

Masco Corporation (MAS)

\$57.16 (As of 07/31/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 06/29/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: C

Momentum: B

Summary

Masco reported impressive results for second-quarter 2020, wherein earnings and revenues surpassed the Zacks Consensus Estimate. Strong growth in the Decorative Architectural Products segment and better-than-anticipated performance of North American Plumbing helped it to deliver better-than-expected results. Impressive paint sales growth, improved operating margins, lower SG&A expenses and a strong liquidity level were other positives. The company also anticipates solid demand to continue in the third quarter. Notably, Masco's shares have outperformed the industry year to date. The company has been gaining from inorganic strategies, cost-saving initiatives and industry-leading branded building products. Its focus on innovation and prudent capital allocation will drive long-term growth.

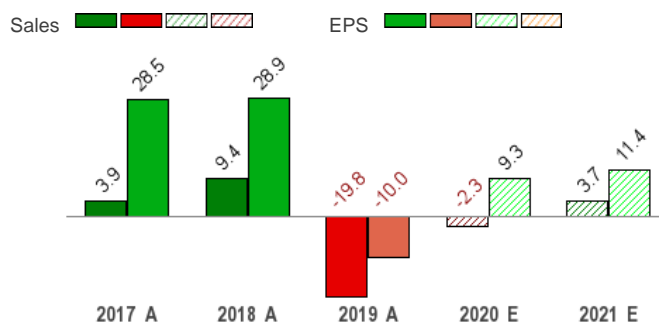
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.85 - \$27.04
20 Day Average Volume (sh)	2,093,210
Market Cap	\$15.1 B
YTD Price Change	19.1%
Beta	1.49
Dividend / Div Yld	\$0.54 / 0.9%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 20% (51 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.3%
Last Sales Surprise	4.2%
EPS F1 Est- 4 week change	6.1%
Expected Report Date	NA
Earnings ESP	4.4%
P/E TTM	22.7
P/E F1	23.2
PEG F1	2.5
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,531 E	1,783 E	1,719 E	1,685 E	6,800 E
2020	1,581 A	1,764 A	1,650 E	1,632 E	6,556 E
2019	1,908 A	2,275 A	1,947 A	1,639 A	6,707 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.50 E	\$0.82 E	\$0.71 E	\$0.66 E	\$2.74 E
2020	\$0.46 A	\$0.84 A	\$0.67 E	\$0.59 E	\$2.46 E
2019	\$0.44 A	\$0.88 A	\$0.68 A	\$0.54 A	\$2.25 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 07/31/2020. The reports text is as of 08/03/2020.

Overview

Headquartered in Taylor, MI, **Masco Corporation** manufactures, sells and installs home improvement and building products. Masco operates through the following two business segments:

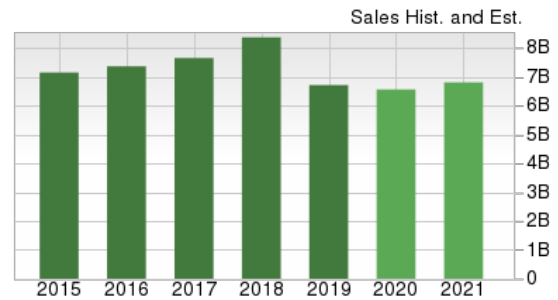
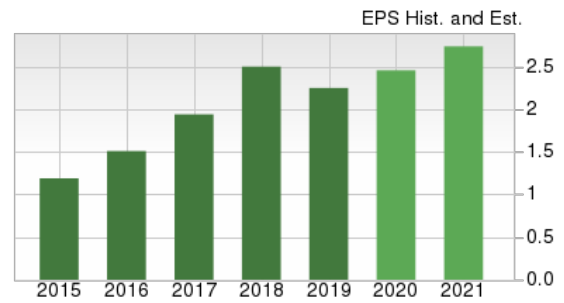
Plumbing Products (accounting for 54.9% of 2019 net sales): The segment manufactures and markets an array of faucets, bathing and showering devices, valves, bathtubs, spas and toilets.

Decorative Architectural Products (40.6%): 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.

On Sep 6, 2019, the company completed divestiture of the UK Window Group business ("UKWG") — a manufacturer and distributor of windows and doors — for approximately \$8 million. Again, on Nov 6, 2019, it announced the completion of divestiture of the Milgard Windows and Doors business ("Milgard") — a manufacturer and distributor of windows and doors — for nearly \$720 million.

