

Ball Corporation (BLL)

\$75.95 (As of 08/10/20)

Price Target (6-12 Months): **\$80.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/11/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: C

Summary

Ball Corp reported a year-over-year improvement in second-quarter 2020 adjusted earnings despite a decline in revenues. While earnings beat the Zacks Consensus Estimate, revenues missed the same. Overall global beverage can demand continues to grow as customers are preferring cans over glass and plastic. Also, higher demand for at-home consumption amid the pandemic bodes well for the company. The Aerospace segment is likely to benefit from its strong backlog levels and business wins. Ball Corp's balance sheet remains healthy and provides its flexibility to invest in capacity and acquisitions. Focus on new products, completing growth capital projects and cost cutting will also drive results. However, supply constraints and incremental costs related to the COVID-19 pandemic may impact the company's results in the near term.

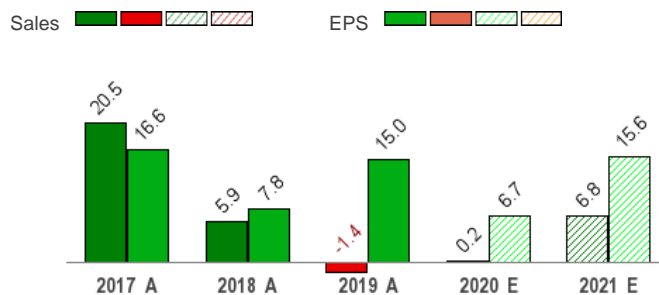
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$82.82 - \$51.26
20 Day Average Volume (sh)	2,216,256
Market Cap	\$24.6 B
YTD Price Change	16.5%
Beta	0.52
Dividend / Div Yld	\$0.60 / 0.8%
Industry	Containers - Metal and Glass
Zacks Industry Rank	Top 1% (2 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.0%
Last Sales Surprise	-2.2%
EPS F1 Est- 4 week change	1.3%
Expected Report Date	10/29/2020
Earnings ESP	2.3%
P/E TTM	28.2
P/E F1	28.2
PEG F1	5.1
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,945 E	3,115 E	3,150 E	2,960 E	12,278 E
2020	2,785 A	2,801 A	2,993 E	2,858 E	11,500 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	\$0.61 E	\$0.78 E	\$0.84 E	\$0.74 E	\$3.12 E
2020	\$0.61 A	\$0.65 A	\$0.77 E	\$0.74 E	\$2.70 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 08/10/2020. The reports text is as of 08/11/2020.

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.

Effective Jan 1, 2020, the company implemented changes to its management and internal reporting structure for cost reduction and operational efficiency purposes. The company's operations are presented in the four reportable segments –

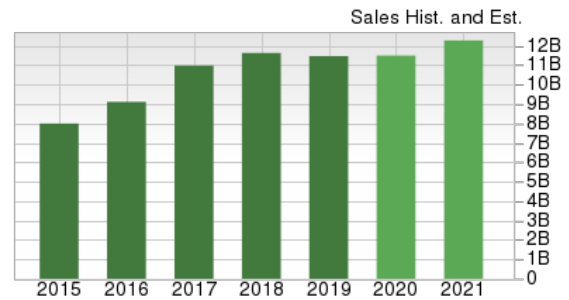
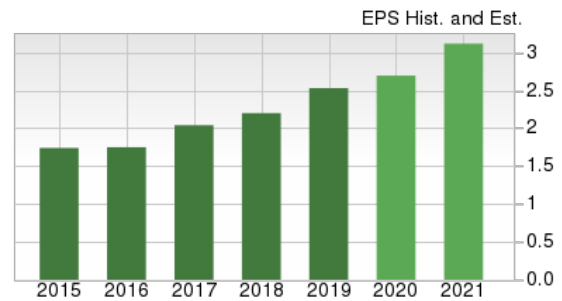
Beverage packaging, North and Central America (41% of 2019 sales) - Consists of operations in the United States, Canada and Mexico that manufacture and sell metal beverage containers throughout those countries.

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

Beverage packaging, EMEA (23%) - Consists of operations in several countries in Europe, including Russia, Egypt and Turkey 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 October 2019, the company sold its Argentine steel aerosol packaging business, which included facilities in Garin and San Luis, Argentina. In September 2019, the company completed the sale of its metal beverage packaging business in China.



