

Ball Corporation (BLL)

\$69.47 (As of 07/16/20)

Price Target (6-12 Months): **\$74.00**

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:F

Value: D

Growth: D

Momentum: B

Summary

Ball Corp. continues to execute its strategies of achieving better value for standard products and higher growth for specialty products. Overall global beverage can demand continues to grow as customers are preferring cans over glass and plastic. This 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 while returning value to shareholders. Focus on new products, completing growth capital projects and cost cutting will also drive results. However, the impact of the coronavirus pandemic remains a headwind. The earnings estimates for the current quarter and year have undergone negative revision lately. The company has a mixed record of earnings surprise in the last few quarters.

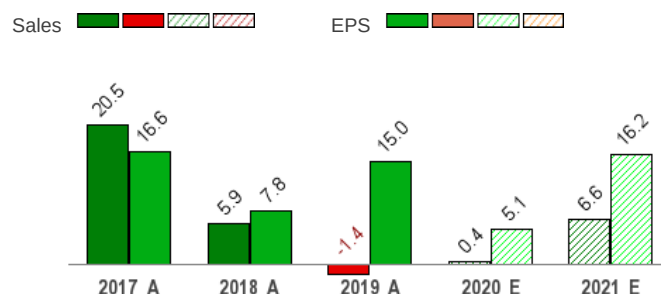
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$82.82 - \$51.26
20 Day Average Volume (sh)	1,893,204
Market Cap	\$22.6 B
YTD Price Change	7.4%
Beta	0.51
Dividend / Div Yld	\$0.60 / 0.9%
Industry	Containers - Metal and Glass
Zacks Industry Rank	Bottom 8% (232 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.7%
Last Sales Surprise	-2.0%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	08/06/2020
Earnings ESP	-0.7%
P/E TTM	26.1
P/E F1	26.1
PEG F1	4.8
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,945 E	3,115 E	3,150 E	2,960 E	12,280 E
2020	2,785 A	2,865 E	3,002 E	2,858 E	11,522 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	\$0.64 E	\$0.78 E	\$0.84 E	\$0.74 E	\$3.09 E
2020	\$0.61 A	\$0.57 E	\$0.76 E	\$0.72 E	\$2.66 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 07/16/2020. The reports text is as of 07/17/2020.

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 –

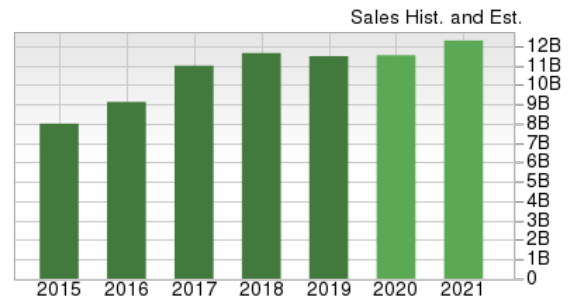
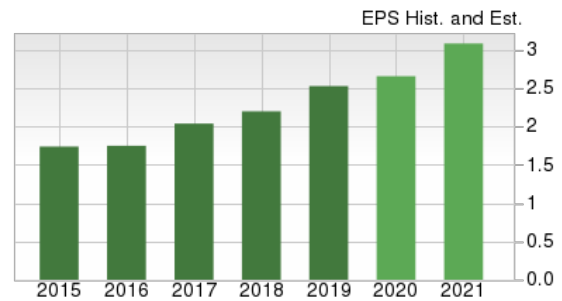
Beverage packaging, North and Central America (41% of 2019 sales) - Consists of operations in the United States, Canada and Mexico that manufacture and sell metal beverage containers throughout those countries.

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 demand for at-home consumption is anticipated to continue for the foreseeable future. Throughout 2020, the Beverage packaging, North and Central America segment is expected to gain on continued benefits from 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. The Beverage Packaging, EMEA segment will gain on growing customers' growing preference for cans for traditional and non-traditional beverages, strong growth for energy drinks and higher at-home consumption. Projects for multiple beverage can line additions will be executed across the existing European plant network in 2020 and beyond to meet demand.
- ▲ The Aerospace segment's contracted backlog remains strong at \$2.3 billion as of first-quarter 2020 end. Contracts already won, but not yet booked into current contracted backlog, reflecting an increase of 14%. 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 space are on track. Its headcount has increased by over 250 employees. 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 Corporation 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 months to come. Ball Corp expects capital spending of \$800 million and free cash flow of \$500 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. 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. 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. In March 2020, Ball Corp agreed to acquire TubexIndustria 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 \$8 billion at the end of first-quarter 2020. The company has no debt maturities until 2022, and its senior credit facilities are in place until 2024. As of Mar 31, 2020, taking into account outstanding letters of credit, approximately \$555 million was available under the company's existing long-term, revolving credit facilities. In addition to these facilities, the company had approximately \$1.1 billion of short-term uncommitted credit facilities available at Mar 31, 2020, of which \$517 million was outstanding and due on demand. The company expects to generate free cash flow of around \$500 million in 2020. Further, Ball Corp's times interest earned ratio was 2.4 in 2019, which has been increasing over the last three years. This further underscores the company's ability to meet debt obligations.

