

Eastman Chemical(EMN)

\$71.08 (As of 08/04/20)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

Summary

Eastman Chemical's adjusted earnings for the second quarter missed the Zacks Consensus Estimate while sales beat. The company is expected to gain from cost-cutting and productivity actions, synergies of strategic acquisitions, sustained innovation and efforts to reduce debt. It is taking a more aggressive approach to manage costs this year and keep its manufacturing costs under control. The company is also focused on growing new business revenues leveraging its innovation-driven growth model. However, it is seeing weak demand in certain markets including transportation and textile due to the pandemic. The difficult demand environment is expected to persist in the third quarter. Weaker product spreads and higher maintenance spending are other headwinds. The company also faces challenges in the fiber business due to a weak acetate tow market.

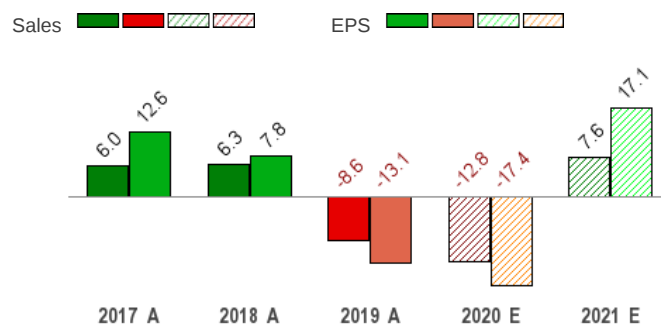
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$83.99 - \$34.44
20 Day Average Volume (sh)	986,828
Market Cap	\$9.7 B
YTD Price Change	-10.3%
Beta	1.66
Dividend / Div Yld	\$2.64 / 3.7%
Industry	<u>Chemical - Diversified</u>
Zacks Industry Rank	Bottom 31% (176 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-17.5%
Last Sales Surprise	8.4%
EPS F1 Est- 4 week change	-0.9%
Expected Report Date	10/22/2020
Earnings ESP	0.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,196 E	2,051 E	2,158 E	2,110 E	8,702 E
2020	2,241 A	1,924 A	1,988 E	2,032 E	8,090 E
2019	2,380 A	2,363 A	2,325 A	2,205 A	9,273 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.75 E	\$1.83 E	\$1.94 E	\$1.48 E	\$6.90 E
2020	\$2.03 A	\$0.85 A	\$1.40 E	\$1.42 E	\$5.89 E
2019	\$1.77 A	\$1.99 A	\$1.94 A	\$1.42 A	\$7.13 A

*Quarterly figures may not add up to annual.

P/E TTM	11.4
P/E F1	12.1
PEG F1	1.9
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/04/2020. The reports text is as of 08/05/2020.

Overview

Eastman Chemical Company, based in Kingsport, TN, manufactures and sells chemicals, plastics and fibers. The company has 16 manufacturing sites in the United States, Europe and Asia-Pacific, supplying products throughout the world.

The company's products include additives, specialty polymers and other raw materials that are integral to the production of paints and coatings, inks, adhesives and other formulated products. It also makes intermediates based on acetyl and oxo chemistries and other intermediate products including plasticizers and glycols.

Eastman Chemical's other products include performance chemicals, highly specialized copolyesters and cellulosic plastics, copolyester cellulosic based products, acetate tow and triacetin plasticizers, and natural and solution-dyed acetate yarns. The company recorded revenues of around \$9.3 billion in 2019.

Eastman Chemical realigned its reporting segments following the closure of the acquisition. The new structure has five reporting segments – Additives and Functional Products, Adhesives and Plasticizers, Advanced Materials, Fibers, and Specialty Fluids and Intermediates. Eastman Chemical also made certain changes in executive leadership positions in conjunction with the restructuring of its reporting segments.