Reasons To Buy:

- ▲ Ball Corp provides key aluminum packaging products and services to stable consumer-oriented end-markets, such as food and beverages, household and healthcare. Demand is usually fairly stable across economic cycles as they include essentials used in day-to-day lives. As the coronavirus outbreak spread in North America, the company witnessed significant demand for beverage can demand. Higher at-home consumption is anticipated to sustain demand. Throughout 2020, the Beverage packaging, North and Central America segment is expected to gain on new customer contracts, operational efficiency, strong demand for aluminum beverage packaging, and increased availability of cans from new production lines in Georgia and Texas. Notably, these product lines will be operational in the second half and expected to add significantly to year-over-year results. Additionally, two new can manufacturing facilities in Arizona and the northeastern U.S. will be operational by mid-2021. The Beverage Packaging, EMEA segment will gain from multiple beverage can line additions that will be executed across the existing European plant network in 2020 and beyond in order to meet demand. The Beverage Packaging, South America segment will gain on increasing preference for aluminum beverage packaging over other options. In mid-2021, multiple new Brazilian production lines will come on line to support the expected growth across the region.
- ▲ The Aerospace segment's contracted backlog remains strong at \$2.1 billion as of second-quarter 2020 end. Contracts already won, but not yet booked into current contracted backlog, reflected a sequential increase of 10% to \$5.3 billion. Program execution remains at a high level across the business. The segment continues to win and provide mission-critical programs and technologies to U.S. government, defense, intelligence, reconnaissance and surveillance customers. Multiple projects to expand manufacturing capacity, test capabilities and engineering and support workspace are on track. So far this year, the segment's aerospace headcount has increased by nearly 450 employees, and the company anticipates hiring an additional 550 employees by end of this year. In 2020 and beyond, the larger labor base will execute on a broad base of defense, civil, climate monitoring and weather prediction contracts that will help drive the segment's earnings in the future.
- ▲ Overall global beverage can demand continues to grow as customers are now preferring cans over glass and plastic. Ball Corp continues to execute its strategies of achieving better value for standard products and higher growth for specialty products. The company is focused on pursuing cost-control, completing growth capital projects and commercializing on the inherent sustainability attributes of metal packaging, which will benefit it in the foreseeable future. Ball Corp expects capital spending to exceed \$900 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 maintains its expectation to deliver long-term diluted earnings per share growth of at least 10% to 15% beyond 2020 and achieve EVA (economic value added) dollars growth of 4% to 8% per year.
- ▲ The company is largely investing in aluminum packaging production to capitalize on the rising demand for aluminum cans, bottles and cups. The company has completed the sale of its China beverage can business and its Argentine steel aerosol business. Ball Corp'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 Corp expects its previously-announced aluminum beverage can and cup projects to add at least 8 billion units of capacity by the end of 2021. In March 2020, Ball Corp agreed to acquire Tubex Industria E Comercio de Embalagens Ltda, an aluminum aerosol packaging business with a plant near Sao Paolo, Brazil, for initial cash consideration of \$80 million, subject to customary closing adjustments, and potential additional consideration not to exceed \$30 million over the three years following the transaction close date. The business will be part of Ball Corp's aerosol packaging operating segment. The transaction is expected to close in third-quarter 2020 and will broaden the geographic reach of the company's aluminum aerosol packaging business, serving the growing Brazilian personal care market.
- ▲ Ball Corp's balance sheet remains healthy and provides flexibility to invest in capacity while returning value to shareholders in the current economic environment. The company's long-term debt was around \$7 billion at the end of second-quarter 2020. As of Jun 30, 2020, taking into account outstanding letters of credit, approximately \$918 million was available under the company's existing long-term, revolving credit facilities. In addition to these facilities, the company had approximately \$930 million of short-term uncommitted credit facilities available at Jun 30, 2020, of which \$519 million was outstanding and due on demand. The company has no debt maturities until 2022 and its senior credit facilities are in place until 2024. Ball Corp expects to generate free cash flow of around \$400 million in 2020. Further, its times interest earned ratio was 2.2 at the end of second-quarter 2020.

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:

- ▼ Demand in the United States has remained strong, driven by a favorable pack mix shift and growth in at-home consumption. However, demand has outpaced Ball Corp's current supply capacity. Due to these supply constraints, Ball Corp expects to import cans to meet demand until its new plants ramp up. Further, it will also lead to higher freight costs.
- ▼ The company might incur higher-than-expected start-up costs due to the ongoing capacity expansion efforts to meet growing demand for cans. Further, incremental costs related to the COVID-19 pandemic may dampen near-term price/mix. These factors will impact margins in the near term.
- ▼ The current global business environment is being impacted directly and indirectly by the effects the coronavirus. In line with other companies in the packaging and aerospace industries, Ball Corp makes majority of its sales and significant purchases to or from a relatively small number of global, or large regional, customers and suppliers. Furthermore, the company makes majority of its sales from a small number of product lines. Thus, the impact of COVID-19 on a significant customer or supplier, or on demand for certain of its products could negatively impact the company's results.

