

Dow Inc (DOW)

\$41.63 (As of 06/03/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Earnings estimates for Dow for the second quarter of 2020 have been stable over the past month. The company should benefit from cost synergy savings and productivity initiatives. Investment in high-return projects should also be accretive to its earnings. Dow is also taking actions to reduce its debt and remains focused on boosting shareholder returns. However, the company faces a challenging demand environment in certain markets which is likely to hurt its volumes and sales. The company is also exposed to pressure from weaker selling pricing for its products. Its selling prices are expected to remain under pressure in the second quarter amid lower energy prices. Moreover, lower equity earnings at joint ventures are likely to hurt margins in certain businesses in the second quarter. Higher pension expenses are another concern.

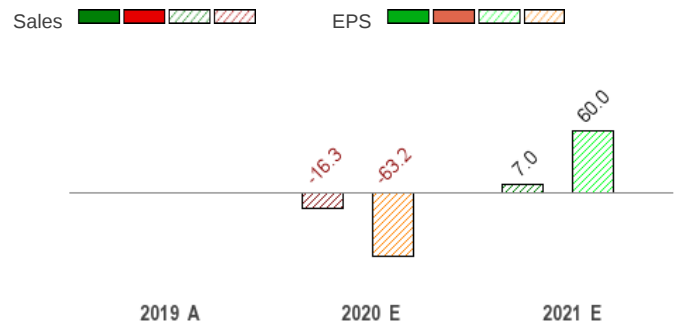
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.25 - \$21.95
20 Day Average Volume (sh)	4,986,510
Market Cap	\$30.8 B
YTD Price Change	-23.9%
Beta	1.95
Dividend / Div Yld	\$2.80 / 6.7%
Industry	Chemical - Diversified
Zacks Industry Rank	Top 50% (126 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.7%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	-1.9%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	13.3
P/E F1	32.3
PEG F1	8.8
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					38,485 E
2020	9,770 A	7,867 E	8,808 E	9,153 E	35,959 E
2019	10,969 A	11,014 A	10,764 A	10,204 A	42,951 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.08 E
2020	\$0.59 A	\$0.07 E	\$0.24 E	\$0.33 E	\$1.30 E
2019	\$0.24 A	\$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 06/03/2020. The reports text is as of 06/04/2020.

Overview

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 started trading on the NYSE on Apr 2, 2019.

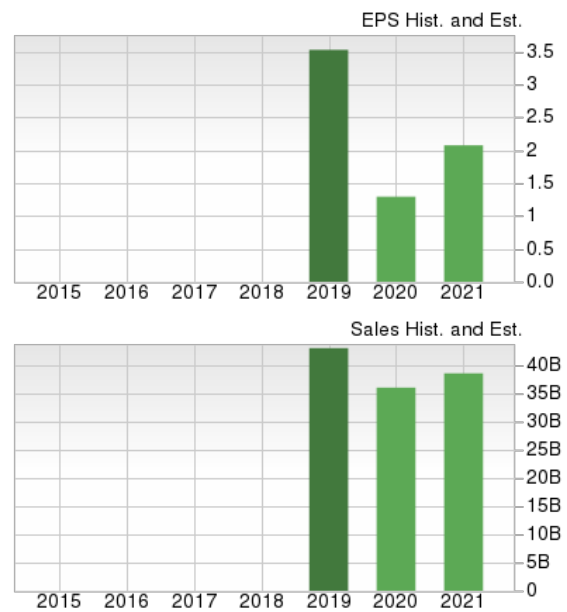
Dow, which recorded revenues of around \$42.9 billion in 2019, offers a vast range of differentiated products and solutions across high-growth market segments such as packaging, infrastructure and consumer care. Its ethylene plant in Freeport, TX, having a total capacity of 2,000 kilotons per year, is the largest ethylene cracker on the planet.

