

Eastman Chemical(EMN)

\$63.40 (As of 05/19/20)

Price Target (6-12 Months): **\$67.00**

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: C

Momentum: C

Summary

Eastman Chemical's adjusted earnings and sales for the first quarter of 2020 beat the respective Zacks Consensus Estimate. The company is likely 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 witnessing weak demand in certain markets, especially automotive. The company expects the difficult global environment to persist in the second quarter. Unfavorable currency as well as lower product spreads are other headwinds. The company also faces challenges in the fiber business due to a weak acetate tow market.

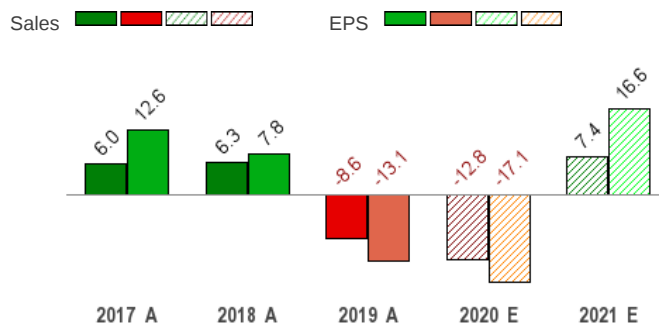
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$83.99 - \$34.44
20 Day Average Volume (sh)	1,381,240
Market Cap	\$8.6 B
YTD Price Change	-20.0%
Beta	1.61
Dividend / Div Yld	\$2.64 / 4.2%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 26% (187 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.0%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	-6.6%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	8.6
P/E F1	10.7
PEG F1	1.7
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,329 E	2,095 E	2,302 E	2,307 E	8,687 E
2020	2,241 A	1,839 E	2,003 E	2,041 E	8,089 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	\$1.88 E	\$1.84 E	\$2.14 E	\$1.78 E	\$6.89 E
2020	\$2.03 A	\$1.06 E	\$1.38 E	\$1.38 E	\$5.91 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 05/19/2020. The reports text is as of 05/20/2020.

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.

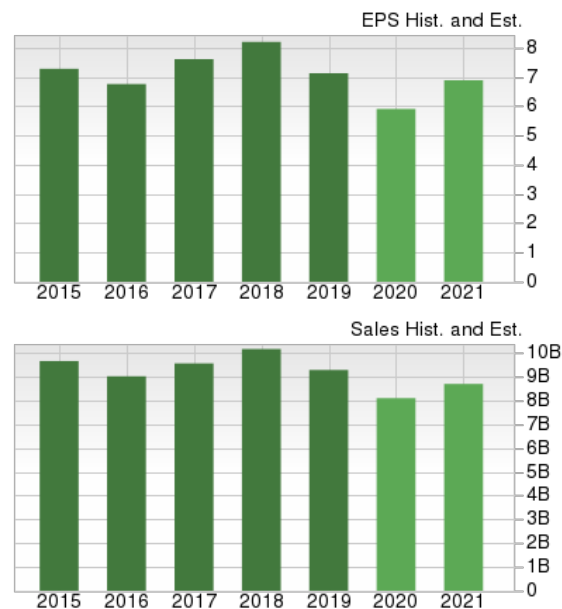
The company has further restructured its reporting segments and currently has four business segments - Additives and Functional Products/AFP (35% of 2019 sales), Advanced Materials (29%), Chemical Intermediates (26%) and Fibers (10%).

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 lost 11.1% over a year, outperforming the 24.1% 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 is also on track 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 10% year over year to \$5,614 million at the end of the first quarter of 2020. It had a cash balance of \$680 million at the end of the first quarter, which appears to be sufficient to meet its short-term debt obligations. Eastman Chemical expects to reduce debt by more than \$400 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, especially automotive. The company faced weak demand across transportation and textile markets in the last reported quarter due to the coronavirus pandemic, hurting its volumes in these markets. The company expects greater challenges in transportation, textiles and energy markets in the second quarter. Building construction, consumer durables and electronics end-markets also remain somewhat weak. As such, sales volumes are expected to remain under pressure in the second quarter. The company has withdrawn its guidance for 2020 due to uncertainties surrounding the pandemic.
- ▼ Eastman Chemical is exposed to challenges from lower product spreads in its Chemical Intermediates segment, which is hurting profits in 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 expects headwind from lower spreads in Chemical Intermediates to continue through the first half of 2020.
- ▼ The company faces headwind from costs associated with idling of a number of facilities and reduction of operating rates due to the coronavirus outbreak. The company expects to record the conversion costs associated with these moves in the second quarter of 2020. This is expected to weigh on its bottom line in the quarter.
- ▼ 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 amid the pandemic. The company is also expected to face some headwinds in the second quarter of 2020 associated with the shift of some of the fibers capacities to textiles.
- ▼ The company faces headwind from unfavorable currency translation. It saw roughly 30 cents headwind associated with currency in 2019. The company also faced currency translation headwinds in the most recent quarter and the same is likely to continue moving forward due to a stronger U.S. dollar vis-à-vis the euro.

