

Masco Corporation (MAS)

\$48.27 (As of 01/02/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: A

Momentum: F

Summary

Masco's shares have outperformed the industry in the past year. Inorganic strategies and cost-saving initiatives along with strong housing fundamentals are raising hope. Also, its plans to drive shareholder value through reinvesting in the business, acquisitions, and share repurchases and dividends bodes well. Masco's business have been suffering from lower volume, unfavorable mix and softness in certain markets served. During the first nine months of 2019, Masco generated lower revenues due to soft Plumbing and Windows divisions. Also, implementation of China tariffs and soft end-market demand impacted its profitability. Due to softer international outlook, the company lowered its adjusted earnings and segmental revenues guidance. Estimates have also been trending downward for 2020 over the past 30 days, raising analyst's concern.

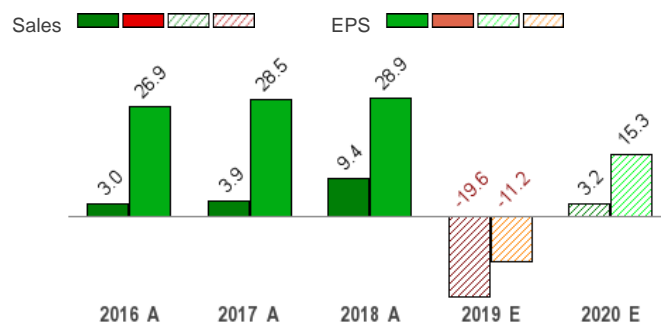
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.41 - \$29.54
20 Day Average Volume (sh)	2,091,534
Market Cap	\$13.8 B
YTD Price Change	0.6%
Beta	1.43
Dividend / Div Yld	\$0.54 / 1.1%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 41% (104 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.9%
Last Sales Surprise	-9.3%
EPS F1 Est- 4 week change	-2.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	18.3
P/E F1	18.9
PEG F1	2.0
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,564 E	1,900 E	1,764 E	1,710 E	6,937 E
2019	1,908 A	2,275 A	1,947 A	1,655 E	6,723 E
2018	1,920 A	2,297 A	2,101 A	2,041 A	8,359 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.41 E	\$0.80 E	\$0.70 E	\$0.63 E	\$2.56 E
2019	\$0.44 A	\$0.88 A	\$0.68 A	\$0.53 E	\$2.22 E
2018	\$0.45 A	\$0.75 A	\$0.65 A	\$0.64 A	\$2.50 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 01/02/2020. The reports text is as of 01/03/2020.

Overview

Headquartered in Taylor, MI, **Masco Corporation** manufactures, sells and installs home improvement and building products.

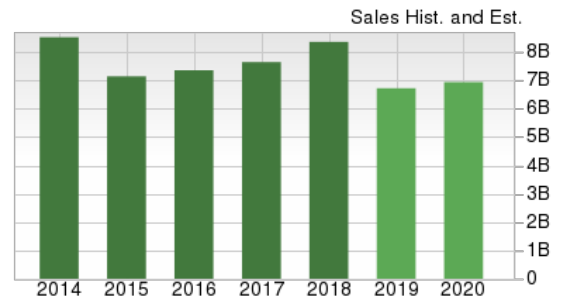
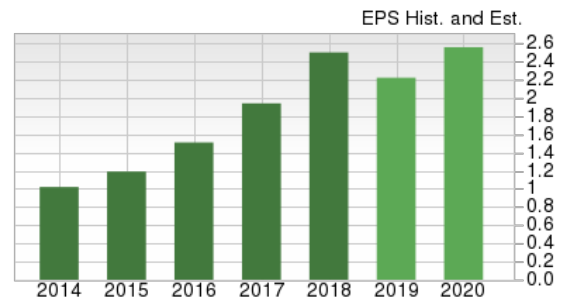
Masco operates through the following four business segments:

Plumbing Products (accounting for 51.7% of third-quarter 2019 revenues): The segment manufactures and markets an array of faucets, bathing and showering devices, valves, bathtubs, spas and toilets.

