

Eastman Chemical(EMN)

\$74.06 (As of 01/23/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/31/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: C

Summary

Fourth-quarter earnings estimates for Eastman Chemical have been going down of late. The company will gain from cost-cutting and productivity actions, synergies of acquisitions, sustained innovation and efforts to reduce debt. The company is focused on generating business revenues from innovations. Eastman Chemical is also committed to boost shareholders' returns by leveraging strong cash flow. The company has also outperformed the industry over the past year. However, Eastman Chemical is exposed to a challenging business environment. Demand for its specialty products in China is weak due to trade issues. Unfavorable currency as well as higher pension and turnaround costs are other headwinds that are denting the company's performance. Eastman Chemical also faces challenges in the fiber business due to weak acetate tow volumes.

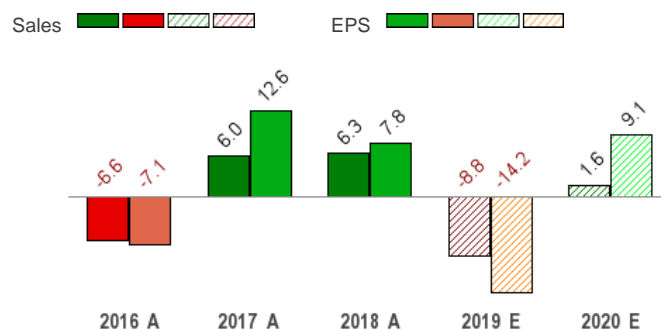
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$86.18 - \$61.22
20 Day Average Volume (sh)	902,890
Market Cap	\$10.1 B
YTD Price Change	-6.6%
Beta	1.38
Dividend / Div Yld	\$2.64 / 3.6%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 7% (237 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.5%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	01/30/2020
Earnings ESP	-2.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,415 E	2,410 E	2,389 E	2,287 E	9,406 E
2019	2,380 A	2,363 A	2,325 A	2,171 E	9,255 E
2018	2,607 A	2,621 A	2,547 A	2,376 A	10,151 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.83 E	\$2.23 E	\$2.14 E	\$1.53 E	\$7.68 E
2019	\$1.77 A	\$1.99 A	\$1.94 A	\$1.34 E	\$7.04 E
2018	\$2.23 A	\$2.22 A	\$2.34 A	\$1.39 A	\$8.20 A

*Quarterly figures may not add up to annual.

P/E TTM	10.5
P/E F1	9.6
PEG F1	1.1
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/23/2020. The reports text is as of 01/24/2020.

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 includes 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 \$10.2 billion in 2018.

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.

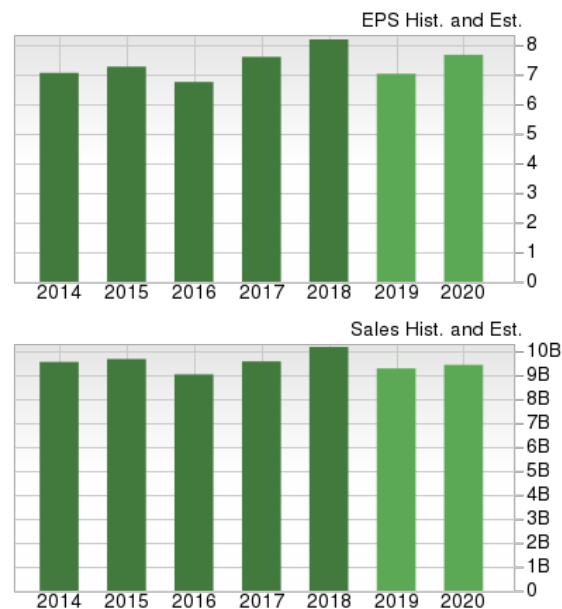
The company has further restructured its reporting segments and currently has four business segments - Additives and Functional Products/AFP (36% of 2018 sales), Advanced Materials (27%), Chemical Intermediates (28%) and Fibers (9%).

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 around 8.4% 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 \$40 million in net cost savings in 2019. Its cost reduction actions are expected to contribute to its earnings per share in 2019.
- ▲ 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 expects to deliver double-digit growth in new business revenues from innovation in 2019 and envisions revenues to increase to more than \$400 million this year. Eastman Chemical is also on track to generate roughly \$500 million of new business revenues from innovation in 2020.
- ▲ Eastman Chemical remains committed to reduce debt and boost shareholder returns. The company generated cash from operating activities of \$1.54 billion and free cash flow of \$1.08 billion during 2018 and returned \$718 million to shareholders through share repurchases and dividends during the year. The company also repaid \$316 million of debt. The company also returned \$583 million to shareholders through share repurchases and dividends during the first nine months of 2019. Eastman Chemical expects to generate solid free cash flow (of around \$1.1 billion) in 2019.