Dow's broad portfolio of higher-value functional polymers, significant low-cost global feedstock positions, global footprint and market reach and manufacturing sites in every geographic region places it in an advantageous position against competitors. The company currently operates in three segments:

Packaging & Specialty Plastics: The segment employs the industry's broadest polyolefin product portfolio. The unit 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. The segment accounted for 47% of 2019 sales.

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 unit 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.



Reasons To Buy:

- ▲ 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 more than \$600 million in cost synergy and stranded costs savings in 2019. Dow also realized more than \$30 million of savings from stranded cost removal in the first quarter of 2020. The company expects to complete stranded costs removal target in 2020 and capture \$140 million of savings. Dow is also taking actions to cut operating expenses by \$350 million, which is expected to lend support to its earnings in 2020.
- ▲ The company remains focused on investing 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.
- ▲ 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 \$1.2 billion in the first quarter of 2020. It returned \$643 million (\$518 million in dividend and \$125 million in share buybacks) to its shareholders in the quarter.
- ▲ Dow is also taking actions to reduce its debt. The company, during the first quarter of 2020, issued euro denominated notes (worth €2.25 billion) and used the net proceeds to redeem existing notes and repay debt. Dow has no substantial long-term debt maturities until the second half of 2023. The company ended the first quarter with cash and available liquidity of \$12 billion. Its current debt was \$2,258 million as of Mar 31, 2020. As such, Dow has adequate liquidity to meet its short-term debt obligations.

Dow should benefit from cost synergy savings and productivity initiatives. Investment in high-return projects should also be accretive to its earnings. Dow is also taking actions to reduce its debt.

Reasons To Sell:

- ▼ Weak demand is hurting Dow's volumes in certain regions, as witnessed in the last-reported quarter. Demand across certain key industrial segment remains soft, exacerbated by the coronavirus pandemic. The company is seeing softer demand in automotive, consumer durable and construction end markets. Lower demand in Asia Pacific and EMEA regions is hurting its architectural coatings volumes. Slowing global economic activities is affecting demand as buyers remain cautious amid the pandemic. Softer demand is expected to continue to put pressure on volumes and the company's top line in the second quarter of 2020.
- ▼ The company faces challenges from reduced equity earnings from joint ventures in the second quarter. It envisions an unfavorable impact of \$25 million in the quarter in the Packaging & Specialty Plastics unit. Another \$50 million headwind is expected in the Industrial Intermediates & Infrastructure unit. This is expected to hurt margins in these segments. Dow also sees equity losses for full-year 2020 on a year-over-year basis due to coronavirus-led demand weakness and the impact of lower oil prices.
- ▼ Dow is exposed to pricing pressure due to lower global energy prices. The company saw lower selling prices for its products in the most recent quarter, hurting its revenues. The sharp decline in crude oil prices has hurt the company's selling prices. Prices are expected to remain under pressure in the second quarter amid lower energy prices. The company expects the second quarter to reflect the largest impact from the slump in energy prices. This is likely to weigh on the company's top line in the quarter.
- ▼ Higher pension expenses are a concern. The company saw headwind from higher pension expenses in first-quarter 2020 due to lower discount rates at the end of 2019. 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 in certain markets. Weaker product prices are also expected to hurt its sales and margins. Lower equity earnings and higher pension expenses are other headwinds.

Last Earnings Report

Dow's Earnings Lag Estimates in Q1, Revenues Beat

Dow recorded earnings (on a reported basis) from continuing operations of 32 cents per share for first-quarter 2020 against earnings of 16 cents per share a year ago.

Barring one-time items, earnings were 59 per share for the reported quarter, falling short of the Zacks Consensus Estimate of 60 cents.

Dow witnessed lower margins in the polyurethanes and silicones chains as well as reduced equity earnings.

Dow raked in net sales of \$9,770 million for the quarter, down roughly 11% from the adjusted sales a year ago. It, however, beat the Zacks Consensus Estimate of \$9,575.7 million.