Decorative Architectural Products (36.4%): The segment manufactures architectural coatings, including paints, primers, specialty paint products, stains and waterproofing products. These products are sold in the U.S., Canada, China, Mexico and South America.

Cabinetry Products (11.9%): The segment manufactures and sells stock and semi-custom, assembled cabinetry for kitchen, bath, storage, home office and home entertainment applications in both North America and Europe.

In October 2019, the company announced that it will divest Cabinetry and Windows businesses, and the segment will be treated as discontinued operations. During third-quarter 2019, Masco completed the sale of the UK Window business, and signed a definitive agreement to sell the Milgard Windows and Doors business.



Reasons To Buy:

▲ **Leading Brand Portfolio:** Masco operates through various divisions with a large number of products. It is one of the leading cabinet manufacturers in the U.S. and holds one of the largest shares in faucets. Its popular brands include Behr paint, Delta and Hansgrohe faucets, bath and shower fixtures, KraftMaid and Merillat cabinets, Kichler decorative and outdoor lighting, and HotSpring spas. The Behr brand is the number one brand in the DIY market for architectural coatings. The company has been witnessing strong demand for its market leading brands.

Increasing demand for repair and remodeling, new product launches and streamlining of its portfolio bode well for the company

While higher pricing (in order to mitigate tariff-related woes) may have had a temporary impact on volume, repair and remodel activity is poised to pick up pace in the upcoming period owing to solid macro-economic factors, which will provide the basis of strong demand. Factors like solid job market with unemployment at 50-year lows, higher income level, high consumer confidence, and increased home prices are expected to support repair and remodel activity.

▲ **Acquisitions & Divestitures to Accelerate Growth:** Masco continues to expand its portfolio with acquisitions. On Mar 9, 2018, the company acquired Kichler Lighting, a leading provider of decorative residential and commercial lighting products, ceiling fans as well as LED lighting systems. Through the deal, the company expands in the fragmented \$6-billion U.S. residential lighting industry. This acquisition of Kichler Lighting significantly contributed to sales growth of the Decorative Architectural Products segment. Masco's 2019 performance will continue to be leveraged by Kichler's product portfolio, with existing and new customers realizing further operational improvements, along with optimizing its brand and go-to-market capabilities.

Moreover, Masco regularly divests its less profitable and underperforming businesses to focus on its core areas in a bid to accelerate growth and improve shareholder value.

In March 2019, Masco announced that it was undertaking "strategic alternatives" for cabinetry and window businesses. The company came to the conclusion that it intends to execute an outright sale of both the businesses. During third-quarter 2019, it announced that Cabinetry and Windows businesses will be treated as discontinued operations. In fact, it has completed the sale of the UK Window business, and signed a definitive agreement to sell the Milgard Windows and Doors business for approximately \$725 million. The deal is expected to be completed by the end of the fourth quarter.

We view this announcement as positive for the company as it will remove cyclical and lower-margin businesses. This move will also drive liquidity, helping the company to strengthen its product portfolio and boost its better-performing businesses.

▲ **Cost-Saving Initiatives:** Masco's cost-saving initiatives include business consolidations, system implementations, plant closures, branch closures, improvement in the global supply chain and headcount reductions. These initiatives target company-wide annual savings through reduction of corporate expense and simplification of Masco's organizational structure. Masco remains well positioned to capitalize on the robust demand to drive strong growth and margin expansion in the near future.

In order to mitigate tariff-related woes, Masco continues to work with suppliers and internal teams on cost-reduction opportunities and has started moving limited production out of China as a longer-term solution.

During the third quarter, both its adjusted gross and operating margins grew 80 basis points (bps) year over year on the back of higher volume, pricing actions, and disciplined cost control. Notably, the company has lifted margin projection for Decorative Architectural Products and Cabinetry businesses. In Decorative Architectural Products, operating margins are expected to be at the higher end of the 17-18% range. In the Cabinetry segment, it expects full-year operating margins to be approximately 10.5%, reflecting an improvement of nearly 150 bps from its prior guidance.