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 for its specialty products in China due to trade tensions. The company faced more challenging global economic conditions in the third quarter of 2019 due to trade issues that have led to a significant decline in industrial activities globally. Trade-related pressures impacted consumer discretionary markets such as transportation and consumer durables across China and Europe in the quarter. Sales volume for the company's specialty plastics is expected to remain under pressure through the second half of 2019 due to the U.S.-China trade conflict amid a slowing Chinese economy. This is expected to hurt margins in the Advanced Materials unit. The company expects difficult global business environment to continue through the balance of 2019.
- ▼ The company faces headwind from unfavorable currency translation due to a stronger U.S. dollar. It expects roughly 30 cents headwind associated with currency in 2019. The company also anticipates pension-related headwind of around 20 cents for 2019.
- ▼ Eastman Chemical is exposed to headwind from higher turnaround costs at its Longview manufacturing site in Texas. Plant shutdown costs and a local power disruption at Longview hurt margins in its Chemical Intermediates unit in the last reported quarter. The company expects similar headwind in the fourth quarter, which is expected to weigh on margins in this segment.
- ▼ Eastman Chemical's fiber segment margins continue to be hurt by lower acetate tow volumes. Trade-related issues are affecting demand, hurting tow volumes. Volumes in this unit are likely to remain under pressure over the near term. The ongoing U.S.-China trade tensions have led to no new Chinese tow imports from the United States.

Eastman Chemical faces headwinds from unfavorable currency swings and higher pension and turnaround costs. Demand for its specialty products in China also remains weak due to the trade conflict.

Last Earnings Report

Eastman Chemical Lags Q3 Earnings and Revenue Estimates

Eastman Chemical saw its profits drop in the third quarter of 2019, hurt by lower demand due to trade issues. The company recorded profit of \$266 million or \$1.93 per share, down roughly 35% from the year-ago profit of \$412 million or \$2.89.

Barring one-time items, earnings were \$1.94 per share for the quarter, down from \$2.34 in the year ago-quarter. Earnings also trailed the Zacks Consensus Estimate of \$1.99.

Revenues dropped around 9% year over year to \$2,325 million in the quarter. The company saw lower sales across its segments. The top line missed the Zacks Consensus Estimate of \$2,365.9 million.

The company faced challenging global economic conditions in the third quarter due to trade tensions. Trade-related pressures impacted consumer discretionary markets such as transportation and consumer durables.

Segment Review

Revenues from the Additives and Functional Products division fell 9% year over year to \$832 million for the reported quarter. The decline was due to reduced sales volume, unfavorable product mix, lower selling prices and unfavorable currency swings.

Revenues from the Advanced Materials unit declined 2% year over year to \$697 million. The decline is attributable to reduced selling prices and unfavorable foreign currency translation.

Chemical Intermediates sales went down 18% to \$579 million, hurt by lower selling prices and reduced sales volumes, especially for functional amines products and intermediates.

Fibers segment sales edged down 1% to \$217 million, impacted by reduced acetate flake sales volume to the company's acetate tow joint venture in China resulting from customer buying patterns.

Financials

Eastman Chemical ended the quarter with cash and cash equivalents of \$207 million, up around 7% year over year. Net debt at the end of the quarter was \$6,002 million, down around 7% year over year.

Eastman Chemical generated cash from operating activities of \$416 million and free cash flow of \$306 million during the reported quarter. The company returned \$160 million to shareholders through share repurchases and dividends in the quarter.

Outlook

Eastman Chemical noted that it expects sales volumes and capacity utilization to decline in the fourth quarter due to the worsened global business environment resulting from trade uncertainties and other macro factors. Considering these factors, the company expects adjusted earnings per share for 2019 to be \$7.00-\$7.20.

Amid the difficult business environment, the company remains focused on managing costs and growing new business revenues from innovation, especially in the Advanced Materials segment.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-1.73%
EPS Surprise	-2.51%
Quarterly EPS	1.94
Annual EPS (TTM)	7.09

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).