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:

- ▼ 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.
- ▼ The company anticipates a decline in demand in the Beverage packaging, South America, segment as a result of temporary government closures of smaller grocery stores, gas stations and convenience stores in Brazil. As such, the two Brazilian production lines which were slated to come on line in the fourth quarter, will likely shift into 2021. Demand and business conditions are expected to be challenging in the second quarter for the Beverage packaging, EMEA, segment due to country specific travel restrictions. The company currently expects earnings in this segment to be down mid-single digits.
- ▼ In the Beverage packaging, North and Central America segment, the company witnessed a surge for traditional packs for home consumption. However, the company might not be able to meet this growing demand until it gets additional capacity online. The company hasn't focused on adding capacity for these products in the short term. Further, incremental costs related to the COVID-19 pandemic may dampen near-term price/mix.

Ball Corporation's performance will be impacted by headwinds stemming from the coronavirus pandemic, lower demand in South America and Europe on account of restrictions.

Last Earnings Report

Ball Corp's Q1 Earnings Beat, Sales Lag Estimates

Ball Corporation reported first-quarter 2020 adjusted earnings of 61 cents per share, beating the Zacks Consensus Estimate of 60 cents. The bottom line also improved 24% on a year-over-year basis.

On a reported basis, the company posted earnings of 7 cents per share compared with 34 cents in the prior-year quarter.

Total sales came in at \$2,785 million in the reported quarter, flat compared with the year-ago quarter. The top line missed the Zacks Consensus Estimate of \$2,842 million. However, global beverage can volumes were up 4% in the quarter.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	-2.01%
EPS Surprise	1.67%
Quarterly EPS	0.61
Annual EPS (TTM)	2.66

Operational Update

Cost of sales came in at \$2,215 million in first-quarter 2020, down 2% from the year-ago quarter. Gross profit was at \$570 million in the first quarter compared with \$532 million in the year-ago quarter. Gross margin came in at 20.5% during the reported quarter compared with the prior-year quarter figure of 19.1%.

Selling, general and administrative expenses rose 3% year over year to \$131 million. Adjusted operating income increased 12% to \$307 million from the year-ago quarter figure of \$275 million. The company reported operating margin of 11.0% compared with 9.9% in the prior-year comparable period.

Segment Performance

The Beverage packaging's North and Central America segment revenues increased to \$1,181 million in first-quarter 2020 from \$1,131 million a year ago. Operating earnings surged 24% year over year to \$146 million.

Sales at the Beverage packaging, Europe segment came in at \$669 million in the reported quarter, declining 2% year over year. Operating earnings decreased 8% year over year to \$687 million.

The Beverage packaging South America segment's revenues declined to \$405 million in first-quarter 2020 from \$441 million in the prior-year comparable period. Operating earnings fell to \$63 million from \$68 million in the year-earlier quarter.

In the Aerospace segment, sales rose 32% year over year to \$432 million. Operating earnings increased to \$40 million from year-ago quarter figure of \$30 million. As of the end of first-quarter 2020, the segment's contracted backlog was at \$2.3 billion.

Financial Condition

Ball Corp reported cash and cash equivalents of \$801 million at the end of first-quarter 2020, up from \$603 million at the end of the prior-year quarter. Cash used in operating activities were \$708 million during the reported quarter, compared with \$129 million in the year-ago quarter. The company's long-term debt increased to \$7.5 billion as of Mar 31, 2020, from \$6.7 billion as of Dec 31, 2019.

Outlook

In the wake of the coronavirus pandemic, Ball Corporation has taken actions to focus on cash and liquidity, while continuing to pay dividends and execute growth investments. The company expects to generate free cash flow in the range of \$500 million in 2020.

Valuation

Ball Corporation's shares up 7.4% over the trailing 12-month period and 1.4% over the trailing 12-month period. Stocks in the Zacks Containers - Metal and Glass industry are up 3.3% while the Zacks Industrial Products sector are down 7.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 5.0% and 1.2%.

The S&P 500 index is up 0.4% in the year-to-date period and up 8.8% in the past year.