▲ **Driving Shareholder Value:** The company plans to drive shareholder value through reinvesting in the business, selectively pursuing acquisitions with the right fit and return, and returning cash to shareholders through share repurchases and dividends. Masco returned 18.6 million shares for approximately \$654 million to its shareholders through repurchases in 2018. In the last three quarters, it bought back \$440 million shares through the repurchase program. Moreover, the company increased its quarterly dividend by 14% to 12 cents per share in 2018.

Masco maintained its focus on shareholder value creation by returning approximately \$157 million, \$202 million and \$186 million through share repurchases and dividends in the first, second and third quarters of 2019, respectively. The board announced its intention to raise annual dividend by 13% to 54 cents per share in the beginning of the fourth quarter. This will mark its sixth consecutive year of dividend increase. The company intends to maintain a relevant dividend payout ratio of approximately 20% or greater, per its balanced capital allocation policy.

Reasons To Sell:

▼ **Soft Sales Trend & View:** Masco's sales have been suffering from lower volume, unfavorable mix and softness in certain markets served. Masco's first-quarter 2019 sales dropped 0.6% on a year-over-year basis. Also, organic sales (excluding acquisitions and currency) fell 2% from the prior-year quarter due to lower contributions from Plumbing and Windows divisions. Further, North American sales (in local currency) declined 2% and international sales were down 1% year over year.

Soft sales trend, weakness in the housing market, tariff-related headwinds are concerning factors.

In the second quarter, the company's overall sales dipped 1% from the year-ago period. Growth in North American Plumbing and Decorative Architectural Products was offset by softer sales in International Plumbing, Cabinetry, and Windows.

In the third quarter, sales grew just 2% from the prior-year period. Worryingly, the metric missed analysts' expectations in six of the trailing 10 quarters. During third-quarter earnings call, Masco lowered its adjusted earnings guidance to \$2.52-\$2.56 (previous projection was \$2.62-\$2.72). Notably, in the year-ago period, the company had reported adjusted earnings of \$2.50 per share. Given the implementation of China tariffs and soft end-market demand, this lowered expectation is quite understandable. A significant driver of the guidance revision is a softer international outlook, particularly for pockets of Europe and Latin America.

Segment-wise, plumbing revenues for 2019 are now expected to grow between 1% and 3%, assuming flat year-over-year operating margins. The reduced expectation was due to tepid volumes in the first nine months of 2019, mainly in the International Plumbing business.

Decorative Architectural Products sales are now expected to grow 1-3%. The reduced expectation is mainly due to lower volumes resulting from the impact of disciplined pricing actions in the lighting and builders hardware business.

For Cabinets, Masco continues to expect sales growth between 0% and 3%. For Windows, it now expects sales growth to fall 1-3% — excluding currency — due to the performance of the U.K. Windows business.

▼ **Cost Pressures:** Masco purchases several commodities like brass, resins, titanium dioxide, zinc, wood among others to manufacture its products. Fluctuations in the availability and prices of these commodities might increase the cost of production. Currently, the company is facing some pressure in resin-related costs. Also, copper and zinc prices have both gone up. Apart from raw material costs, the company bears expenses related to new product launches. If Masco is unable to offset these costs through price increases or supply chain initiatives then that may adversely affect profits.

In 2018, Masco's adjusted gross and operating margins contracted 200 bps and 60 bps, respectively. Increase in commodity costs, higher depreciation expense, as well as ERP and logistics costs led to the decline. In the first quarter of 2019 too, Masco's adjusted gross and operating margins contracted 120 bps and 90 bps, respectively, due to lower volumes, unfavorable mix and the impact of a full quarter of Kichler.

▼ **Federal Government Actions:** As the Masco's business prospects are highly correlated with U.S. housing market conditions and repair and remodeling activity, the prevailing slowdown in the U.S. housing market may prove detrimental. The housing industry is cyclical and is affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits could affect consumer confidence and spending levels, which in turn could hurt both the economy and the housing market.

