

## Eastman Chemical(EMN)

**\$75.47** (As of 02/05/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 02/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

### Summary

Eastman Chemical saw lower profits in the fourth quarter. Its adjusted earnings and sales for the quarter beat the respective Zacks Consensus Estimate. The company is exposed to a challenging environment. It is seeing weak demand in China, especially in automotive. It expects the difficult global environment to continue in 2020. Disruptions associated with the outbreak of coronavirus and a slowing Chinese economy are expected to hurt demand in the first quarter of 2020. Unfavorable currency as well as lower product spreads are other headwinds that are expected to dent its performance in 2020. Lower spreads are expected to impact margins in the company's Chemical Intermediates unit. The company also faces challenges in the fiber business due to a weak acetate tow market. Margins in this unit are expected to remain under pressure.

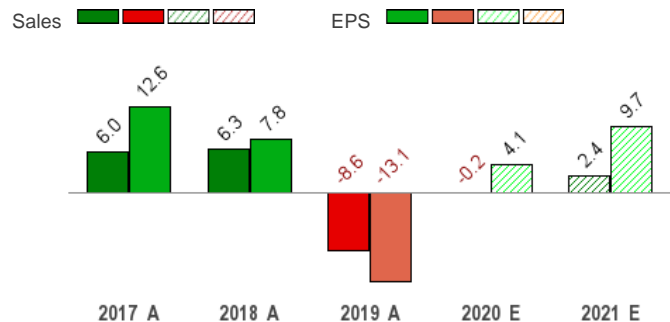
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$86.18 - \$61.22
20 Day Average Volume (sh)	1,242,642
Market Cap	\$10.3 B
YTD Price Change	-4.8%
Beta	1.38
Dividend / Div Yld	\$2.64 / 3.5%
Industry	<a href="#">Chemical - Diversified</a>
Zacks Industry Rank	Bottom 13% (223 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.8%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	-4.5%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	10.6
P/E F1	10.2
PEG F1	1.2
P/S TTM	1.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					9,481 E
2020	2,312 E	2,359 E	2,363 E	2,250 E	9,257 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					\$8.14 E
2020	\$1.69 E	\$1.98 E	\$2.11 E	\$1.60 E	\$7.42 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/05/2020. The reports text is as of 02/06/2020.

## 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.

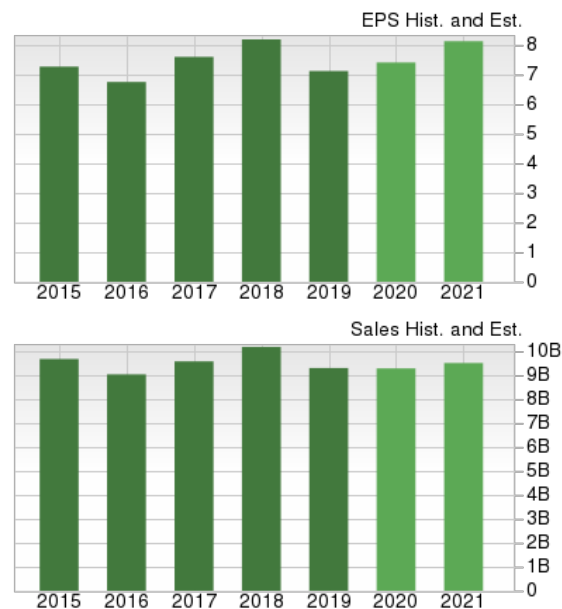
The company has further restructured its reporting segments and currently has four business segments - Additives and Functional Products/AFP (35% of 2019 sales), Advanced Materials (29%), Chemical Intermediates (26%) and Fibers (10%).

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.