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

Volumes fell 2% in the quarter as higher demand in food, health & hygiene packaging, surfactants & solvents for cleaning and coatings end-markets were more than offset by declines in polyurethanes and silicones applications. The company saw lower sequential volumes in China as the coronavirus pandemic led to slower economic activities. Dow also saw an 8% decline in local prices.

Segment Highlights

Packaging & Specialty Plastics: The division's sales fell 10% from the adjusted sales a year ago to \$4.6 billion in the reported quarter. Volumes were flat while local prices slipped 9%. Currency also reduced sales by 1%.

Industrial Intermediates & Infrastructure: Sales for the unit fell 13% to \$3 billion. Volumes fell 3% while local prices declined 9%. Currency lowered sales by 1%.

Performance Materials & Coatings: Revenues from the division went down 11% to \$2.1 billion. Sales were impacted by volumes and local price declines of 3% and 7%, respectively. Currency also reduced sales by 1%.

Financials

Dow had cash and cash equivalents of \$3,633 million at the end of the quarter. Long-term debt was \$16,313 million.

Cash provided by operating activities from continuing operations was \$1.2 billion in the reported quarter while free cash flow was \$841 million.

The company also returned \$643 million to shareholders in the quarter through dividend and share repurchase.

Outlook

Looking ahead, Dow said that it is seeing indications of a recovery from the virus outbreak in China while still assessing the impact of the pandemic in other major geographies. Factoring in a gradual and sustainable return of global economic activity and reopening of economies in May and June, the company sees a recovery as the year progresses.

Dow also said that it is taking actions to further strengthen its financial position. These include reduction of operating expenses by \$350 million and further trimming of capital expenditure target to \$1.25 billion (a \$750 million reduction compared with 2019). The company is also temporarily idling certain manufacturing units to balance production to demand across markets that have been significantly affected by restrained economic activities.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	2.03%
EPS Surprise	1.72%
Quarterly EPS	0.59
Annual EPS (TTM)	3.14

Recent News

Dow and Johnson Matthey License Process Technology to QXTD - Jun 1, 2020

Dow and Johnson Matthey have announced that Zibo Qixiang Tengda Chemical Company, Ltd. ("QXTD") selected LP Oxo Technology for producing isononyl alcohol ("INA") at a new manufacturing plant.

The facility is expected to be constructed at the integrated petrochemical complex of QXTD in Zibo City, China. Notably, the facility will likely have an annual capacity of 200,000 metric tons. The plant operation is anticipated to start in 2023.

LP Oxo Technology, which is licensed through Dow and Johnson Matthey, allows sustainable INA production. Moreover, the technology needs a smaller manufacturing footprint and less consumption of energy compared to traditional INA production processes, without a loss in efficiency and throughput.

Dow Introduces PCR Plastic Resin in Asia Pacific Region - May 28, 2020

Dow has developed and commercialized a new formulated post-consumer recycled (PCR) plastic resin geared for collation shrink film applications in the Asia Pacific.

The new resin is made with 40% PCR content. Notably, the resin is geared to be utilized as 100% of the core layer of collation shrink applications. It is also expected to enable the development of film with 13-24% recycled content.

The newly formulated PCR resin can offer comparable performance to consumers and brands to collation shrink film made with virgin resins to ensure products are delivered safely.

The PCR resin also lowers carbon dioxide and energy footprints, helping converters, brand owners and retailers to meet their sustainability goals. Moreover, it also gives a new end of life to plastics that otherwise would have become waste.

The new offering of formulated PCR resin is part of Dow's comprehensive strategy to develop a circular plastics economy by focusing on incorporating recycled content into product offerings.

Valuation

Dow's shares are down 23.9% in the year-to-date period and 17.3% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 14.3% and 8.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 10.9% and 2.1%, respectively.

The S&P 500 index is down 4.4% in the year-to-date period and up 9.1% in the past year.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 27X forward 12-month earnings per share.

