

Dow Inc (DOW)

\$46.74 (As of 09/30/19)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/31/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: D

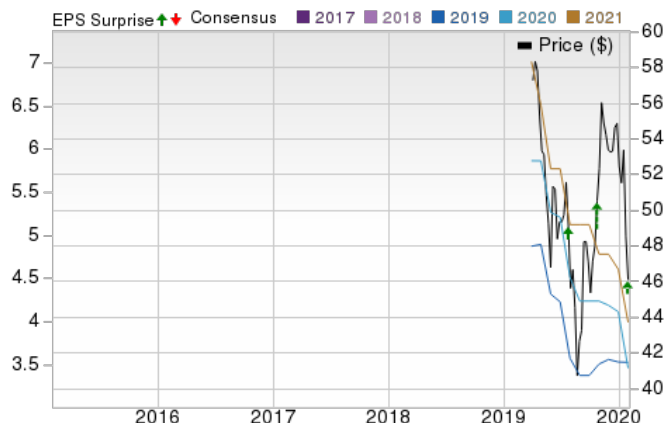
Growth: A

Momentum: D

Summary

Dow's adjusted earnings for the fourth quarter of 2019 beat the Zacks Consensus Estimate. Revenues fell by double-digits on lower local pricing and volumes, but beat expectations. Dow faces a challenging demand environment across certain markets, including automotive, agriculture and electronics, which is likely to hurt its volumes and sales. The global economic slowdown is affecting demand as buyers remain cautious. Softer demand is expected to continue to put pressure on the company's top line. The company is also exposed to pressure from turnaround and maintenance costs. Maintenance-related spending is expected to weigh on margins across some of its businesses in 2020. Moreover, lower equity earnings at joint ventures are likely to hurt margins this year. Higher pension expenses are another matter of concern.

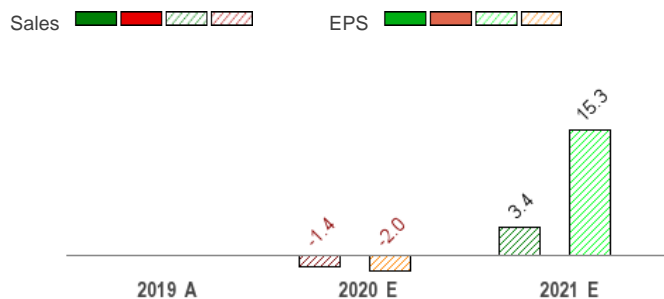
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$60.52 - \$40.44
20 Day Average Volume (sh)	4,449,562
Market Cap	\$34.7 B
YTD Price Change	-14.6%
Beta	NA
Dividend / Div Yld	\$2.80 / 6.0%
Industry	<u>Chemical - Diversified</u>
Zacks Industry Rank	Bottom 14% (219 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.4%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	-15.9%
Expected Report Date	04/29/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	13.5
PEG F1	3.7
P/S TTM	NA

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					43,780 E
2020	10,139 E	10,518 E	10,936 E	10,637 E	42,358 E
2019		11,014 A	10,764 A	10,204 A	42,951 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.99 E
2020	\$0.71 E	\$0.85 E	\$0.90 E	\$0.89 E	\$3.46 E
2019		\$0.86 A	\$0.91 A	\$0.78 A	\$3.53 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 09/30/2019. The reports text is as of 02/04/2020.

Overview

Midland, MI-based Dow Inc. is a material science company, providing a world-class portfolio of advanced, sustainable and leading-edge products. DowDuPont Inc. (now known as DuPont de Nemours, Inc.), on Apr 1, 2019, completed the separation of its Materials Science unit through the spin-off of Dow Inc. Shares of Dow start trading on the NYSE on Apr 2, 2019.

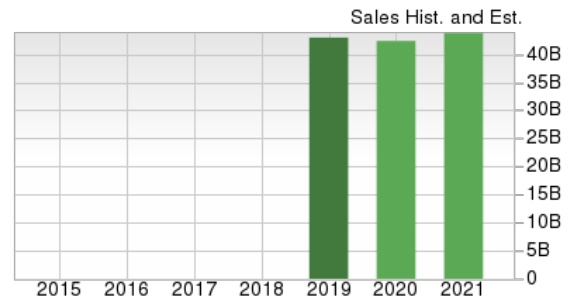
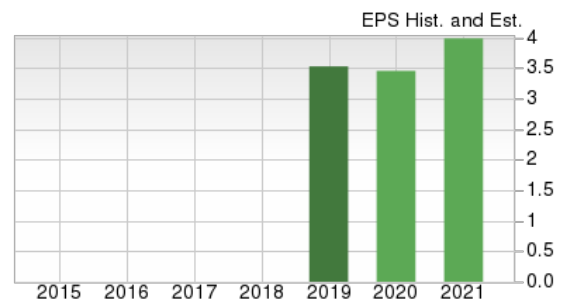
Common shareholders of DowDuPont received one share of common stock of Dow for every three shares of DowDuPont common stock they held as of the close of business on Mar 21, 2019. Moreover, DowDuPont common shareholders received cash in lieu of fractional shares of the common stock of Dow.

