.20%	9.68%	8.88%	7.93%	41.18%	5.43%
Hist. Cash Flow Growth (3-5 yrs)	13.04%	12.40%	8.36%	15.70%	15.14%	4.91%
Current Ratio	0.88	0.66	1.22	1.77	1.12	0.44
Debt/Capital	67.73%	66.44%	42.90%	86.18%	80.23%	65.14%
Net Margin	4.93%	4.65%	11.81%	3.73%	4.37%	4.32%
Return on Equity	25.14%	25.11%	16.98%	26.56%	39.58%	25.07%
Sales/Assets	0.68	0.72	0.54	0.76	0.76	0.90
Proj. Sales Growth (F1/F0)	6.36%	2.41%	4.06%	36.22%	1.45%	0.63%
Momentum Score	F	-	-	A	F	A
Daily Price Chg	-0.26%	0.23%	0.45%	-0.69%	0.84%	0.73%
1 Week Price Chg	6.57%	4.21%	2.47%	-1.34%	6.16%	2.25%
4 Week Price Chg	13.66%	8.83%	0.95%	-8.48%	9.28%	3.37%
12 Week Price Chg	13.51%	8.87%	5.05%	0.85%	6.38%	2.70%
52 Week Price Chg	42.47%	28.95%	16.18%	-16.68%	48.66%	13.19%
20 Day Average Volume	2,457,474	763,937	1,999,386	1,587,920	1,031,655	496,219
(F1) EPS Est 1 week change	-1.54%	0.00%	0.00%	-0.34%	0.15%	0.00%
(F1) EPS Est 4 week change	-1.54%	0.10%	0.00%	0.80%	-0.24%	0.51%
(F1) EPS Est 12 week change	-1.99%	-0.20%	-0.18%	7.98%	-0.24%	0.14%
(Q1) EPS Est Mthly Chg	-1.78%	-5.72%	0.00%	1.96%	-14.55%	0.42%

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	A
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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