Ball Corp's performance in the near term is likely to be impacted by headwinds stemming from the coronavirus pandemic, supply constraints and higher startup costs.

Last Earnings Report

Ball Corp's Earnings Beat Estimates in Q2, Up Y/Y

Ball Corp reported second-quarter 2020 adjusted earnings of 65 cents per share, beating the Zacks Consensus Estimate of 57 cents. The bottom line also improved 1.6% on a year-over-year basis. The quarterly results reflect solid aluminum beverage-can demand in North America.

On a reported basis, the company posted earnings of 28 cents per share compared with the prior-year quarter's 58 cents.

Total sales came in at \$2,801 million in the reported quarter, down 7.2% from the year-ago quarter. The top-line figure also missed the Zacks Consensus Estimate of \$2,865 million.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	-2.24%
EPS Surprise	14.04%
Quarterly EPS	0.65
Annual EPS (TTM)	2.67

Operational Update

Cost of sales came in at \$2,230 million in second-quarter 2020, down 8.2% from the year-ago quarter. Gross profit came in at \$571 million compared with the year-ago quarter's \$589 million. Gross margin came in at 20.4% during the reported quarter compared with the prior-year quarter figure of 19.5%.

Selling, general and administrative expenses remained flat year over year at \$111 million. Adjusted operating income declined 5.8% year over year to \$327 million. The company recorded operating margin of 11.7% compared with the prior-year quarter's 11.5%.

Segment Performance

The Beverage packaging's North and Central America segment revenues declined to \$1,267 million during the April-June period from the year-ago quarter's \$1,286 million. Operating earnings surged 34% year over year to \$189 million.

Sales at the Beverage packaging, EMEA segment came in at \$699 million in the second quarter, down 8.9% year over year. Operating earnings plunged 35.7% year over year to \$63 million.

The Beverage packaging South America segment's revenues declined to \$329 million in the second quarter from the \$377 million witnessed in the prior-year period. Operating earnings fell to \$46 million from the year-earlier quarter's \$65 million.

In the Aerospace segment, sales rose 15.6% year over year to \$438 million. Operating earnings declined to \$30 million from the year-ago quarter figure of \$38 million. As of the end of the reported quarter, the segment's contracted backlog was \$2.1 billion and contracts already won, but not yet booked into current contracted backlog, increased 10% year to date to \$5.3 billion.

Financial Condition

Ball Corp reported cash and cash equivalents of \$643 million at the end of the second quarter, down from the \$764 million recorded at the end of the year-earlier period. Cash used in operating activities was \$232 million in the first half of 2020 compared with \$253 million cash generated in the first half of 2019. The company's long-term debt increased to \$7.2 billion at the end of the second quarter from \$6.9 billion at the end of prior-year quarter.

Outlook

Given the significant growth prospects in North American beverage business, the company anticipates current-year capital expenditures to exceed \$900 million. The company is on track to meet the previously-announced projects and will continue to deploy additional capital across its existing business portfolio to support new customer wins.

The company expects to increase its earnings per diluted share in the ongoing year. Moreover, Ball Corp maintains its expectation to deliver long-term diluted earnings per share growth of at least 10-15% beyond 2020 and achieve additional EVA (economic value added) dollars enhancing opportunities.

Valuation

Ball Corporation's shares up 16.5% over the trailing 12-month period and 2.0% over the trailing 12-month period. Stocks in the Zacks Containers - Metal and Glass industry are up 12.9% while the Zacks Industrial Products sector are down 1.6% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 3.7% and 4.5%.

The S&P 500 index is up 4.2% in the year-to-date period and up 16.7% in the past year.