Eastman Chemical faces challenges from weak demand. It is also exposed to headwinds from unfavorable currency, lower spreads, plant idling charges and weakness in the fibers unit.

Last Earnings Report

Eastman Chemical Tops Q1 Earnings and Sales Estimates

Eastman Chemical logged profit of \$258 million or \$1.89 per share for the first quarter of 2020, up roughly 23% from the year-ago profit of \$209 million or \$1.49.

Barring one-time items, earnings were \$2.03 per share for the quarter, up from \$1.77 in the year ago-quarter. Earnings also topped the Zacks Consensus Estimate of \$1.72.

Revenues dropped around 6% year over year to \$2,241 million in the quarter, hurt by lower selling prices due to reduced raw material and energy prices and higher competitive activity. The top line, however, surpassed the Zacks Consensus Estimate of \$2,214.2 million.

Higher sales volumes across personal care and wellness, water treatment, architectural coatings, agriculture and consumables markets were offset by lower volumes in transportation and textile markets due to the coronavirus pandemic.

Segment Review

Revenues from the Additives and Functional Products division fell 4% year over year to \$822 million for the reported quarter. The decline was due to lower selling prices and unfavorable currency swings. Volumes rose in care chemicals, water treatment, architectural coatings and adhesives resins product lines.

Revenues from the Advanced Materials unit slipped 7% year over year to \$615 million. The decline can be attributed to lower selling prices, unfavorable currency translation and less favorable product mix.

Chemical Intermediates sales went down 9% year over year to \$592 million, hurt by lower selling prices. Lower raw material prices impacted selling prices.

Fibers segment sales were flat year over year at \$212 million. Acetate tow sales volumes were stable in the quarter.

Financials

Eastman Chemical ended the quarter with cash and cash equivalents of \$680 million, a more than three fold year-over-year increase. Net debt at the end of the quarter was \$5,614 million, down around 10% year over year.

Eastman Chemical generated cash from operating activities of \$171 million and free cash flow of \$72 million during the reported quarter.

The company also returned \$120 million to its shareholders through share repurchases and dividends during the quarter.

Outlook

Eastman Chemical has withdrawn its earnings and cash flow guidance for full-year 2020 due to higher level of uncertainties related to the impact of coronavirus.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	1.21%
EPS Surprise	18.02%
Quarterly EPS	2.03
Annual EPS (TTM)	7.38

Recent News

Eastman Highlights Financial Position Amid Coronavirus Concern - Mar 25, 2020

Eastman Chemical has outlined its solid financial position, reflecting the strength of its cash flow, balance sheet and liquidity sources. This offers a strong foundation amid the coronavirus pandemic.

Per management, although the company continues to evaluate the impact of the coronavirus outbreak, it is focusing on generating cash by implementing decisive steps on which it can control working capital and cost management. Notably, Eastman Chemical remains dedicated to maintain a disciplined approach to capital allocation, with an emphasis on financing its dividend and debt reduction.

Also, the company is taking incremental actions, including the reduction of capital expenditure from earlier estimates of \$450-475 million to \$325-375 million, to boost its free cash flow in 2020. Additionally, working capital is anticipated to be more than \$250 million of cash flow beyond the prior expectation for 2020, assuming prices of raw materials to stay similar to current levels, and the coronavirus outbreak's unfavorable impacts on demand. Also, it is actively managing all of its costs.

The company's balance sheet remains strong, with no long-term debt slated to mature in 2020 and a manageable amount of debt outstanding in 2021. Eastman Chemical expects to reduce debt by more than \$400 million in 2020 by retiring certain existing borrowings.

Significant and multiple sources of liquidity such as a \$1.5-billion revolving credit facility are significant part of the company's financial strength. In the current climate, Eastman Chemical intends to access \$400 million of available borrowings under the revolving credit facility, and seeks additional sources of liquidity if required.

Valuation

Eastman Chemical's shares are down 20% in the year-to-date period and down 11.1% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 23.1% and 13.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 24.1% and 7.6%, respectively.

The S&P 500 index is down 8.2% in the year-to-date period and up 3% in the past year.

