

## Eastman Chemical(EMN)

**\$60.65** (As of 04/28/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 02/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

### Summary

Earnings estimates for Eastman Chemical for the first quarter of 2020 have been going down of late. 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.

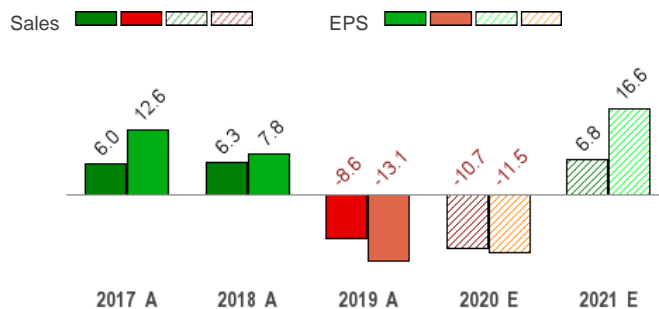
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$83.99 - \$34.44
20 Day Average Volume (sh)	1,511,611
Market Cap	\$8.2 B
YTD Price Change	-23.5%
Beta	1.47
Dividend / Div Yld	\$2.64 / 4.4%
Industry	<a href="#">Chemical - Diversified</a>
Zacks Industry Rank	Bottom 27% (184 out of 253)

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



Last EPS Surprise	6.8%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	-5.8%
Expected Report Date	04/30/2020
Earnings ESP	-3.1%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					8,846 E
2020	2,214 E	1,817 E	1,990 E	2,070 E	8,282 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					\$7.36 E
2020	\$1.72 E	\$1.33 E	\$1.67 E	\$1.53 E	\$6.31 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 04/28/2020. The reports text is as of 04/29/2020.

## 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.

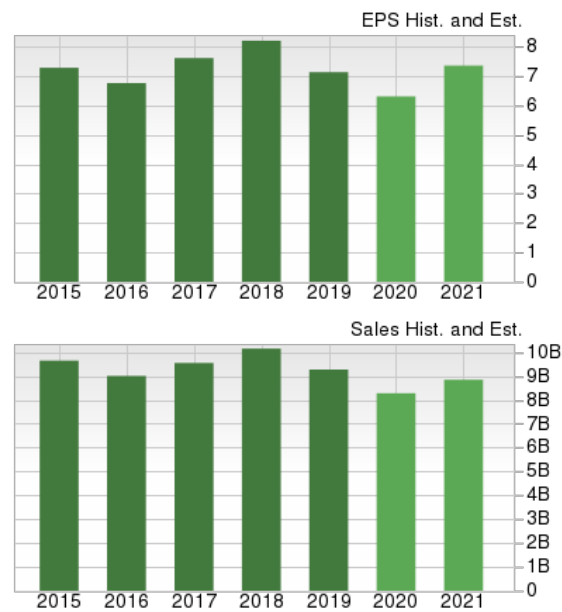
The company has further restructured its reporting segments and currently has four business segments - Additives and Functional Products/AFP (35% of 2019 sales), Advanced Materials (29%), Chemical Intermediates (26%) and Fibers (10%).

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 23.1% over a year, outperforming the 33.4% 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. At the end of the fourth quarter of 2019, the company's long-term debt was \$5,782 million, down from \$6,209 million in the sequentially prior quarter. The company had a cash balance of \$204 million at the end of the fourth quarter, which appears to be sufficient to meet its current debt obligation of \$171 million. 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	<b>1.56%</b>
EPS Surprise	<b>6.77%</b>
Quarterly EPS	<b>1.42</b>
Annual EPS (TTM)	<b>7.12</b>

## 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.

The company anticipates first-quarter 2020 earnings per share to rise from that in the prior-year period, higher than earlier estimates. Moreover, free cash flow is anticipated to roughly break-even in the first quarter, which is far above the typical first-quarter free cash flow in previous years.

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. Notably, the company anticipates having more than \$600 million of cash and cash equivalents at the beginning of the second quarter, and remains focused on retaining a solid investment-grade credit rating.

## Valuation

Eastman Chemical's shares are down 23.1% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 33.4% and 18.8% over the past year, respectively.

The S&P 500 index is down 2.7% in the past year.