The stock is currently trading at 25.71X forward 12-month earnings, which compares with 19.38X for the Zacks sub-industry, 21.80X for the Zacks sector and 22.76X 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 18.57X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$80 price target reflects 27.23X 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	25.71	19.38	21.8	22.76
	5-Year High	33.25	20.04	21.8	22.75
	5-Year Low	14.16	11.41	12.55	15.25
	5-Year Median	18.57	15.99	17.48	17.58
P/S F12M	Current	2.05	1.55	2.90	3.66
	5-Year High	2.2	1.55	2.9	3.66
	5-Year Low	0.91	0.89	1.52	2.53
	5-Year Median	1.29	1.15	2.04	3.05
EV/EBITDA TTM	Current	16.14	14.63	19.49	12.62
	5-Year High	20.63	16.66	19.49	12.84
	5-Year Low	9.6	8.9	10.84	8.24
	5-Year Median	13.76	12.2	14.9	10.9

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Top 1% (2 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Crown Holdings, Inc. (CCK)	Outperform	2
Graphic Packaging Holding Company (GPK)	Outperform	1
Silgan Holdings Inc. (SLGN)	Outperform	1
Amcor PLC (AMCR)	Neutral	3
OI Glass, Inc. (OI)	Neutral	3
Packaging Corporation of America (PKG)	Neutral	3
Sealed Air Corporation (SEE)	Neutral	3
Sonoco Products Company (SON)	Neutral	3

Industry Comparison Industry: Containers - Metal And Glass				Industry Peers		
	BLL	X Industry	S&P 500	CCK	SLGN	SON
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	2	1	3
VGM Score	B	-	-	A	B	B
Market Cap	24.60 B	9.95 B	23.56 B	9.95 B	4.23 B	5.36 B
# of Analysts	8	7	14	7	6	5
Dividend Yield	0.80%	0.80%	1.71%	0.00%	1.26%	3.22%
Value Score	C	-	-	A	B	B
Cash/Price	0.03	0.04	0.07	0.04	0.04	0.16
EV/EBITDA	19.33	12.58	13.39	10.56	12.58	8.91
PEG Ratio	5.09	2.84	2.92	2.84	2.74	3.27
Price/Book (P/B)	8.68	4.48	3.18	4.48	3.88	2.96
Price/Cash Flow (P/CF)	16.01	9.37	12.69	8.31	9.37	8.96
P/E (F1)	28.00	14.22	22.16	14.22	13.71	16.34
Price/Sales (P/S)	2.19	0.92	2.55	0.88	0.92	1.03
Earnings Yield	3.57%	7.03%	4.33%	7.03%	7.30%	6.12%
Debt/Equity	2.53	2.85	0.77	3.67	2.85	0.90
Cash Flow (\$/share)	4.70	4.70	6.94	8.88	4.07	5.96
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	10.45%	10.45%	10.41%	9.93%	13.28%	8.88%
Proj. EPS Growth (F1/F0)	6.52%	7.61%	-6.51%	1.59%	28.70%	-7.42%
Curr. Cash Flow Growth	4.20%	5.44%	5.26%	7.40%	5.44%	3.38%
Hist. Cash Flow Growth (3-5 yrs)	13.04%	12.67%	8.55%	12.67%	4.92%	5.30%
Current Ratio	0.97	1.15	1.34	1.15	1.34	1.42
Debt/Capital	71.67%	74.03%	44.59%	78.59%	74.03%	47.24%
Net Margin	3.28%	4.28%	10.13%	4.28%	5.50%	5.23%
Return on Equity	29.73%	29.73%	14.59%	32.53%	27.83%	19.35%
Sales/Assets	0.67	0.73	0.51	0.73	0.84	1.00
Proj. Sales Growth (F1/F0)	0.23%	0.23%	-1.54%	-3.05%	5.97%	-4.41%
Momentum Score	C	-	-	D	D	D
Daily Price Chg	-0.26%	-0.45%	0.91%	-0.45%	-1.00%	0.51%
1 Week Price Chg	2.58%	2.58%	2.30%	3.59%	0.63%	2.67%
4 Week Price Chg	5.17%	11.31%	8.54%	11.31%	16.57%	4.20%
12 Week Price Chg	17.06%	17.06%	13.68%	17.74%	13.88%	10.77%
52 Week Price Chg	-1.99%	12.41%	3.71%	12.41%	25.80%	-6.89%
20 Day Average Volume	2,216,256	955,065	2,015,804	955,065	690,325	462,193
(F1) EPS Est 1 week change	1.36%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.32%	3.66%	1.67%	3.66%	15.59%	0.49%
(F1) EPS Est 12 week change	1.21%	3.54%	2.27%	3.54%	15.59%	0.49%
(Q1) EPS Est Mthly Chg	0.16%	1.87%	0.67%	1.87%	14.17%	-5.24%

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	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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.