

DuPont de Nemours, Inc (DD)

\$51.21 (As of 09/30/19)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/15/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: D

Summary

DuPont's adjusted earnings and revenues for the fourth quarter of 2019 missed the respective Zacks Consensus Estimate. Weak demand across a number of markets including automotive and semiconductor are likely to hurt DuPont's volumes. Global economic slowdown and trade tariffs are hurting demand across these major end-use markets. Demand weakness is expected to affect the company's organic sales. DuPont also faces pressure on nylon prices stemming from the supply-demand imbalance. Weak pricing is expected to weigh on its sales and margins in 2020. The company also faces headwinds from manufacturing issues, which is affecting its safety & construction unit. Plant turnaround expenses are contributing to the rise in manufacturing costs. Unfavorable currency swings are also expected to weigh on its sales and earnings.

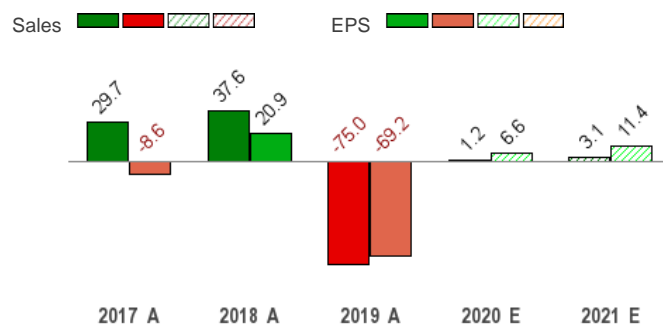
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$92.60 - \$63.28
20 Day Average Volume (sh)	6,858,549
Market Cap	\$37.9 B
YTD Price Change	-20.3%
Beta	1.43
Dividend / Div Yld	\$1.20 / 2.3%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 11% (228 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.0%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	-8.2%
Expected Report Date	NA
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					22,442 E
2020					21,766 E
2019	19,649 A	5,468 A	5,426 A	5,204 A	21,512 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.51 E
2020	\$0.73 E	\$1.06 E	\$1.04 E	\$0.95 E	\$4.05 E
2019	\$2.52 A	\$0.97 A	\$0.96 A	\$0.95 A	\$3.80 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 09/30/2019. The reports text is as of 02/03/2020.

Overview

Wilmington, DE-based DuPont de Nemours, Inc., which was formerly known as DowDuPont Inc., started trading as a stand-alone company on Jun 3, 2019 following the separation of its Agriculture division through the spin-off of Corteva, Inc. Following the Corteva separation, DuPont now holds the specialty products business of the former DowDuPont.

DuPont provides technology-based materials, ingredients and solutions. It serves markets including electronics, transportation, construction, health and wellness, food and worker safety.

DuPont currently operates through five reportable segments -- Electronics & Imaging, Nutrition & Biosciences, Transportation & Industrial, Safety & Construction and Non-Core.

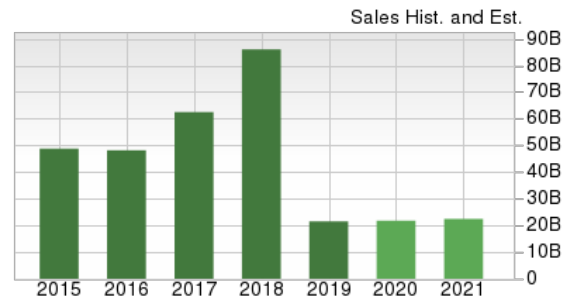
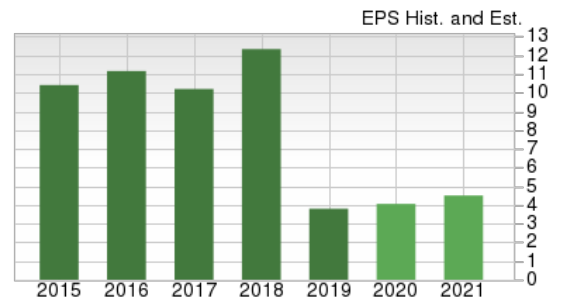
Electronics & Imaging: The segment provides differentiated materials and systems for a vast range of consumer electronics that include personal computers, mobile devices and television monitors. The segment accounted for 17% of 2019 sales.