Industry Analysis Zacks Industry Rank: Top 50% (126 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Air Products and Chemicals, Inc. (APD)	Neutral	3
BASF SE (BASFY)	Neutral	3
DuPont de Nemours, Inc. (DD)	Neutral	3
Eastman Chemical Company (EMN)	Neutral	3
LyondellBasell Industries N.V. (LYB)	Neutral	3
The Chemours Company (CC)	Underperform	5
Celanese Corporation (CE)	Underperform	4
PPG Industries, Inc. (PPG)	Underperform	3

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	DOW	X Industry	S&P 500	BASFY	DD	LYB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	B	B
Market Cap	30.84 B	2.43 B	22.50 B	57.17 B	40.05 B	23.53 B
# of Analysts	8	3	14	3	9	4
Dividend Yield	6.73%	1.89%	1.88%	4.11%	2.20%	5.96%
Value Score	C	-	-	A	C	B
Cash/Price	0.13	0.12	0.06	0.06	0.05	0.09
EV/EBITDA	17.20	7.26	12.98	7.74	10.78	6.12
PEG Ratio	8.92	3.40	3.05	16.13	3.87	2.25
Price/Book (P/B)	2.29	1.79	3.11	1.21	1.00	3.20
Price/Cash Flow (P/CF)	5.61	6.75	12.18	6.53	5.42	4.97
P/E (F1)	32.64	20.42	22.19	21.61	18.17	15.20
Price/Sales (P/S)	0.74	0.79	2.40	0.83	1.88	0.70
Earnings Yield	3.10%	4.58%	4.31%	4.63%	5.50%	6.58%
Debt/Equity	1.33	0.55	0.76	0.35	0.34	1.82
Cash Flow (\$/share)	7.43	3.41	7.01	2.38	10.07	14.19
Growth Score	A	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	NA%	9.93%	10.87%	-1.82%	-10.48%	-0.35%
Proj. EPS Growth (F1/F0)	-63.31%	-30.38%	-10.74%	-35.71%	-20.94%	-51.79%
Curr. Cash Flow Growth	-5.85%	-7.54%	5.48%	-19.09%	-56.42%	-16.46%
Hist. Cash Flow Growth (3-5 yrs)	NA%	6.01%	8.55%	-3.10%	1.70%	-3.48%
Current Ratio	1.63	1.87	1.29	1.87	1.22	1.76
Debt/Capital	57.13%	37.09%	44.75%	26.17%	25.34%	64.71%
Net Margin	-4.01%	4.87%	10.59%	13.70%	-3.00%	8.14%
Return on Equity	14.68%	12.74%	16.29%	8.06%	6.65%	36.08%
Sales/Assets	0.67	0.79	0.55	0.69	0.31	1.09
Proj. Sales Growth (F1/F0)	-16.28%	-8.10%	-2.65%	-9.48%	-44.37%	-27.73%
Momentum Score	D	-	-	D	D	D
Daily Price Chg	2.54%	2.57%	2.42%	7.09%	3.67%	3.09%
1 Week Price Chg	6.87%	5.39%	4.60%	9.84%	4.19%	5.53%
4 Week Price Chg	30.26%	12.44%	13.40%	29.24%	23.93%	35.29%
12 Week Price Chg	48.73%	17.72%	12.78%	18.42%	48.88%	30.56%
52 Week Price Chg	-17.30%	-11.77%	0.89%	-9.17%	-27.09%	-12.94%
20 Day Average Volume	4,986,510	97,692	2,528,787	252,993	5,574,501	2,282,901
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.89%	0.00%	-0.14%	-0.46%	-0.22%	-9.22%
(F1) EPS Est 12 week change	-61.74%	-30.79%	-16.00%	-29.18%	-19.94%	-52.94%
(Q1) EPS Est Mthly Chg	0.00%	-4.14%	-0.02%	0.00%	-9.27%	-42.55%

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	A
Momentum Score	D
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.

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