Last Earnings Report

Masco Q3 Earnings & Revenues Miss Estimates, View Cut

Masco Corporation came up with disappointing results in third-quarter 2019. Both the top and bottom line missed the Zacks Consensus Estimate. Resultantly, it lowered its earnings guidance for 2019.

Nonetheless, the company's revenues and earnings improved year over year, driven by growth in both Plumbing Products and Decorative Architectural Products segments.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	-9.27%
EPS Surprise	-2.86%
Quarterly EPS	0.68
Annual EPS (TTM)	2.64

Inside the Headlines

Masco reported adjusted earnings of 68 cents per share, missing the consensus mark of 70 cents by 2.9%. Also, revenues of \$1,947 million lagged analysts' expectation of \$2,146 million by 9.3%.

Nonetheless, both the top and bottom lines increased 2% and 11%, respectively, on a year-over-year basis. North American sales (in local currency) grew 3% from the prior-year period and 5% internationally.

Segmental Analysis

Plumbing Products: Sales in the segment inched up 1% year over year to \$1,006 million. Excluding the impact of foreign currency translation, sales grew 3% year over year. Adjusted operating margin was flat year over year at 17.8%. Adjusted EBITDA grew 4.5% year over year to \$208 million.

Decorative Architectural Products: The segment reported sales of \$710 million, up 5% from the prior-year period. The upside was mainly attributable to growth in paints and other coating products. Adjusted operating margin increased 340 basis points (bps) to 18.9%. Adjusted EBITDA also increased 12.4% from the prior-year period to \$145 million.

Cabinets and Related Products: The segment's sales during the quarter totaled \$231 million, down 3% year over year, primarily owing to mix, partially offset by strong pricing. Nonetheless, adjusted operating margin rose 170 bps to 11.3%. Also, adjusted EBITDA increased to \$30 million from the prior-year figure of \$26 million.

Margins Performance

During the reported quarter, adjusted gross margin came in at 34.4%, which improved 80 bps from the prior year. Adjusted selling, general and administrative expenses — as a percentage of net sales — were flat with the year-ago figure of 17.7%.

Adjusted operating profit increased 8% from the prior-year quarter to \$326 million. In addition, adjusted operating margin increased 80 bps on a year-over-year basis to 16.7%. Adjusted EBITDA also grew 7.1% year over year to \$362 million.

Financials

As of Sep 30, 2019, the company had cash and cash investments of \$475 million, lower than \$553 million recorded at the end of 2018. Net cash from operating activities was \$605 million in the first nine months of 2019 compared with \$654 million in the comparable year-ago period.

It repurchased 3.8 million shares during the quarter via its repurchase program.

2019 View Cut

The company lowered its 2019 adjusted earnings guidance to \$2.52-\$2.56 per share from earlier guided range of \$2.62-\$2.72. The bottom line in the prior-year quarter was \$2.50 per share.

Valuation

Masco shares are up 57% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 42.6% and 36.4%, respectively, in the past year.

The S&P 500 index is up 26.3% in the past year.

The stock is currently trading at 21.71X forward 12-month price to earnings, which compares to 14.57X for the Zacks sub-industry, 16.5X for the Zacks sector and 19.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.61X and as low as 9.74X, with a 5-year median of 17.81X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$51 price target reflects 22.97X forward 12-month earnings.

The table below shows summary valuation data for MAS

Valuation Multiples - MAS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	21.71	14.57	16.5	19.06
	5-Year High	22.61	17.91	18.83	19.34
	5-Year Low	9.74	7.19	10.63	15.17
	5-Year Median	17.81	13.98	16.25	17.44
P/S F12M	Current	2.05	1.23	1.93	3.46
	5-Year High	2.05	3.63	2.23	3.46
	5-Year Low	0.94	0.69	1.25	2.54
	5-Year Median	1.36	0.87	1.63	3
EV/EBITDA TTM	Current	11.52	22.51	18.97	12.01
	5-Year High	23.98	30.09	22.53	12.86
	5-Year Low	8.06	17.59	14.4	8.49
	5-Year Median	10.63	23.47	19.4	10.66