Dow currently operates through three reportable segments — Performance Materials & Coatings, Industrial Intermediates & Infrastructure, and Packaging & Specialty Plastics.

Performance Materials & Coatings: The unit provides a vast range of solutions to consumer and infrastructure end-markets. It comprises coatings & performance monomers and consumer solutions businesses. These businesses employ materials science capabilities, unique products and technology, and global reach to offer differentiated offerings to customers. The segment accounted for 22% of 2019 sales.

Industrial Intermediates & Infrastructure: The segment comprises industrial solutions, and polyurethanes & construction chemicals businesses. These businesses develop key intermediate chemicals for production processes as well as downstream, customized materials and formulations that utilize advanced development technologies. The segment accounted for 31% of 2019 sales.

Packaging & Specialty Plastics: The unit comprises hydrocarbons & energy, and packaging & specialty plastics businesses. It employs the industry's broadest polyolefin product portfolio. The segment leverages Dow's proprietary catalyst and manufacturing process technologies to deliver higher performing and sustainable plastics to customers across end markets, including food and specialty packaging, industrial and consumer packaging, health and hygiene, consumer durables and infrastructure. The segment accounted for 47% of 2019 sales.



Reasons To Sell:

- ▼ Weak demand is hurting Dow's volumes across certain regions, as witnessed in the last-reported quarter. Demand across certain key industrial segment remain soft. The company is seeing softer demand in agriculture, automotive and electronics end markets. Lower demand in North America and Europe is hurting its coatings volumes. Slowing global economic growth is hurting demand as buyers remain cautious. Softer demand is expected to continue to put pressure on volumes and the company's top line.
- ▼ Dow is exposed to headwind from spending related to planned turnaround and maintenance activities. The company expects roughly \$35 million headwind in the first quarter of 2020 in its Performance Materials & Coatings unit due to higher planned turnaround activity at its Performance Monomers site in Texas. It also sees a \$40 million impact from an outage in Spain at the Industrial Intermediates & Infrastructure unit. The company expects to spend heavily on turnarounds in the second and third quarters of 2020. Overall, spending for 2020 is expected to be similar to 2019. As such, maintenance-related spending is expected to weigh on margins of these businesses.
- ▼ The company faces challenges from reduced equity earnings from joint ventures in the first quarter of 2020. It envisions an unfavorable impact of \$20 million in the quarter. Another \$30 million headwind is expected in the Industrial Intermediates & Infrastructure unit. This is expected to hurt margins in these segments. Dow also sees lower equity earnings for full-year 2020.
- ▼ Higher pension expenses in another concern. The company expects pension expense to rise in first-quarter 2020 due to lower discount rates at the end of 2019. It sees a \$15-\$20 million associated headwind in the Packaging & Specialty Plastics unit for the quarter. Moreover, both the Performance Materials & Coatings and Industrial Intermediates & Infrastructure units are projected to witness a \$5-\$10 million headwind in the first quarter. Dow also expects pension expenses to be \$125 million higher on a year-over-year basis in 2020. This is expected to weigh on its margins.

Dow faces a challenging demand environment across certain markets. Maintenance spending is also expected to hurt margins. Lower equity earnings and higher pension expenses are other headwinds.