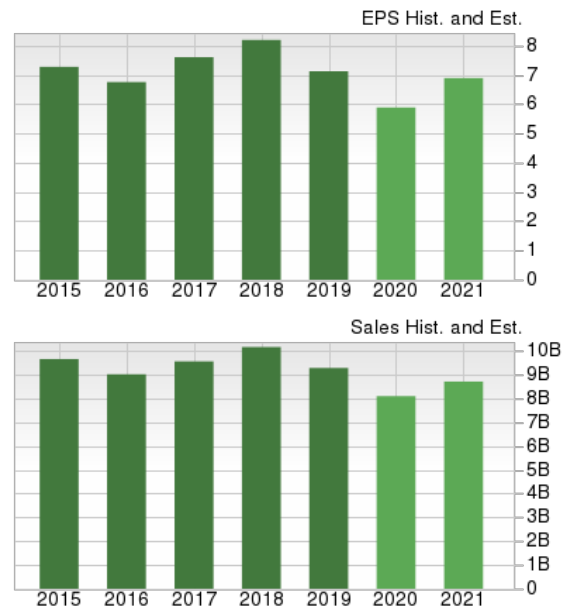
The company has further restructured its reporting segments and currently has four business segments - Additives and Functional Products/AFP (35% of 2019 sales), Advanced Materials (29%), Chemical Intermediates (26%) and Fibers (10%).

The AFP unit makes chemicals including coatings and inks additives and adhesives resins for a number of end-use markets including transportation, consumables, building and construction, crop protection, energy, personal and home care.

The Advanced Materials segment makes polymers, films and plastics for transportation, consumables, building and construction, durable goods, and health and wellness markets.

The Chemical Intermediates unit sells intermediates, plasticizers and functional amines to markets such as industrial chemicals and processing, building and construction, health and wellness, and agrochemicals.

The Fibers segments markets products such as acetate tow, acetate yarn and acetyl chemical products.



Reasons To Buy:

- ▲ Eastman Chemical's shares have gained 4.6% over a year, outperforming the 1.3% decline of the industry. Eastman Chemical remains focused on cost-cutting and productivity actions, which is helping it to offset raw material cost inflation and other cost headwinds. The company is taking a more aggressive approach to cost management this year to keep its manufacturing costs in control. The company is significantly increasing cost reduction targets, which is forecast to be roughly \$150 million of net savings in 2020. Its cost reduction actions are expected to contribute to its earnings per share in 2020.
- ▲ Eastman Chemical should gain from its strategic acquisitions. The acquisition of Solutia has significantly accelerated its growth efforts and offered excellent growth opportunities in Asia Pacific. Eastman Chemical expects to realize significant tax benefits from the acquisition. Moreover, the acquisition of BP Plc's aviation turbine engine oil business has enabled Eastman Chemical to better address the needs of the global aviation industry. Moreover, the purchase of Taminco Corporation has reinforced the company's foothold in attractive niche end-markets including food, feed and agriculture where Taminco has a strong presence. The acquisition has also provided attractive cost and revenue synergy opportunities.
- ▲ The company remains focused on growing new business revenues leveraging its innovation-driven growth model. It achieved roughly \$400 million in new business revenues from innovation (driven by Advanced Materials) in 2019. Revenues were driven by products including Tritan copolyester and Saflex acoustic interlayers. Eastman Chemical expects to generate roughly \$500 million of new business revenues in 2020.
- ▲ Eastman Chemical remains focused on maintaining a disciplined approach to capital allocation, with an emphasis on financing its dividend and debt reduction. The company generated cash from operating activities of \$1.5 billion and free cash flow of \$1.1 billion during 2019 and returned \$668 million to shareholders through share repurchases and dividends during the year. The company also repaid \$370 million of debt in 2019. The company's net debt fell 12% year over year to \$5,429 million at the end of the second quarter of 2020. It had a cash balance of \$704 million at the end of the second quarter, which appears to be sufficient to meet its short-term debt obligations. Eastman Chemical expects to reduce net debt by more than \$600 million in 2020. The company has also taken steps to boost its cash flows. These include reduction of capital expenditure by around \$100 million to \$325-375 million. Eastman Chemical expects to generate solid free cash flow of more than \$1 billion in 2020. It has also hiked its dividend for the tenth consecutive year.