As of 1/02/2020

Industry Analysis Zacks Industry Rank: Top 41% (104 out of 253)



Top Peers

Armstrong World Industries, Inc. (AWI)	Neutral
Acuity Brands Inc (AYI)	Neutral
Fortune Brands Home & Security, Inc. (FBHS)	Neutral
Louisiana-Pacific Corporation (LPX)	Neutral
Owens Corning Inc (OC)	Neutral
Gibraltar Industries, Inc. (ROCK)	Neutral
Simpson Manufacturing Company, Inc. (SSD)	Neutral
Caesarstone Ltd. (CSTE)	Underperform

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	MAS Neutral	X Industry	S&P 500	AWI Neutral	LPX Neutral	OC Neutral
VGM Score	B	-	-	B	A	B
Market Cap	13.81 B	1.06 B	23.76 B	4.63 B	3.51 B	7.07 B
# of Analysts	5	3	13	4	4	7
Dividend Yield	1.12%	0.00%	1.78%	0.84%	1.81%	1.48%
Value Score	B	-	-	C	A	B
Cash/Price	0.03	0.09	0.04	0.02	0.09	0.00
EV/EBITDA	11.71	9.40	13.97	14.35	5.44	8.26
PEG Ratio	2.01	1.39	2.02	1.19	NA	1.58
Price/Book (P/B)	600.38	1.88	3.38	12.61	3.05	1.56
Price/Cash Flow (P/CF)	15.59	10.21	13.70	17.50	8.15	7.23
P/E (F1)	18.67	17.24	18.83	18.67	18.16	12.66
Price/Sales (P/S)	1.69	1.33	2.68	4.50	1.49	0.98
Earnings Yield	5.30%	5.64%	5.30%	5.35%	5.49%	7.89%
Debt/Equity	120.48	0.68	0.72	1.77	0.31	0.73
Cash Flow (\$/share)	3.10	2.50	6.94	5.46	3.66	8.99
Growth Score	A	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	23.69%	22.67%	10.56%	16.19%	37.83%	23.82%
Proj. EPS Growth (F1/F0)	15.12%	14.47%	7.41%	12.05%	308.70%	11.88%
Curr. Cash Flow Growth	22.86%	13.50%	14.83%	7.22%	11.42%	13.12%
Hist. Cash Flow Growth (3-5 yrs)	14.68%	13.23%	9.00%	3.47%	18.58%	12.19%
Current Ratio	1.46	1.75	1.23	2.09	3.52	1.69
Debt/Capital	99.18%	41.82%	42.92%	63.91%	24.47%	42.36%
Net Margin	8.27%	5.51%	11.08%	19.55%	2.67%	6.99%
Return on Equity	1,500.49%	12.44%	17.10%	78.13%	4.93%	12.14%
Sales/Assets	1.47	1.06	0.55	0.57	1.08	0.72
Proj. Sales Growth (F1/F0)	3.19%	3.80%	4.20%	6.41%	15.30%	2.14%
Momentum Score	F	-	-	B	A	F
Daily Price Chg	0.58%	0.19%	0.33%	1.62%	0.71%	-0.15%
1 Week Price Chg	0.54%	0.00%	0.13%	0.06%	1.05%	0.32%
4 Week Price Chg	4.91%	0.00%	3.31%	2.41%	2.19%	-1.65%
12 Week Price Chg	15.34%	7.12%	9.70%	-0.82%	23.06%	6.85%
52 Week Price Chg	66.05%	41.75%	30.28%	60.76%	37.82%	50.58%
20 Day Average Volume	2,091,534	198,121	1,603,615	200,761	1,212,063	799,251
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.51%
(F1) EPS Est 4 week change	-1.99%	0.00%	0.00%	0.00%	0.77%	-0.14%
(F1) EPS Est 12 week change	-11.53%	-3.58%	-0.57%	-0.20%	-13.19%	-4.15%
(Q1) EPS Est Mthly Chg	-6.25%	0.00%	0.00%	0.00%	0.00%	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	B
Growth Score	A
Momentum Score	F
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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