Risks

- Dow should gain from cost synergy savings and productivity actions. It focuses on maintaining cost and operational discipline through cost synergy as well as stranded cost-removal initiatives. Dow delivered cost synergy savings of more than \$130 million and \$45 million of stranded cost removal during the second quarter of 2019. Moreover, Dow completed its roughly \$1.37 billion cost synergy program in the third quarter. It also removed more than \$35 million of stranded costs in the fourth quarter. Overall, it delivered more than \$600 million in cost synergy and stranded costs savings in 2019. The company expects to complete stranded costs removal target in 2020 by capturing the balance \$140 million of savings.
 - The company remains committed to invest in attractive areas through highly accretive projects. Dow is investing in several high-return growth projects including the expansion of downstream silicones capacity. The company completed 16 silicones incremental expansion projects last year, which provided additional downstream capability. Dow has also agreed to acquire a stake in its Thai HPPO joint venture for \$150 million. The company expects this project to be immediately accretive. The company will remain committed to advancing its investments in higher-return growth projects in 2020.
 - Dow remains actively focused on seeking opportunities to optimize its portfolio. As part of this move, the company recently agreed to divest its acetone derivatives business to Altivia. These portfolio actions are in sync with Dow's objective of driving a higher return on its invested capital and are aligned with its more-focused portfolio.
 - The company is committed to return value to its shareholders by leveraging healthy cash flows. Dow generated strong operating cash flows from continuing operations of \$1.9 billion in the fourth quarter, up \$531 million from the comparable quarter a year ago. It returned \$2.6 billion to its shareholders in 2019 through dividend and share repurchase. The company achieved its goal of \$500 million worth share repurchases in 2019. It also paid down \$3 billion of debt in 2019. The company also intends to direct its free cash flows towards debt reduction and shareholder returns in 2020.
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Last Earnings Report

Dow's Q4 Earnings and Revenues Surpass Estimates

Dow recorded loss (on a reported basis) from continuing operations of \$3.14 per share for fourth-quarter 2019 against earnings of 63 cents per share a year ago.

Barring one-time items including hefty restructuring, goodwill impairment and asset-related charges, earnings were 78 cents per share for the reported quarter, ahead of the Zacks Consensus Estimate of 74 cents.

The company benefited from its actions to reduce costs and contributions from its U.S. Gulf Coast investments in the quarter.

Dow raked in net sales of \$10,204 million for the quarter, down roughly 15% from the adjusted sales a year ago. It, however, beat the Zacks Consensus Estimate of \$10,015.4 million.

Sales fell due to lower local pricing resulting from a decline in global energy prices. Currency reduced sales by 1% in the quarter.

Volumes fell 2% in the quarter, affected by lower hydrocarbon co-product sales due to a planned turnaround activity in Europe. The company also saw a 12% decline in local prices.

Full-Year Results

For 2019, loss from continuing operations was \$2.42 per share against earnings of \$3.80 per share a year ago. Revenues were \$42,951 million for the full year, down around 13% year over year.

Segment Highlights

Packaging & Specialty Plastics: The division's sales fell 18% from the adjusted sales a year ago to \$4.8 billion in the reported quarter. Volumes fell 3% while local prices slipped 14%. Currency also reduced sales by 1%.

Industrial Intermediates & Infrastructure: Sales for the unit fell 14% to \$3.3 billion. Volumes were flat while local prices fell 13%. Currency lowered sales by 1%.

Performance Materials & Coatings: Revenues from the division went down 10% to \$2 billion. Sales were impacted by volumes and local price declines of 1% and 8%, respectively. Currency also reduced sales by 1%.

Financials

Dow had cash and cash equivalents of \$2,367 million at the end of 2019, down 13% year over year. Long-term debt was \$15,975 million, down 17% year over year.

Cash provided by operating activities from continuing operations was \$1.9 billion in the reported quarter while free cash flow was \$1.3 billion.

Dow returned \$611 million to shareholders in the fourth quarter through dividend and share repurchase. It achieved its share buyback target of \$500 million for the full year.

Outlook

Looking ahead, Dow said that it will remain focused on advancing its investments in higher-return growth projects, especially in sectors where it is seeing favorable demand conditions. The company also expects to retain its competitive cost positions by leveraging its unique feedstock capabilities.

Dow also expects to further reduce its cost structure over the course of 2020 as it completes the stranded cost removal.

Quarter Ending 12/2019

Report Date	Jan 29, 2020
Sales Surprise	1.88%
EPS Surprise	5.41%
Quarterly EPS	0.78
Annual EPS (TTM)	NA

Recent News

Dow Inks PCR Supply Deal With Avangard Innovative - Jan 25, 2020

Dow has inked a deal with Avangard Innovative LP, a waste-optimization specialist based in Houston. Per the exclusive agreement, Avangard Innovative will supply post-consumer resin ("PCR") plastic film pellets to Dow.

Notably, PCR plastic film pellets will be a significant addition to Dow's plastic circularity portfolio, which is consistent with its objective of advancing the plastics circular economy and reducing waste in the environment.

Later this year, Dow's first-ever PCR-based innovations will be offered to customers in North America, who demand stronger sustainability profiles in targeted applications such as shrink wrap, liners and protective packaging, among others.