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## Reasons To Sell:

- ▼ Eastman Chemical is witnessing lower demand in China, especially in the automotive market. The company faced challenging global economic conditions in the fourth quarter of 2019 due to trade issues that have led to a decline in industrial activities globally. Trade-related pressures impacted consumer discretionary markets such as transportation and consumer durables across China and Europe. Sales volume is expected to remain under pressure over the near term amid a slowing Chinese economy. The company also expects difficult global business environment to continue in 2020. Moreover, demand is expected to be impacted in China in the first quarter due to shutdowns (due to the extended Chinese New Year holiday) associated with the outbreak of coronavirus.
- ▼ The company faces headwind from unfavorable currency translation due to a stronger U.S. dollar. It saw roughly 30 cents headwind associated with currency in 2019. The company also anticipates currency headwind to continue in 2020 due to a stronger U.S. dollar vis-à-vis the euro.
- ▼ Eastman Chemical is exposed to headwind from lower product spreads in its Chemical Intermediates segment, which is hurting profits in this business as witnessed in 2019. 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 expects headwind from lower spreads in Chemical Intermediates to continue during the first half of 2020.
- ▼ Eastman Chemical'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. The company expects acetate tow to be down in 2020 and envisions margin for the Fibers segment to decline modestly on a year-over-year comparison basis.

Eastman Chemical faces challenges from a weak demand environment. It is also exposed to headwinds from unfavorable currency, lower product spreads and weakness in the Fibers unit.

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## Risks

- Eastman Chemical's shares have lost 4.2% over a year, outperforming the 25.3% 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 expects \$20-\$40 million in operating cost savings in 2020. Its cost reduction actions are expected to contribute to its earnings per share in 2020. The company expects to reduce its cost structure by more than \$100 million over the next three years.
  - 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 is also on track to generate roughly \$500 million of new business revenues in 2020.
  - Eastman Chemical remains committed to reduce debt and boost shareholder returns. 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. It also hiked its dividend for the tenth consecutive year. Eastman Chemical expects to generate solid free cash flow (of around \$1-\$1.1 billion) in 2020.
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## Last Earnings Report

### Eastman Chemical Tops Q4 Earnings and Sales Estimates

Eastman Chemical logged profit of \$26 million or 19 cents per share for the fourth quarter of 2019, down roughly 24% from the year-ago profit of \$34 million or 24 cents.

Barring one-time items, earnings were \$1.42 per share for the quarter, up from \$1.39 in the year ago-quarter. Earnings also topped the Zacks Consensus Estimate of \$1.33.

Revenues dropped around 7% year over year to \$2,205 million in the quarter. The top line, however, surpassed the Zacks Consensus Estimate of \$2,171.2 million.

The company continued to face challenging global economic conditions in the fourth quarter that impacted consumer discretionary markets including transportation.

### Full-Year Results

For 2019, profit was \$759 million or \$5.48 per share, compared with \$1,080 million or \$7.56 per share a year ago. Adjusted earnings were \$7.13 per share for 2019, down from \$8.20 a year ago.

Revenues were \$9,273 million for the full year, down around 9% year over year.

### Segment Review

Revenues from the Additives and Functional Products division fell 10% year over year to \$763 million for the reported quarter. The decline was due to reduced sales volume, lower selling prices and unfavorable currency swings. Volumes were hurt by softer end-market demand due to trade issues.

Revenues from the Advanced Materials unit rose 2% year over year to \$638 million. The rise is attributable to higher sales volumes and favorable product mix, partly offset by slightly lower selling prices.

Chemical Intermediates sales went down 16% to \$578 million, hurt by lower selling prices. Lower raw material prices and increased competitive activity impacted selling prices.

Fibers segment sales went up 7% to \$226 million, aided by higher acetate tow sales volumes.

### Financials

Eastman Chemical ended 2019 with cash and cash equivalents of \$204 million, down around 10% year over year. Net debt at the end of the year was \$5,578 million, down around 6% year over year.

Eastman Chemical generated cash from operating activities of \$671 million and free cash flow of \$554 million during the reported quarter. For the full year, cash from operating activities was \$1.5 billion and free cash flow was \$1.1 billion.

The company also returned \$668 million to shareholders through share repurchases and dividends in 2019. It also repaid debt worth \$370 million during the year.

### Outlook

Eastman Chemical noted that it entered 2020 in an uncertain macroeconomic environment. Amid this environment, the company will remain focused on aggressively managing costs and growing new business revenues from innovation. The company expects slow growth to continue this year at levels similar to 2019. However, it sees lower inventory destocking in 2020. Considering these factors, the company expects adjusted earnings per share for 2020 to be \$7.20-\$7.60. Eastman Chemical also expects free cash flow of \$1-\$1.1 billion for the year.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	1.56%
EPS Surprise	6.77%
Quarterly EPS	1.42
Annual EPS (TTM)	7.12

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## Recent News

### Eastman to Expand in Dresden for Boosting Film Business - Jan 9, 2020

Eastman Chemical has announced a capacity expansion at its production facility in Dresden, Germany to support a new coating and laminating line for film. This investment is anticipated to support the strong growth momentum of the company's high-performance branded paint protection and window film products.