Nutrition & Biosciences: The unit offers solutions for home and personal care, food and beverage, dietary supplements, energy, animal nutrition and pharmaceuticals markets. DuPont, in Dec 2019, agreed to merge this unit with International Flavors & Fragrances. The deal is expected to complete by first-quarter 2021. The division accounted for 28% of 2019 sales.

Transportation & Industrial: The segment provides high-performance engineering resins, silicones, lubricants, adhesives and parts in transportation, electronics, healthcare, industrial and consumer end-markets. It accounted for 23% of 2019 sales.

Safety & Construction: The unit is a leading provider of engineered products and integrated systems for industries including construction, energy, oil and gas, transportation and medical devices. It accounted for 24% of 2019 sales.

Non-Core: The segment supplies key materials for the production of photovoltaics and solar cells, and components and films for consumer electronics, automotive and aerospace markets. It accounted for 8% of 2019 sales.



Reasons To Sell:

- ▼ DuPont faces headwind from weak demand across some of its businesses. Soft demand in the semiconductor market, in particular in the memory segment, is affecting volumes in the company's electronics and imaging business unit. Moreover, softness in automotive market is hurting volumes in North America and Europe. The company is also seeing lower demand and inventory destocking in the electronics end-market. Weakening global economic conditions and trade tariffs are hurting demand in these major markets. Demand weakness, especially in automotive and semiconductor, is expected to continue to affect the company's organic sales over the near term.
- ▼ Weaker pricing is expected to dent the company's organic sales and margins for 2020. The company is facing pressure from lower nylon prices as witnessed in the most recent quarter. It is expected to face pricing pressure in 2020 stemming from the supply-demand imbalance. Nylon pricing weakness is expected to hurt first-quarter 2020 sales as reflected in the company's guidance. DuPont expects its net sales for the quarter to be down mid-single digits on a year-over-year basis factoring in soft pricing. The company sees pricing headwind of roughly \$200-\$250 million this year. It also expects prices to be down mid-single digits in the Transportation & Industrial division.
- ▼ The company faces headwind from manufacturing issues. The company saw increased manufacturing costs across some of its segments in the most recent quarter. In particular, plant maintenance expenses pushed up manufacturing costs in the company's safety & construction unit. The company expects margins in this unit to be hurt by manufacturing headwinds in the first quarter as well.
- ▼ DuPont is exposed to currency headwinds, which is hurting its organic sales and earnings. Currency contributed to the year-over-year decline in its adjusted earnings for 2019. Headwind from unfavorable currency swings on earnings was 16 cents for the year. The company saw unfavorable currency impacts on sales and margins across its segments in 2019. Currency is expected to continue to impact its results moving ahead.

Weak demand across certain end-use markets will hurt DuPont's volumes and organic sales. The company is also exposed to headwinds from weak pricing, currency and manufacturing issues.

Risks

- DuPont remains focused on driving top-line growth through innovation and new product development. New product launches are driving growth in a number of areas including automotive electrification, water and 5G. The company's innovation-driven investment is focused on several high-growth areas. It remains committed to drive returns from its R&D investment. The company plans to invest roughly \$900 million on R&D in 2020.
 - The company is gaining from cost synergy savings and productivity actions. DuPont achieved roughly \$500 million in productivity and cost synergy savings in 2019. The company sees \$215 million of savings this year from its synergy program and previous cost actions. It is also taking additional cost actions in 2020, which is expected to deliver \$90 million of savings. Overall, DuPont aims to deliver more than \$300 million in gross cost savings this year. The company expects its cost actions to contribute 10 cents in its adjusted earnings per share in 2020.
 - The company remains focused on driving cash flow and shareholder value. It looks to boost cash flow through working capital productivity and earnings growth. The company sees around \$1 billion in multi-year working capital productivity opportunity. DuPont also remains committed to effective capital allocation. The company returned more than \$1.3 billion to shareholders since Jun 1, 2019 including \$750 million of share buybacks. It expects to return roughly \$900 million in dividends this year.
 - DuPont is actively managing its portfolio with an aim for value creation. The company is divesting non-core assets to focus more on high-growth, high-margin businesses. It is making significant progress in its divestiture actions. In sync with its portfolio strategy, DuPont has agreed to combine its Nutrition & Biosciences unit with International Flavors & Fragrances to form a new entity with 55.4% shareholding. Upon the deal's closure, DuPont expects to get one-time cash payment of \$7.3 billion, enabling the company to boost shareholders' returns, repay debts and focus on growth through potential merger and acquisitions. DuPont has also agreed to sell its silicon wafer business to SK Siltron. The company expects its portfolio actions to boost its underlying performance.
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Last Earnings Report