Initially, Dow will use Avangard Innovative's PCR to manufacture linear low-density polyethylene (LLDPE) and low-density polyethylene (LDPE) products.

Per Dow, the partnership blends waste collection and sortation technology from Avangard Innovative with Dow's materials science expertise, application expertise and operational scale to offer consistent processing, and reliable supply of PCR-based LLDPE and LDPE to its customers across North America.

Notably, Dow and Avangard Innovative are working to ensure that the value of plastics is not lost after only one material use.

Further, the partnership with Avangard Innovative is expected to put forth new solutions that will preserve the value of used plastics. Notably, this will help Dow and its customers fulfill their sustainability goals, thereby advancing toward a circular economy for plastics.

Valuation

Dow's shares are down 16.9% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 29.6% and 8.2% over the past year.

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

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$40 price target reflects 11.4X forward 12-month earnings per share.

Industry Analysis Zacks Industry Rank: Bottom 14% (219 out of 254)



Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	DOW Underperform	X Industry	S&P 500	BASFY Neutral	DD Underperform	LYB Neutral
VGM Score	C	-	-	D	D	B
Market Cap	34.66 B	2.45 B	23.55 B	62.10 B	38.38 B	26.28 B
# of Analysts	7	3	13	3	8	6
Dividend Yield	5.99%	1.80%	1.81%	3.78%	2.32%	5.33%
Value Score	D	-	-	A	B	A
Cash/Price	0.07	0.07	0.04	0.04	0.04	0.04
EV/EBITDA	19.05	6.86	13.97	6.86	3.91	5.49
PEG Ratio	3.69	1.55	1.97	1.55	1.55	0.83
Price/Book (P/B)	2.46	2.04	3.21	1.35	0.92	3.26
Price/Cash Flow (P/CF)	6.29	6.29	13.36	5.74	9.88	5.30
P/E (F1)	13.51	13.75	18.42	14.70	13.34	6.96
Price/Sales (P/S)	NA	0.86	2.60	0.89	1.07	0.76
Earnings Yield	7.40%	6.99%	5.43%	6.80%	7.49%	14.37%
Debt/Equity	1.26	0.55	0.72	0.39	0.33	1.59
Cash Flow (\$/share)	7.43	3.65	6.92	2.95	5.24	14.88
Growth Score	A	-	-	F	D	C
Hist. EPS Growth (3-5 yrs)	NA%	10.15%	10.68%	1.11%	-4.67%	0.72%
Proj. EPS Growth (F1/F0)	-2.10%	5.85%	7.59%	9.18%	2.17%	17.75%
Curr. Cash Flow Growth	-30.83%	0.39%	10.81%	136.40%	-74.91%	-12.40%
Hist. Cash Flow Growth (3-5 yrs)	NA%	6.32%	8.78%	-0.12%	-10.74%	-2.56%
Current Ratio	1.57	1.83	1.22	1.78	1.20	1.83
Debt/Capital	55.69%	37.78%	42.99%	28.03%	24.68%	61.62%
Net Margin	NA%	4.69%	11.69%	14.64%	1.39%	9.78%
Return on Equity	NA%	11.94%	17.33%	9.36%	7.33%	36.95%
Sales/Assets	NA	0.85	0.55	0.69	0.36	1.14
Proj. Sales Growth (F1/F0)	-1.38%	2.47%	4.12%	4.29%	-39.56%	1.34%
Momentum Score	D	-	-	F	D	F
Daily Price Chg	1.45%	0.66%	-1.98%	0.02%	1.23%	1.23%
1 Week Price Chg	-4.99%	-3.31%	-1.09%	-3.43%	-13.82%	-8.35%
4 Week Price Chg	-10.48%	-6.21%	-2.11%	-8.95%	-16.06%	-13.68%
12 Week Price Chg	-16.25%	-9.94%	2.15%	-13.09%	-28.22%	-18.90%
52 Week Price Chg	NA%	-9.75%	14.15%	-9.22%	-67.50%	-10.12%
20 Day Average Volume	4,449,562	124,816	1,808,632	280,775	7,423,680	2,514,478
(F1) EPS Est 1 week change	-11.10%	0.00%	0.00%	-0.29%	-7.95%	-0.04%
(F1) EPS Est 4 week change	-15.92%	0.00%	0.00%	-6.76%	-10.98%	-0.22%
(F1) EPS Est 12 week change	-18.38%	-2.42%	-0.09%	-7.75%	-12.37%	-5.21%
(Q1) EPS Est Mthly Chg	-19.78%	0.00%	0.00%	NA	NA	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	D
Growth Score	A
Momentum Score	D
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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