Notably, the capacity extension will strengthen Eastman Chemical's assets in Martinsville, VA and is expected to be online by the middle of 2021, creating about 50 new job opportunities at the site.

Per Eastman Chemical, the additional capacity will enable the company to meet an ongoing ramp-up of its paint protection films in Europe and around the globe. This strategic move will also provide impetus to address the increasing customer needs for high-value automotive and architectural window.

Eastman Chemical announced a string of important investments in paint protection films, such as a Performance Films Patterns and Software Center of Excellence, multiple expansions at its production hub in Martinsville plus Core pattern and business operations software.

### Eastman Chemical Welcomes Two Tenants to Its Texas City Site - Jan 8, 2020

Eastman Chemical has announced collaboration with Air Products and Gulf Coast Ammonia for a strategic project.

This strategic project leverages a part of the available land, infrastructure, and deep-water port at Eastman Chemical's Texas City site. It will create value through a long-term lease, site service and utility cost sharing, and a strategic off-take deal to buy cost-effective ammonia for manufacturing Eastman Chemical's specialty products.

Notably, Eastman Chemical acquired the Texas City site in August 2011 by purchasing Sterling Chemical, Inc. Soon afterwards, the company restarted idled plasticizer manufacturing capacity to manufacture non-phthalate plasticizers such as Eastman 168 non-phthalate plasticizer.

At Eastman Chemical's Texas City site, Air Products will construct, own and operate its largest-ever steam methane reformer, an air separation unit for supplying nitrogen and a steam turbine generator for supplying power and certain other utilities for running the new ammonia facility. Gulf Coast Ammonia will lease a portion of the Texas City site and own a new world-scale ammonia production facility.

### Eastman Chemical Announces Hike in Quarterly Dividend - Dec 5, 2019

Eastman Chemical has announced that its board declared a quarterly cash dividend on its common stock of 66 cents per share, reflecting a 6.5% increase from the prior payout of 62 cents per share.

Notably, the company hiked its dividend for the tenth consecutive year. This is consistent with its focus on disciplined and balanced capital allocation, and shareholders' returns.

Per management, the dividend hike reflects the company's capacity to generate strong cash flow and deliver earnings growth.

### Eastman Chemical's Debottleneck Projects to Boost Capacity - Nov 19, 2019

Eastman Chemical has reaffirmed its commitment to alkyl amines' production at its global integrated assets situated in North America, Europe and Asia. The chemical maker has several debottlenecking projects underway to continuously increase capacity for meeting the rising global demand. Its most recent debottleneck was completed in the third quarter of 2019 and another is anticipated to be completed in 2020.

### Eastman Chemical, NB Coatings Tie Up for Sustainable Automotive Plastic - Nov 12, 2019

Eastman Chemical has announced a partnership with NB Coatings to develop a solution using Treva engineering bioplastic for interior Class A painted surfaces. Eastman manufactures Treva with biobased and recycles content, with the recent commercialization of its carbon renewal technology. Treva, when painted with NB Coatings paint systems, can meet the requirements of Class A surface as defined by original equipment manufacturers (OEMs).

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## Valuation

Eastman Chemical's shares are down 4.2% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 25.3% and 4.4% over the past year, respectively.

The S&P 500 index is up 20.9% in the past year.