Eastman Chemical will gain from cost-cutting and productivity actions, synergies of strategic acquisitions, sustained innovation and efforts to reduce debt.

Reasons To Sell:

- ▼ Eastman Chemical is witnessing lower demand across certain markets. The company faced weak demand across a number of markets including transportation and textile in the last reported quarter due to the coronavirus pandemic, hurting its volumes in these markets. Challenges in transportation, textiles and energy markets is likely to continue in the third quarter. While there has been some recovery of late across building & construction, tires, automotive and consumer durables end-markets, sluggishness is expected to continue over the short term amid the challenging environment due to the pandemic. As such, sales volumes are expected to remain under pressure in the third quarter. The company has withdrawn its guidance for 2020 due to higher uncertainties surrounding the pandemic.
- ▼ The company's Fibers segment continues to be hurt by a weak acetate tow market. Weak market conditions led to a decline in sales and margins in this unit in 2019. Volumes in this unit are likely to remain under pressure over the near term amid the pandemic. The company is also seeing weak demand for textiles products due to coronavirus. The pandemic has led to a downturn in tow and textile markets.
- ▼ Eastman Chemical is exposed to challenges from weak product spreads in its Chemical Intermediates segment, which is impacting this business. It saw a decline in spreads in many of its derivative product lines last year due to a slowdown in industrial activities amid the trade conflict. The company also saw higher prices of certain raw materials including propane in the most recent quarter and expects significant raw material cost headwind in the second half of 2020. This may impact spreads in Chemical Intermediates during this period.
- ▼ The company faces headwind from higher maintenance spending in the third quarter of 2020. The Chemical Intermediates segment is expected to witness headwind from increased maintenance shutdowns in the quarter. This is expected to weigh on margins in this unit as well as the company's bottom line in the third quarter.

Eastman Chemical faces challenges from weak demand. It is also exposed to headwinds from weak product spreads, higher maintenance spending and weakness in the fibers unit.

Last Earnings Report

Eastman Chemical's Q2 Earnings Lag, Sales Top Estimates

Eastman Chemical logged profit of \$27 million or 20 cents per share for the second quarter of 2020, down from the year-ago profit of \$258 million or \$1.85 per share.

Barring one-time items, earnings were 85 cents per share for the quarter, down from \$1.99 in the year ago-quarter. Earnings also missed the Zacks Consensus Estimate of \$1.03.

Revenues dropped around 19% year over year to \$1,924 million in the quarter, hurt by lower sales volumes resulting from the impacts of the coronavirus pandemic and lower selling prices due to reduced raw material prices. The top line, however, surpassed the Zacks Consensus Estimate of \$1,774.8 million.

The company saw lower volumes in transportation, building & construction, consumer durables and textiles end markets, partly offset by gains in consumables, personal care & wellness, medical and agriculture.

Segment Review

Revenues from the Additives and Functional Products division fell 17% year over year to \$685 million for the reported quarter, hurt by lower volumes and selling prices as well as less favorable product mix. Volumes fell in coatings additives, tire additives and aviation fluids products sold in transportation end markets.

Revenues from the Advanced Materials unit slipped 19% year over year to \$567 million. The decline can be attributed to lower volumes and less favorable product mix.

Chemical Intermediates sales dropped 27% year over year to \$461 million, hurt by lower selling prices and sales volumes. Lower raw material prices impacted selling prices. Volumes fell partly due to the unfavorable impacts of coronavirus on demand.

Fibers segment sales edged down 1% year over year to \$211 million. Acetate tow sales volumes rose modestly in the quarter. Demand for textiles products was affected by the pandemic.