DuPont Misses Earnings and Revenue Estimates in Q4

DuPont recorded earnings (on a reported basis) from continuing operations of 24 cents per share for fourth-quarter 2019, down from earnings of 39 cents per share in the comparable quarter a year ago. The bottom line in the reported quarter was hurt by higher tax rate and lower segment results.

Barring one-time items, earnings were 95 cents per share for the reported quarter, missing the Zacks Consensus Estimate of 96 cents.

DuPont raked in net sales of \$5,204 million, down around 5% from the comparable quarter a year ago. It fell short of the Zacks Consensus Estimate of \$5,217.7 million.

Net sales fell 2% on an organic basis as 1% higher pricing was more than offset by 3% lower volumes. The company faced challenges from weak automotive markets and lower nylon prices.

Full-Year Results

For 2019, loss from continuing operations (as reported) was 86 cents per share, compared with earnings of 45 cents per share a year ago. Revenues were \$21,512 million for the full year, down around 5% year over year.

Segment Highlights

The company's Electronics & Imaging segment recorded net sales of \$937 million in the reported quarter, up 3% on a year-over-year comparison basis. Organic sales rose 3%. Higher volumes in interconnect solutions were masked by weaker volumes in semiconductor technologies.

At the Nutrition & Biosciences unit, sales fell 2% to \$1.5 billion. Organic sales were flat year over year on 1% higher pricing and 1% lower volumes.

Net sales for the Transportation & Industrial division were \$1.2 billion in the reported quarter, down 9% year over year. Organic sales fell 8% on 2% lower pricing and 6% volume decline due to sustained weakness in automotive and electronics markets.

Net sales in the Safety & Construction unit were \$1.3 billion, down 3%. Organic sales rose 1% on the back of a 3% price improvement, offset by 2% lower volume. Local prices rose in all businesses and all regions.

For the non-core reporting segment, net sales fell 19% to \$404 million. Organic sales declined 9%, impacted by 15% lower volumes. Prices rose 6% in the quarter.

Financials

DuPont had cash and cash equivalents of \$1,540 million at the end of 2019. Long-term debt was \$13,617 million.

Outlook

DuPont expects adjusted earnings per share in the range of \$3.70-\$3.90 for 2020. The guidance takes into account continued headwind in nylon pricing and mix. Adjusted earnings for first-quarter 2020 are projected in the range of 70-74 cents per share.

The company also sees full-year 2020 sales between \$21.5 billion and \$22 billion. Moreover, it envisions first-quarter net sales to be down mid-single digits, factoring in the nylon headwinds.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	-0.26%
EPS Surprise	-1.04%
Quarterly EPS	0.95
Annual EPS (TTM)	5.40

Recent News

DuPont Exercises Option to Acquire 100% Ownership of OxyMem - Dec 18, 2019

DuPont has announced that it has exercised the option to acquire all outstanding shares of OxyMem Limited. The company already owns 31% of OxyMem.

OxyMem, founded in 2013, employs more than 60 staff and has a manufacturing facility situated in Athlone, Ireland. It manufactures, develops and sells Membrane Aerated Biofilm Reactor (MABR) technology for industrial and municipal wastewater treatment and purification.

Per DuPont's management, MABR offers differentiated and unique performance for secondary wastewater treatment over existing technologies. In addition to DuPont's MEMCOR MBR product, this emerging technology offer more solutions for customers seeking to minimize footprint and energy requirements for secondary wastewater treatment. Also, it improves system performance using other conventional water purification, reuse and recovery technologies.