The stock is currently trading at 7.2X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 6.67X for the Zacks sub-industry, 8.44X for the Zacks sector and 10.52X 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 8.19X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$52 price target reflects 7.85X 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	7.2	6.67	8.44	10.52
	5-Year High	11.08	13.36	18.31	12.87
	5-Year Low	5.6	5.43	6.5	8.27
	5-Year Median	8.19	7.58	10.55	10.78
P/E F 12M	Current	9.16	13.35	13.68	20.2
	5-Year High	13.52	15.18	21.06	20.2
	5-Year Low	5.15	8.25	9.79	15.19
	5-Year Median	10.06	12.28	13.49	17.45
P/B TTM	Current	1.37	1.36	1.66	3.81
	5-Year High	3.54	3.55	3.57	4.55
	5-Year Low	0.87	0.89	1.22	2.84
	5-Year Median	2.46	1.81	2.17	3.64

As of 04/28/2020

## Industry Analysis Zacks Industry Rank: Bottom 27% (184 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Air Products and Chemicals, Inc. (APD)	Neutral	3
Bayer Aktiengesellschaft (BAYRY)	Neutral	3
Celanese Corporation (CE)	Neutral	4
FMC Corporation (FMC)	Neutral	3
BASF SE (BASFY)	Underperform	4
Huntsman Corporation (HUN)	Underperform	4
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)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	3	4	5
VGM Score	B	-	-	D	B	C
Market Cap	8.24 B	2.36 B	20.14 B	49.39 B	9.80 B	18.57 B
# of Analysts	8	3	14	7	9	7
Dividend Yield	4.35%	2.40%	2.13%	2.40%	3.03%	7.54%
Value Score	B	-	-	D	C	B
Cash/Price	0.03	0.10	0.06	0.05	0.05	0.06
EV/EBITDA	7.89	7.29	12.15	14.37	8.83	5.30
PEG Ratio	1.57	2.41	2.43	2.75	2.04	1.49
Price/Book (P/B)	1.37	1.52	2.68	4.21	3.38	2.30
Price/Cash Flow (P/CF)	5.16	5.35	10.78	16.98	6.34	3.92
P/E (F1)	10.03	15.27	19.06	26.00	9.65	10.11
Price/Sales (P/S)	0.89	0.79	2.12	5.50	1.61	0.53
Earnings Yield	10.39%	6.25%	5.11%	3.85%	10.36%	9.90%
Debt/Equity	0.93	0.52	0.72	0.28	1.24	1.59
Cash Flow (\$/share)	11.76	3.41	7.01	13.17	12.92	14.19
Growth Score	C	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	1.77%	9.94%	10.88%	4.81%	15.52%	0.72%
Proj. EPS Growth (F1/F0)	-11.57%	-14.84%	-6.33%	4.77%	-10.91%	-42.77%
Curr. Cash Flow Growth	-9.97%	-7.54%	5.92%	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	1.86	1.87	1.23	2.59	1.58	1.83
Debt/Capital	48.19%	35.68%	43.90%	21.68%	55.33%	61.62%
Net Margin	8.19%	5.03%	11.13%	21.66%	12.08%	9.78%
Return on Equity	16.47%	11.98%	16.47%	16.36%	36.42%	36.95%
Sales/Assets	0.57	0.82	0.55	0.46	0.64	1.14
Proj. Sales Growth (F1/F0)	-10.69%	-5.59%	-1.35%	-0.29%	-10.70%	-22.93%
Momentum Score	C	-	-	F	D	D
Daily Price Chg	2.19%	1.26%	1.10%	0.61%	-0.81%	6.22%
1 Week Price Chg	3.94%	0.65%	-1.74%	-2.13%	0.81%	-4.10%
4 Week Price Chg	30.21%	12.15%	11.80%	12.03%	11.65%	12.17%
12 Week Price Chg	-17.01%	-20.68%	-17.28%	-9.50%	-23.66%	-31.88%
52 Week Price Chg	-23.11%	-29.85%	-10.69%	8.66%	-24.05%	-36.90%
20 Day Average Volume	1,511,611	115,074	2,660,864	1,308,046	1,028,254	2,807,185
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-5.21%	-3.14%	0.00%
(F1) EPS Est 4 week change	-5.79%	-4.59%	-6.46%	-7.18%	-17.41%	-22.53%
(F1) EPS Est 12 week change	-17.57%	-21.88%	-12.81%	-9.40%	-25.70%	-51.42%
(Q1) EPS Est Mthly Chg	-13.40%	-13.83%	-10.84%	-17.50%	-24.00%	-24.78%

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## 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.

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### 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>C</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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