Financials

Eastman Chemical ended the quarter with cash and cash equivalents of \$704 million, a nearly four fold year-over-year increase. Net debt at the end of the quarter was \$5,429 million, down around 12% year over year.

Eastman Chemical generated cash from operating activities of \$436 million and free cash flow of \$339 million during the reported quarter.

The company also returned \$119 million to its shareholders through share repurchases and dividends during the quarter.

Outlook

Eastman Chemical did not provide earnings guidance for full-year 2020 due to higher level of uncertainties related to the impacts of coronavirus. The company noted that it is on track to deliver roughly \$150 million of cost savings for 2020 in response to the pandemic. It also expects to generate more than \$1 billion of free cash flow this year.

Quarter Ending 06/2020

Report Date	Aug 03, 2020
Sales Surprise	8.41%
EPS Surprise	-17.48%
Quarterly EPS	0.85
Annual EPS (TTM)	6.24

Recent News

Eastman Chemical Expands Its Partnership With IMCD

Eastman Chemical, on **Jun 25, 2020**, announced that it is expanding its collaboration with the IMCD Group for the distribution of its specialty plastics.

Currently, IMCD distributes specialty plastics of Eastman Chemical in Portugal and Spain. Under the expanded deal, effective Aug 1, 2020, IMCD will carry out the distribution of specialty plastics in expanded markets in Europe, Middle East and Africa (EMEA). Notably, IMCD will distribute thermoplastic polyester materials over a broad range of markets and applications such as medical, cosmetics, consumer durables, personal care, packaging and more.

Eastman Chemical's proven portfolio of specialty polymers and compounds along with its advanced recycling technologies helps tackle the technical, regulatory and increasing sustainability problems confronted by many industries.

Per management, the company expects the partnership to ensure a seamless transition for its specialty plastics customers, whose distribution arrangements with incumbent distribution partners complete in late July.

Eastman Chemical Launches Tritan Renew Copolyester

Eastman Chemical, on **Jun 23, 2020**, launched the Tritan Renew copolyester. Tritan Renew offers uncompromising sustainability, ensuring the same durability, performance and safety of original Tritan.

Notably, Tritan Renew comes with up to 50% recycled content derived from waste plastic. The company will make it, using its Advanced Circular Recycling technologies. The technologies use recycled plastic as raw material, reducing fossil fuel consumption and with minimal greenhouse gas emissions.

Per management, Tritan Renew is an important step as it is the first product to market using molecular recycling made possible by the company's Advanced Circular Recycling technologies. Moreover, Eastman Chemical has made significant progress over the past year to create sustainable solutions that convert millions of pounds of waste into new materials.

Valuation

Eastman Chemical's shares are down 10.4% in the year-to-date period and up 4.6% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 12% and 0.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 1.3% and up 8.8%, respectively.

The S&P 500 index is up 2.3% in the year-to-date period and up 14.7% in the past year.

The stock is currently trading at 7.8X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.7X for the Zacks sub-industry, 10.04X for the Zacks sector and 12.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.08X and as low as 5.6X, with a 5-year median of 8.08X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$75 price target reflects 11.56X forward 12-month earnings per share.

The table below shows summary valuation data for EMN:

Valuation Multiples - EMN					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7.8	7.7	10.04	12.76
	5-Year High	11.08	13.12	17.94	12.85
	5-Year Low	5.6	5.24	6.55	8.24
	5-Year Median	8.08	7.46	10.72	10.89
P/E F 12M	Current	10.96	18.32	15.77	22.58
	5-Year High	13.52	18.32	21.05	22.58
	5-Year Low	5.15	8.97	9.86	15.25
	5-Year Median	10.02	13.11	13.51	17.55
P/B TTM	Current	1.56	1.7	2.73	4.5
	5-Year High	3.09	2.82	3.07	4.56
	5-Year Low	0.87	0.87	1.23	2.83
	5-Year Median	2.41	1.74	2.2	3.72