DuPont Unit Seals Merger Deal With International Flavors – Dec 15, 2019

DuPont's Nutrition & Biosciences business unit has entered into a definitive merger agreement with International Flavors & Fragrances Inc. to form a new entity, focused on creating a leading global integrated solution. The combined entity is valued at \$45.4 billion on an enterprise basis.

DuPont's Nutrition & Biosciences business offers solutions for home and personal care, food and beverage, dietary supplements, energy, animal nutrition and pharmaceuticals markets. It is one of the biggest producers of specialty ingredients. The division accounted for 29% of DuPont's third-quarter 2019 sales.

Under the terms of agreement, DuPont shareholders will own 55.4% of the newly-formed company, while International Flavors shareholders will hold the remaining. Upon closing of the deal, DuPont will get a one-time cash payment of \$7.3 billion. The deal has been approved by the boards of both companies. The combination will be executed through a Reverse Morris Trust transaction.

The transaction is likely to close by the end of the first quarter of 2021 upon approval by International Flavors' shareholders. Both companies have obtained fully-committed debt financing from Morgan Stanley and Credit Suisse. Upon the deal's closure, the new entity's board will consist of the seven current directors of International Flavors and six appointed by DuPont. International Flavors' chief executive officer Andreas Fibig will run the combined company and also continue to be the board chairman.

The new entity will be based in New York. It is expected to be a global leader in high-value ingredients and solutions for food and beverage, home and personal care, and health & wellness markets. The newly-formed company will have attractive positions across key growth categories, which include Taste, Scent, Texture, Nutrition, Enzymes, Cultures, Soy Proteins and Probiotics. With expanded global reach and enhanced capabilities, the company will be able to meet customers' increasing preference for natural and healthier products.

Moreover, shareholders will benefit from a highly profitable business with strong cash flow. The company expects to register stellar top-line growth as well as enhanced margins, with further benefit from cost synergies and revenue growth.

The integrated company will have estimated current-year revenues of more than \$11 billion and EBITDA of \$2.6 billion. The new entity's targeted cost-synergy to deliver more than \$400 million in run-rate revenue synergies would result in EBITDA of \$175 million, spurred by cross-selling opportunities and leveraging the extended capabilities across a broader range of customers.

DuPont Scoops Up Desalitech, Strengthens Portfolio - Dec 11, 2019

DuPont has agreed to purchase closed circuit reverse osmosis company, Desalitech Ltd for an undisclosed price. The financial terms of the deal were not divulged.

DuPont is a leading player in water purification and separation technology that includes ultrafiltration, reverse osmosis and ion exchange resins. The company noted that the acquisition reinforces its strategy of offering a strong portfolio of technologies to address its customers' current and future challenges.

Desalitech along with other acquisitions announced this year are expected to allow DuPont to boost growth and innovation through access to new manufacturing capabilities, geographies and technologies

Desalitech's patented and unique process technology strengthens DuPont's portfolio with a compelling offering to further minimize the lifecycle cost of water purification and reuse.

The transaction, which is subject to customary closing conditions and regulatory approvals, is expected to close in January 2020.

Valuation

DuPont's shares are down 67.9% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 29.4% and 8.2% over the past year, respectively.

The S&P 500 index is up 17.5% in the past year.

The stock is currently trading at 6.1X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.19X for the Zacks sub-industry, 9.4X for the Zacks sector and 12.25X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.57X and as low as 4.69X, with a 5-year median of 8.97X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$44 price target reflects 10.78X forward 12-month earnings per share.

The table below shows summary valuation data for DD:

Valuation Multiples - DD					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	6.1	7.19	9.4	12.25
	5-Year High	19.57	12.41	18.17	12.86
	5-Year Low	4.69	5.08	7.34	8.48
	5-Year Median	8.97	7.24	10.57	10.7
P/E F 12M	Current	12.5	12.02	12.58	18.97
	5-Year High	22.08	15.05	21.12	19.34
	5-Year Low	8.69	8.18	9.77	15.17
	5-Year Median	14.92	12.25	13.69	17.44
P/B TTM	Current	0.91	1.58	2.18	4.41
	5-Year High	3.21	3.51	3.54	4.55
	5-Year Low	0.58	0.88	1.33	2.85
	5-Year Median	2.26	2.5	2.18	3.62