In addition, on Nov 14, 2019, Masco signed a definitive agreement with ACProducts, Inc. to sell Masco Cabinetry LLC ("Cabinetry") for approximately \$1 billion. On Feb 18, 2020, the company announced the completion of the deal for \$850 million in cash at closing and preferred stock of \$150 million.

As of Jun 30, 2020, the company had cash and cash investments of \$1,089 million, up from \$767 million at first quarter-end. At second quarter-end, long-term debt was \$2.52 billion, down from \$2.77 billion in the first quarter of 2020.



Reasons To Buy:

- ▲ **Leading Brand Portfolio:** Masco operates through various divisions with a large number of products. It holds one of the largest shares in the faucets market. Its popular brands include Behr paint, Delta and Hansgrohe faucets, bath and shower fixtures, Kichler decorative and outdoor lighting, and Hot Spring 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.

Leading brand portfolio, enough liquidity, product launches and streamlining of its portfolio bode well

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 once the COVID-19-induced slowdown phases out. This will drive demand. Notably, the repair and remodeling industry now represents approximately 90% of its business.

- ▲ **Strong Balance Sheet, Enough Liquidity:** Masco's balance sheet remains strong, with net debt to EBITDA of 1.3X. It ended the quarter with approximately \$2.1 billion of balance sheet liquidity, which includes full availability of the \$1-billion revolver.

Meanwhile, long-term debt (including noncurrent operating lease liabilities) of \$2,522 million as of Jun 30, 2020 declined from \$2,928 million on Mar 31, 2020. The company's cash & cash equivalents of \$1.1 billion at the end of the second-quarter 2020 grew 42% from \$767 million in the first quarter. Masco looks quite well placed from the liquidity point of view. As of Jun 30, its debt to capitalization was 98.6%, down sequentially from 106%. Apart from this, the company's times interest earned ratio (as of second quarter-end) of 7.3 is better than the first quarter's 7. Turning to debt maturities, Masco's next maturity of \$400 million is not due until April 2021.

- ▲ **Acquisitions & Divestitures to Accelerate Growth:** Masco continues to expand its portfolio with acquisitions. In the first quarter of 2020, Masco acquired entire share capital of SmarTap A.Y Ltd. ("SmarTap"), a developer of a smart bathing system that monitors and controls the temperature and flow of water. SmarTap is included in the Plumbing Products segment and provides an adaptable solution for a wide range of products as it is compatible with all showerheads, hand showers, spouts and shower jets.

Moreover, Masco regularly divests its less profitable and underperforming businesses to focus on its core areas to accelerate growth and improve shareholder value. Masco completed the sale of its Cabinetry business unit in the first quarter of 2020, in line with its portfolio transformation strategy that it announced a year ago. Notably, in March 2019, Masco announced that it was undertaking "strategic alternatives" for cabinetry and window businesses.

We view these announcements as tailwinds 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.

Risks

- **Lower International Sales:** Masco's sales have been suffering from softness in certain international markets. The company's international sales decreased 3% in the first quarter and 17% in the second quarter due to lower volumes. During the second quarter of 2020, International Plumbing sales decreased 17% year over year in local currency. Hansgrohe experienced a low single-digit sales decline in the quarter in its home market of Germany. Hansgrohe saw larger declines in the quarter in other European markets, including the U.K., France, Spain and Italy, due to slower easing of restrictions in those countries. Sales in China also declined in low-single digits for the second quarter of 2020. Masco acknowledged the fact that international demand recovered slowly.

Notably, Masco's 2019 international sales remained flat year over year.

- **Cost Pressures:** Masco purchases several commodities like brass, resins, titanium dioxide, and zinc to manufacture products. Fluctuations in the availability and prices of these commodities might increase the cost of production. The recent trade dispute between the United States and China resulted in increased tariffs, which raised the cost of certain materials. Any discontinuity of these materials may significantly increase costs. Rising energy costs could also increase production and transportation costs.

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 2019, Masco's adjusted gross and operating margins contracted 20 and 40 basis points (bps), respectively. Increase in commodity and variable costs, along with higher tariffs resulted in the decline.