The stock is currently trading at 24.01X forward 12-month earnings, which compares with 18.42X for the Zacks sub-industry, 21.93X for the Zacks sector and 22.89X 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 18.54X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$74 price target reflects 25.56X 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	24.01	18.42	21.93	22.89
	5-Year High	33.25	20.04	21.93	22.89
	5-Year Low	14.16	11.41	12.55	15.25
	5-Year Median	18.54	15.99	16.81	17.52
P/S F12M	Current	1.9	1.43	2.81	3.58
	5-Year High	2.2	1.55	2.81	3.58
	5-Year Low	0.91	0.89	1.52	2.53
	5-Year Median	1.28	1.13	2.01	3.02
EV/EBITDA TTM	Current	15.04	12.69	16.74	11.99
	5-Year High	20.63	16.66	17.45	12.86
	5-Year Low	9.6	8.9	10.73	8.25
	5-Year Median	13.53	12.16	14.89	10.87

As of 07/16/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (232 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Graphic Packaging Holding Company (GPK)	Outperform	2
Amcor PLC (AMCR)	Neutral	3
Crown Holdings, Inc. (CCK)	Neutral	4
Packaging Corporation of America (PKG)	Neutral	3
Sealed Air Corporation (SEE)	Neutral	3
Silgan Holdings Inc. (SLGN)	Neutral	3
Sonoco Products Company (SON)	Neutral	4
OI Glass, Inc. (OI)	Underperform	5

Industry Comparison Industry: Containers - Metal And Glass				Industry Peers		
	BLL	X Industry	S&P 500	CCK	SLGN	SON
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	4
VGM Score	F	-	-	C	C	B
Market Cap	22.65 B	9.03 B	22.43 B	9.03 B	3.78 B	5.41 B
# of Analysts	8	6	14	6	6	5
Dividend Yield	0.86%	0.86%	1.82%	0.00%	1.41%	3.19%
Value Score	D	-	-	C	C	B
Cash/Price	0.03	0.08	0.07	0.08	0.17	0.02
EV/EBITDA	18.21	10.16	13.00	10.16	9.40	10.06
PEG Ratio	4.78	2.83	2.97	2.67	2.83	3.33
Price/Book (P/B)	8.38	4.43	3.13	4.43	3.70	2.99
Price/Cash Flow (P/CF)	14.77	8.38	12.13	7.55	8.38	9.05
P/E (F1)	26.31	14.17	21.97	13.36	14.17	16.64
Price/Sales (P/S)	1.97	0.84	2.38	0.77	0.84	1.04
Earnings Yield	3.83%	7.04%	4.35%	7.48%	7.04%	6.01%
Debt/Equity	2.77	2.77	0.75	4.28	2.13	0.90
Cash Flow (\$/share)	4.70	4.70	6.94	8.88	4.07	5.96
Growth Score	D	-	-	D	D	C
Hist. EPS Growth (3-5 yrs)	9.55%	10.51%	10.85%	10.51%	11.36%	8.75%
Proj. EPS Growth (F1/F0)	5.09%	6.17%	-9.37%	-1.73%	11.34%	-8.16%
Curr. Cash Flow Growth	4.20%	5.44%	5.51%	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	1.06	1.21	1.30	1.31	1.21	1.42
Debt/Capital	73.47%	73.47%	44.33%	81.06%	68.06%	47.24%
Net Margin	4.11%	4.24%	10.59%	4.24%	4.56%	5.23%
Return on Equity	28.11%	28.11%	15.74%	35.65%	25.52%	19.35%
Sales/Assets	0.68	0.75	0.54	0.75	0.87	1.00
Proj. Sales Growth (F1/F0)	0.42%	0.42%	-2.44%	-3.20%	1.71%	-2.80%
Momentum Score	B	-	-	A	A	D
Daily Price Chg	-0.07%	-0.04%	-0.06%	-0.04%	1.10%	0.67%
1 Week Price Chg	0.82%	0.63%	-0.41%	0.63%	0.09%	-2.57%
4 Week Price Chg	-1.42%	2.30%	1.63%	2.30%	8.81%	5.02%
12 Week Price Chg	7.04%	7.04%	15.55%	13.05%	1.13%	15.06%
52 Week Price Chg	-2.02%	12.44%	-4.26%	12.57%	12.44%	-12.51%
20 Day Average Volume	1,893,204	1,072,751	2,236,294	1,072,751	546,827	467,146
(F1) EPS Est 1 week change	-0.05%	0.00%	0.00%	0.27%	0.00%	-0.31%
(F1) EPS Est 4 week change	-0.15%	0.00%	0.01%	0.15%	0.00%	-0.31%
(F1) EPS Est 12 week change	-6.99%	-1.95%	-5.24%	-1.95%	3.81%	-3.40%
(Q1) EPS Est Mthly Chg	-0.06%	0.00%	0.00%	0.16%	0.00%	-3.57%

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	D
Momentum Score	B
VGM Score	F

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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