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (228 out of 255)



Top Peers

Air Products and Chemicals, Inc. (APD)	Outperform
BASF SE (BASFY)	Neutral
The Chemours Company (CC)	Neutral
Celanese Corporation (CE)	Neutral
Dow Inc. (DOW)	Neutral
Eastman Chemical Company (EMN)	Neutral
LyondellBasell Industries N.V. (LYB)	Neutral
PPG Industries, Inc. (PPG)	Neutral

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	DD Underperform	X Industry	S&P 500	BASFY Neutral	DOW Neutral	LYB Neutral
VGM Score	D	-	-	D	C	A
Market Cap	37.91 B	2.47 B	23.55 B	62.09 B	34.16 B	25.96 B
# of Analysts	8	2	13	3	7	6
Dividend Yield	2.34%	1.83%	1.81%	3.78%	6.08%	5.39%
Value Score	B	-	-	A	D	A
Cash/Price	0.05	0.07	0.04	0.04	0.08	0.02
EV/EBITDA	3.83	5.99	13.97	6.85	4.73	5.24
PEG Ratio	1.26	1.55	1.97	1.55	3.64	0.82
Price/Book (P/B)	0.91	2.03	3.21	1.35	2.42	3.28
Price/Cash Flow (P/CF)	9.76	6.20	13.36	5.74	6.20	5.27
P/E (F1)	12.64	13.55	18.42	14.70	13.33	6.87
Price/Sales (P/S)	1.06	0.89	2.60	0.89	NA	0.75
Earnings Yield	7.91%	7.10%	5.43%	6.80%	7.51%	14.55%
Debt/Equity	0.33	0.56	0.72	0.39	1.26	1.38
Cash Flow (\$/share)	5.24	3.65	6.92	2.95	7.43	14.76
Growth Score	D	-	-	F	A	C
Hist. EPS Growth (3-5 yrs)	-0.19%	10.15%	10.68%	1.11%	NA	1.92%
Proj. EPS Growth (F1/F0)	6.68%	6.34%	7.59%	8.83%	-2.10%	17.81%
Curr. Cash Flow Growth	-74.91%	1.72%	10.81%	136.40%	-30.83%	7.46%
Hist. Cash Flow Growth (3-5 yrs)	20.87%	6.70%	8.78%	-0.12%	NA	2.91%
Current Ratio	1.20	1.85	1.22	1.78	1.57	1.30
Debt/Capital	24.68%	38.75%	42.99%	28.03%	55.69%	58.19%
Net Margin	1.39%	5.05%	11.69%	14.64%	NA	9.80%
Return on Equity	7.33%	11.94%	17.33%	9.36%	NA	35.56%
Sales/Assets	0.36	0.85	0.55	0.69	NA	1.19
Proj. Sales Growth (F1/F0)	-39.45%	2.47%	4.12%	4.29%	-0.42%	0.84%
Momentum Score	D	-	-	F	D	B
Daily Price Chg	-2.92%	-1.93%	-1.98%	-1.97%	-4.95%	-6.70%
1 Week Price Chg	-3.53%	-2.09%	-1.09%	-1.91%	-9.09%	-7.66%
4 Week Price Chg	-19.40%	-8.21%	-2.11%	-11.56%	-14.29%	-17.05%
12 Week Price Chg	-28.53%	-11.97%	2.15%	-14.34%	-17.44%	-20.13%
52 Week Price Chg	-68.30%	-9.29%	14.15%	-8.10%	NA	-10.47%
20 Day Average Volume	6,858,549	123,382	1,808,632	261,786	4,219,706	2,299,076
(F1) EPS Est 1 week change	-5.11%	0.00%	0.00%	0.00%	-6.21%	0.00%
(F1) EPS Est 4 week change	-8.24%	-0.17%	0.00%	-6.49%	-8.20%	-0.17%
(F1) EPS Est 12 week change	-9.67%	-2.84%	-0.09%	-7.49%	-10.89%	-6.72%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	NA	-14.61%	0.00%

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	D
Momentum Score	D
VGM Score	D

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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