- **Federal Government Actions:** As the Masco's business prospects are highly correlated with U.S. housing market conditions and repair and remodeling activity, any 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.
 - **Overvalued Compared to Peers:** The company's stretched valuation is another concern. Its trailing 12-month price to earnings ratio is 22.7, which is higher than the industry's 16.8. This implies that the stock is overvalued than peers.
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Last Earnings Report

Masco (MAS) Q2 Earnings & Revenues Top Estimates

Masco Corporation reported impressive results for second-quarter 2020, wherein earnings and revenues surpassed the Zacks Consensus Estimate. Strong Decorative Architectural Products and North American Plumbing segments helped it deliver the better-than-expected results.

Notably, its board of directors intends to increase annual dividend by 2 cents per share to 56 cents in the beginning of the fourth quarter. Also, it anticipates strong demand for products to continue in the third quarter.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	4.22%
EPS Surprise	18.31%
Quarterly EPS	0.84
Annual EPS (TTM)	2.52

Inside the Headlines

Masco reported quarterly adjusted earnings of 84 cents per share, which beat the consensus mark of 71 cents by 18.3%. Net sales of \$1,764 million topped the consensus estimate of \$1,693 million by 4.2%.

On a year-over-year basis, the top and bottom lines declined 4.1% and 13.5%, respectively. Notably, net sales fell 3% year over year in local currency. Sales in the North American region were nearly flat with the prior-year figure but declined 19.1% internationally (17% in local currency).

Segmental Analysis

Plumbing Products: Sales in the segment decreased 14.2% year over year to \$868 million, primarily due to lower volumes. In local currency, the segment's sales dropped 13% year over year. Adjusted operating margin contracted 150 bps year over year to 18.3%. Adjusted EBITDA declined 18.6% year over year to \$179 million.

Decorative Architectural Products: The segment reported sales of \$896 million, up 8.3% from the prior-year period. Growth in paints and other coating products supported the same. Adjusted operating margin increased 160 bps to 22.5%. Adjusted EBITDA also improved 15.8% from the prior-year period to \$212 million.

Margins Performance

Adjusted gross margin came in at 35.8%, which contracted 90 bps from the prior year. Adjusted selling, general and administrative expenses — as a percentage of net sales — were down 140 bps from the year-ago figure, as a result of its focus on cost containment in the quarter.

Adjusted operating margin fell 50 bps on a year-over-year basis to 19.5%. Adjusted EBITDA also declined 1.6% year over year to \$376 million.

Financials

At quarter-end, the company had cash and cash investments of \$1,089 million compared with \$697 million recorded at 2019-end. Long-term debt was \$2.4 billion, down from \$2.8 billion a year ago. Net cash from operating activities was \$290 million in the first six months of 2020 compared with \$213 million a year ago.

As of Jun 30, 2020, it had full availability of the \$1-billion revolving credit facility.

Q3 Guidance

Masco expects total sales to be between flat to up 10% in the third quarter. This includes Plumbing Products sales in between down 5% to up 5%, and Decorative Architectural Products of up 7-17%.

Overall adjusted operating margin is expected to be similar to third quarter 2019 level of 17.4%. Likewise, it expects Plumbing Products and Decorative Architectural Products segments' margin is expected to be similar to the year ago period's level of 18.7% and 18.9%, respectively.

Valuation

Masco shares are up 19.1% in the year-to-date period and 47.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 6.5% and 1.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 29.9% and 18.9%, respectively.

The S&P 500 index is down 1.7% in the year-to-date period but up 4.9% in the past year.

The stock is currently trading at 21.8X forward 12-month earnings, which compares to 18.85X for the Zacks sub-industry, 18.98X for the Zacks sector and 22.64X 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 17.64X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$66 price target reflects 25.2X 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 F12M	Current	21.8	18.85	18.98	22.64
	5-Year High	22.61	19.28	18.99	22.64
	5-Year Low	9.74	7.15	10.74	15.25
	5-Year Median	17.64	13.75	15.86	17.55
P/S F12M	Current	2.21	1.38	2.07	3.59
	5-Year High	2.25	3.59	2.12	3.59
	5-Year Low	0.95	0.69	1.17	2.53
	5-Year Median	1.39	0.91	1.63	3.04
EV/EBITDA TTM	Current	12.89	21.01	18.76	12.67
	5-Year High	22.26	30.63	21.52	12.85
	5-Year Low	7.62	13.63	12.49	8.24
	5-Year Median	10.81	22.92	17.81	10.88