The stock is currently trading at 7.92X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.9X for the Zacks sub-industry, 9.01X for the Zacks sector and 11.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.96X and as low as 6.46X, with a 5-year median of 8.27X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$64 price target reflects 8.37X 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	7.92	6.9	9.01	11.95
	5-Year High	10.96	12.53	18.18	12.85
	5-Year Low	6.46	5.58	7.34	8.49
	5-Year Median	8.27	7.27	10.58	10.66
P/E F 12M	Current	9.86	12.69	12.93	18.89
	5-Year High	13.52	15.19	21.14	19.34
	5-Year Low	7.23	8.25	9.77	15.18
	5-Year Median	10.15	12.47	13.7	17.46
P/B TTM	Current	1.68	1.65	2.23	4.5
	5-Year High	3.54	3.54	3.54	4.54
	5-Year Low	1.42	0.89	1.34	2.85
	5-Year Median	2.48	2.52	2.18	3.62

As of 02/05/2020

## Industry Analysis Zacks Industry Rank: Bottom 13% (223 out of 255)



## Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	EMN Underperform	X Industry	S&P 500	BASFY Neutral	CE Neutral	LYB Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>D</b>	<b>B</b>	<b>B</b>
Market Cap	10.26 B	2.66 B	24.26 B	63.78 B	13.28 B	28.03 B
# of Analysts	7	2.5	13	3	8	6
Dividend Yield	3.50%	1.73%	1.75%	3.68%	2.26%	5.00%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>B</b>
Cash/Price	0.02	0.07	0.04	0.04	0.04	0.04
EV/EBITDA	9.03	7.28	14.19	7.00	8.25	5.74
PEG Ratio	1.16	1.62	2.04	1.61	1.16	0.98
Price/Book (P/B)	1.68	2.10	3.31	1.39	4.58	3.48
Price/Cash Flow (P/CF)	6.42	6.68	13.70	5.89	10.95	5.65
P/E (F1)	10.17	14.58	19.17	15.32	10.17	8.07
Price/Sales (P/S)	1.11	0.91	2.67	0.91	2.11	0.81
Earnings Yield	9.83%	6.65%	5.22%	6.51%	9.83%	12.40%
Debt/Equity	0.91	0.55	0.71	0.39	1.24	1.59
Cash Flow (\$/share)	11.76	3.65	6.92	2.95	10.03	14.88
<b>Growth Score</b>	<b>C</b>	-	-	<b>F</b>	<b>B</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	1.77%	10.15%	10.80%	1.11%	15.52%	0.72%
Proj. EPS Growth (F1/F0)	4.07%	5.38%	7.35%	7.60%	13.32%	8.37%
Curr. Cash Flow Growth	-9.97%	-0.92%	10.12%	136.40%	-34.04%	-12.40%
Hist. Cash Flow Growth (3-5 yrs)	1.05%	6.32%	8.55%	-0.12%	0.49%	-2.56%
Current Ratio	1.65	1.83	1.20	1.78	1.58	1.83
Debt/Capital	47.73%	37.78%	42.91%	28.03%	55.33%	61.62%
Net Margin	8.19%	4.69%	11.79%	14.64%	13.53%	9.78%
Return on Equity	16.50%	11.94%	17.21%	9.36%	37.36%	36.95%
Sales/Assets	0.57	0.85	0.54	0.69	0.66	1.14
Proj. Sales Growth (F1/F0)	-0.18%	2.37%	4.15%	4.29%	4.32%	0.88%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>F</b>	<b>D</b>	<b>A</b>
Daily Price Chg	3.27%	1.36%	1.40%	1.34%	2.36%	2.89%
1 Week Price Chg	-2.60%	-3.31%	-2.60%	-3.43%	-9.61%	-8.35%
4 Week Price Chg	0.36%	-2.07%	1.96%	-5.19%	-6.17%	-7.14%
12 Week Price Chg	-5.63%	-6.40%	6.04%	-9.72%	-12.40%	-11.74%
52 Week Price Chg	-6.65%	-5.99%	16.68%	-7.31%	11.54%	-3.58%
20 Day Average Volume	1,242,642	115,484	1,966,046	291,734	854,096	2,557,862
(F1) EPS Est 1 week change	-2.99%	0.00%	0.00%	-1.73%	-2.07%	-8.01%
(F1) EPS Est 4 week change	-4.54%	0.00%	0.00%	-8.11%	-2.59%	-8.17%
(F1) EPS Est 12 week change	-6.70%	-2.17%	-0.08%	-11.11%	-3.48%	-12.77%
(Q1) EPS Est Mthly Chg	-7.42%	0.00%	0.00%	NA	-10.25%	1.61%



## 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>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>F</b>
VGM Score	<b>B</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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