The stock is currently trading at 6.94X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.1X for the Zacks sub-industry, 8.62X for the Zacks sector and 10.91X 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 8.17X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$67 price target reflects 10.67X 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	6.94	7.1	8.62	10.91
	5-Year High	11.08	13.36	18.49	12.86
	5-Year Low	5.6	5.37	6.52	8.26
	5-Year Median	8.17	7.57	10.54	10.78
P/E F 12M	Current	10.1	16	16.27	21.52
	5-Year High	13.52	16	21.06	21.52
	5-Year Low	5.15	8.25	9.79	15.23
	5-Year Median	10.01	12.28	13.49	17.49
P/B TTM	Current	1.39	1.51	2.45	4.03
	5-Year High	3.54	3.55	3.48	4.56
	5-Year Low	0.87	0.89	1.22	2.83
	5-Year Median	2.45	1.79	2.18	3.65

As of 05/19/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Air Products and Chemicals, Inc. (APD)	Neutral	4
BASF SE (BASFY)	Neutral	3
Bayer Aktiengesellschaft (BAYRY)	Neutral	3
FMC Corporation (FMC)	Neutral	3
Huntsman Corporation (HUN)	Neutral	3
Celanese Corporation (CE)	Underperform	5
LyondellBasell Industries N.V. (LYB)	Underperform	5
Westlake Chemical Corporation (WLK)	Underperform	5

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	EMN	X Industry	S&P 500	APD	CE	LYB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	4	5	5
VGM Score	C	-	-	C	A	C
Market Cap	8.62 B	2.25 B	19.91 B	52.13 B	9.92 B	19.38 B
# of Analysts	8	3	14	7	9	4
Dividend Yield	4.16%	2.38%	2.14%	2.27%	2.96%	7.23%
Value Score	B	-	-	D	C	B
Cash/Price	0.08	0.13	0.07	0.04	0.07	0.10
EV/EBITDA	7.70	6.62	12.09	15.15	8.80	5.40
PEG Ratio	1.75	2.94	2.68	2.95	2.96	1.86
Price/Book (P/B)	1.39	1.56	2.75	4.45	3.50	2.64
Price/Cash Flow (P/CF)	5.39	5.39	10.68	17.92	6.49	4.09
P/E (F1)	11.16	17.64	19.96	27.83	12.49	12.52
Price/Sales (P/S)	0.94	0.66	2.01	5.81	1.63	0.58
Earnings Yield	9.32%	5.46%	4.83%	3.59%	8.00%	7.99%
Debt/Equity	0.87	0.55	0.76	0.28	1.25	1.82
Cash Flow (\$/share)	11.76	3.41	7.01	13.17	12.92	14.19
Growth Score	C	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	1.66%	9.92%	10.87%	4.81%	14.98%	-0.35%
Proj. EPS Growth (F1/F0)	-17.16%	-27.74%	-10.48%	3.29%	-29.54%	-51.79%
Curr. Cash Flow Growth	-9.97%	-8.37%	5.51%	10.98%	-15.99%	-16.46%
Hist. Cash Flow Growth (3-5 yrs)	1.05%	6.20%	8.55%	5.70%	5.47%	-3.48%
Current Ratio	1.66	1.87	1.28	2.59	1.48	1.76
Debt/Capital	46.58%	37.09%	44.46%	21.68%	55.46%	64.71%
Net Margin	8.85%	5.19%	10.59%	21.66%	12.08%	8.14%
Return on Equity	16.76%	12.74%	16.27%	16.36%	37.21%	36.08%
Sales/Assets	0.56	0.79	0.55	0.46	0.64	1.09
Proj. Sales Growth (F1/F0)	-12.76%	-8.04%	-2.49%	-0.64%	-17.77%	-27.73%
Momentum Score	C	-	-	C	A	C
Daily Price Chg	0.75%	-0.34%	-1.38%	-1.22%	-0.51%	-2.19%
1 Week Price Chg	-4.09%	-4.17%	-4.56%	-2.33%	-7.31%	-5.05%
4 Week Price Chg	20.26%	8.48%	6.08%	13.81%	14.19%	24.53%
12 Week Price Chg	-4.76%	-15.15%	-13.96%	0.23%	-14.24%	-22.99%
52 Week Price Chg	-11.60%	-24.41%	-7.85%	14.03%	-16.38%	-28.82%
20 Day Average Volume	1,381,240	110,762	2,586,392	1,081,306	965,753	2,586,392
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.20%	0.00%
(F1) EPS Est 4 week change	-6.60%	-6.60%	-4.62%	-6.55%	-23.30%	-20.22%
(F1) EPS Est 12 week change	-20.40%	-34.60%	-16.58%	-10.96%	-37.41%	-52.98%
(Q1) EPS Est Mthly Chg	-22.20%	-53.71%	-10.10%	-14.52%	-41.06%	-63.06%

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	C
Momentum Score	C
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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