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (176 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Bayer Aktiengesellschaft (BAYRY)	Outperform	2
Westlake Chemical Corporation (WLK)	Outperform	2
Air Products and Chemicals, Inc. (APD)	Neutral	3
BASF SE (BASFY)	Neutral	3
Celanese Corporation (CE)	Neutral	3
FMC Corporation (FMC)	Neutral	3
Huntsman Corporation (HUN)	Neutral	3
LyondellBasell Industries N.V. (LYB)	Neutral	3

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	EMN	X Industry	S&P 500	APD	CE	LYB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	C	B	B
Market Cap	9.66 B	2.43 B	22.75 B	61.76 B	11.53 B	21.64 B
# of Analysts	9	3	14	7	11	6
Dividend Yield	3.71%	1.89%	1.76%	1.92%	2.54%	6.48%
Value Score	B	-	-	D	A	A
Cash/Price	0.07	0.12	0.07	0.10	0.05	0.15
EV/EBITDA	8.31	8.08	13.09	17.86	9.68	5.81
PEG Ratio	1.92	3.14	2.95	3.80	5.13	2.12
Price/Book (P/B)	1.56	1.79	3.16	5.14	4.02	2.93
Price/Cash Flow (P/CF)	6.05	6.48	12.32	21.22	7.54	4.57
P/E (F1)	12.28	18.69	21.81	33.31	14.24	14.32
Price/Sales (P/S)	1.11	0.81	2.46	7.00	2.03	0.72
Earnings Yield	8.29%	5.13%	4.40%	3.00%	7.03%	6.99%
Debt/Equity	0.87	0.60	0.76	0.61	1.11	2.01
Cash Flow (\$/share)	11.76	3.41	6.94	13.17	12.92	14.19
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	1.66%	9.75%	10.46%	4.94%	13.47%	-2.41%
Proj. EPS Growth (F1/F0)	-17.39%	-24.36%	-7.16%	2.24%	-28.14%	-52.96%
Curr. Cash Flow Growth	-9.97%	-9.82%	5.47%	10.98%	-15.99%	-16.46%
Hist. Cash Flow Growth (3-5 yrs)	1.05%	6.32%	8.55%	5.70%	5.47%	-3.48%
Current Ratio	1.66	1.87	1.32	3.48	1.20	2.36
Debt/Capital	46.58%	37.80%	44.36%	37.97%	52.51%	66.96%
Net Margin	6.64%	3.83%	10.25%	21.58%	11.13%	6.79%
Return on Equity	14.02%	10.92%	14.67%	15.96%	33.49%	29.99%
Sales/Assets	0.54	0.75	0.51	0.43	0.60	0.97
Proj. Sales Growth (F1/F0)	-12.76%	-7.59%	-1.71%	-1.38%	-15.48%	-23.35%
Momentum Score	B	-	-	B	B	F
Daily Price Chg	-5.44%	0.37%	0.42%	0.42%	1.05%	4.31%
1 Week Price Chg	-2.62%	-2.62%	0.14%	-1.68%	5.16%	-8.73%
4 Week Price Chg	-0.31%	4.73%	4.97%	5.45%	10.80%	-3.97%
12 Week Price Chg	15.56%	20.80%	15.30%	21.42%	25.23%	16.02%
52 Week Price Chg	5.02%	-5.43%	2.34%	26.27%	-6.82%	-14.50%
20 Day Average Volume	986,828	79,214	2,082,836	1,431,404	941,253	1,826,698
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.15%	2.83%	-2.62%
(F1) EPS Est 4 week change	-0.90%	0.00%	0.93%	-1.01%	1.39%	-5.06%
(F1) EPS Est 12 week change	-0.28%	-0.28%	0.78%	-1.01%	2.19%	-2.90%
(Q1) EPS Est Mthly Chg	-1.10%	0.00%	0.17%	-2.01%	3.36%	-4.40%

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	B
Growth Score	D
Momentum Score	B
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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