Valuation

Eastman Chemical's shares are down 8.4% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 25.3% and 0.6% over the past year, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 7.68X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.39X for the Zacks sub-industry, 9.67X for the Zacks sector and 12.38X 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 8.28X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$78 price target reflects 10.03X 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	7.68	7.39	9.67	12.38
	5-Year High	10.96	12.41	18.17	12.86
	5-Year Low	6.46	5.08	7.34	8.48
	5-Year Median	8.28	7.25	10.56	10.69
P/E F 12M	Current	9.52	12.75	13.46	19.13
	5-Year High	13.52	15.05	21.12	19.34
	5-Year Low	7.23	8.18	9.77	15.17
	5-Year Median	10.16	12.38	13.77	17.44
P/B TTM	Current	1.65	1.7	2.33	4.54
	5-Year High	3.54	3.51	3.54	4.55
	5-Year Low	1.42	0.88	1.33	2.85
	5-Year Median	2.48	2.51	2.18	3.61

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Bottom 7% (237 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 Neutral	X Industry	S&P 500	BASFY Neutral	CE Neutral	LYB Neutral
VGM Score	B	-	-	D	B	A
Market Cap	10.07 B	2.85 B	24.46 B	64.59 B	13.97 B	28.75 B
# of Analysts	8	3	13	3	9	6
Dividend Yield	3.56%	1.79%	1.75%	3.64%	2.15%	4.87%
Value Score	A	-	-	A	B	A
Cash/Price	0.02	0.06	0.04	0.04	0.04	0.02
EV/EBITDA	7.18	6.36	14.11	7.08	8.56	5.64
PEG Ratio	1.09	1.60	2.04	1.60	1.54	0.91
Price/Book (P/B)	1.65	2.09	3.40	1.40	4.47	3.64
Price/Cash Flow (P/CF)	5.83	6.48	13.66	5.97	8.05	5.84
P/E (F1)	9.52	14.27	19.10	15.24	10.57	7.67
Price/Sales (P/S)	1.07	0.89	2.67	0.92	2.13	0.81
Earnings Yield	10.37%	6.84%	5.23%	6.54%	9.46%	13.03%
Debt/Equity	0.91	0.56	0.72	0.39	1.13	1.38
Cash Flow (\$/share)	12.71	3.41	6.94	2.95	14.36	14.76
Growth Score	D	-	-	F	B	B
Hist. EPS Growth (3-5 yrs)	2.30%	10.15%	10.60%	1.11%	15.96%	1.92%
Proj. EPS Growth (F1/F0)	9.09%	7.23%	7.59%	9.14%	13.40%	13.06%
Curr. Cash Flow Growth	4.53%	3.75%	13.90%	136.40%	36.42%	7.46%
Hist. Cash Flow Growth (3-5 yrs)	4.27%	6.70%	9.00%	-0.12%	12.16%	2.91%
Current Ratio	1.65	1.81	1.22	1.78	1.85	1.30
Debt/Capital	47.73%	38.75%	42.99%	28.03%	53.01%	58.19%
Net Margin	8.12%	5.57%	11.35%	14.64%	13.85%	9.80%
Return on Equity	16.58%	11.94%	17.10%	9.36%	38.21%	35.56%
Sales/Assets	0.58	0.85	0.55	0.69	0.69	1.19
Proj. Sales Growth (F1/F0)	1.63%	2.13%	4.03%	4.29%	4.31%	0.84%
Momentum Score	C	-	-	F	D	B
Daily Price Chg	0.71%	-0.12%	0.26%	-0.90%	-1.03%	-0.46%
1 Week Price Chg	3.56%	0.69%	2.29%	-2.14%	0.50%	2.87%
4 Week Price Chg	-6.09%	-5.19%	2.24%	-6.59%	-6.12%	-8.81%
12 Week Price Chg	-2.60%	0.91%	7.79%	-7.47%	-4.60%	-3.86%
52 Week Price Chg	-5.12%	-2.62%	21.61%	-2.41%	20.80%	2.72%
20 Day Average Volume	902,890	107,001	1,536,379	207,349	684,531	1,877,514
(F1) EPS Est 1 week change	-0.65%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.19%	-0.21%	0.00%	-6.49%	-0.73%	-0.99%
(F1) EPS Est 12 week change	-10.04%	-3.38%	-0.23%	-7.49%	-1.64%	-7.49%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	-2.99%	0.00%

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	A
Growth Score	D
Momentum Score	C
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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