As of 07/31/2020

Industry Analysis Zacks Industry Rank: Top 20% (51 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Fortune Brands HomeSecurity, Inc. (FBHS)	Outperform	1
LouisianaPacific Corporation (LPX)	Outperform	2
Owens Corning Inc (OC)	Outperform	1
Acuity Brands Inc (AYI)	Neutral	3
Caesarstone Ltd. (CSTE)	Neutral	NA
Gibraltar Industries, Inc. (ROCK)	Neutral	3
Simpson Manufacturing Company, Inc. (SSD)	Neutral	1
Armstrong World Industries, Inc. (AWI)	Underperform	5

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	MAS	X Industry	S&P 500	AWI	LPX	OC
Zacks Recommendation (Long Term)	Outperform	-	-	Underperform	Outperform	Outperform
Zacks Rank (Short Term)	1	-	-	5	2	1
VGM Score	B	-	-	C	D	A
Market Cap	15.08 B	1.25 B	22.59 B	3.41 B	3.55 B	6.52 B
# of Analysts	8	2.5	14	4	4	7
Dividend Yield	0.94%	0.00%	1.83%	1.12%	1.83%	1.59%
Value Score	C	-	-	C	D	B
Cash/Price	0.05	0.12	0.07	0.04	0.14	0.04
EV/EBITDA	13.53	8.69	12.94	9.37	34.84	8.24
PEG Ratio	2.51	4.28	3.04	9.99	NA	4.36
Price/Book (P/B)	407.47	1.67	3.17	8.46	3.61	1.78
Price/Cash Flow (P/CF)	19.99	9.54	12.51	11.08	22.14	6.87
P/E (F1)	23.33	22.99	21.87	19.89	35.09	18.40
Price/Sales (P/S)	2.18	1.24	2.44	3.49	1.54	0.96
Earnings Yield	4.30%	4.27%	4.31%	5.03%	2.84%	5.44%
Debt/Equity	68.16	0.47	0.75	1.51	0.74	0.94
Cash Flow (\$/share)	2.86	2.31	6.94	6.43	1.43	8.80
Growth Score	C	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	21.58%	20.32%	10.85%	20.32%	3.55%	16.50%
Proj. EPS Growth (F1/F0)	9.16%	-8.20%	-7.75%	-25.05%	143.92%	-27.63%
Curr. Cash Flow Growth	-13.53%	-3.66%	5.39%	15.31%	-67.52%	-2.64%
Hist. Cash Flow Growth (3-5 yrs)	8.58%	13.97%	8.55%	3.83%	32.59%	13.33%
Current Ratio	1.50	2.10	1.31	2.04	4.56	1.87
Debt/Capital	98.55%	38.98%	44.32%	60.13%	42.99%	48.32%
Net Margin	19.23%	2.59%	10.44%	-5.64%	0.04%	-8.79%
Return on Equity	-1,729.19%	11.35%	14.73%	56.59%	5.91%	11.35%
Sales/Assets	1.34	1.03	0.52	0.64	1.14	0.71
Proj. Sales Growth (F1/F0)	-15.62%	0.00%	-1.95%	-7.41%	-2.47%	-8.91%
Momentum Score	B	-	-	D	D	A
Daily Price Chg	1.22%	0.00%	-0.92%	1.34%	-1.12%	-2.20%
1 Week Price Chg	1.48%	0.00%	0.37%	2.00%	3.23%	2.54%
4 Week Price Chg	14.00%	2.09%	3.81%	-6.83%	24.29%	11.86%
12 Week Price Chg	37.57%	21.12%	11.93%	-2.36%	58.27%	45.01%
52 Week Price Chg	45.96%	-0.31%	-1.92%	-25.29%	23.18%	7.24%
20 Day Average Volume	2,093,210	189,054	1,887,986	467,875	1,141,249	969,871
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-12.16%	0.00%	7.19%
(F1) EPS Est 4 week change	6.06%	0.00%	0.38%	-12.16%	14.24%	17.44%
(F1) EPS Est 12 week change	22.70%	4.20%	-0.07%	-14.95%	49.79%	29.45%
(Q1) EPS Est Mthly Chg	8.17%	0.00%	0.16%	-21.18%	163.16%	19.64%

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	C
Growth Score	C
Momentum Score	B
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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