

Masco Corporation (MAS)

\$42.14 (As of 05/08/20)

Price Target (6-12 Months): **\$44.00**

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:D

Value: C

Growth: D

Momentum: D

Summary

Masco reported first-quarter 2020 results, wherein earnings and revenues beat the respective the Zacks Consensus Estimate by 27.8% and 3.6%. Earnings and revenues grew a respective 24.3% and 4% year over year largely due to impressive paint sales growth and improved margins in both Plumbing and Decorative segments. Solid organic growth (up 5% year over year), lower SG&A expenses and strong liquidity level were the other positives. Masco's shares have outperformed the industry in the past year. Although its industry-leading branded building products, focus on innovation and prudent capital allocation will drive long-term growth, COVID-19-induced economic slowdown and softness in the short term in businesses are pressing concerns. Notably, Masco revoked its guidance for 2020 and 2021 in view of the uncertainties arising from the outbreak.

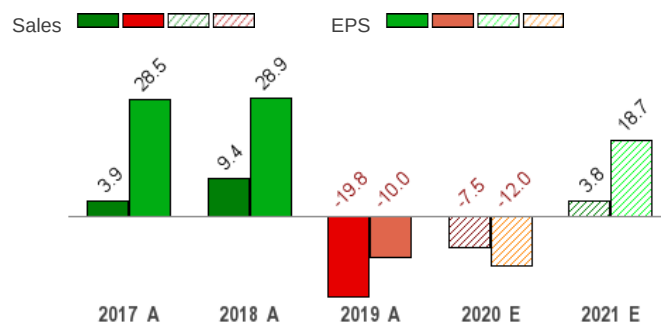
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$50.06 - \$27.04
20 Day Average Volume (sh)	3,453,285
Market Cap	\$11.1 B
YTD Price Change	-12.2%
Beta	1.46
Dividend / Div Yld	\$0.54 / 1.3%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Bottom 15% (216 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.8%
Last Sales Surprise	4.0%
EPS F1 Est- 4 week change	-16.1%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	16.5
P/E F1	21.3
PEG F1	2.3
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,536 E	1,606 E	1,650 E	1,612 E	6,443 E
2020	1,581 A	1,505 E	1,555 E	1,574 E	6,205 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	\$0.47 E	\$0.60 E	\$0.66 E	\$0.62 E	\$2.35 E
2020	\$0.46 A	\$0.44 E	\$0.55 E	\$0.53 E	\$1.98 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 05/08/2020. The reports text is as of 05/11/2020.

Overview

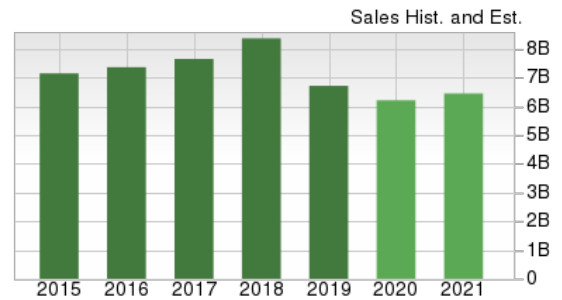
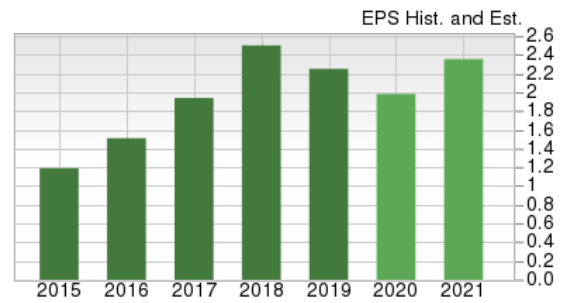
Headquartered in Taylor, MI, **Masco Corporation** manufactures, sells and installs home improvement and building products. Masco operates through the following two business segments:

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 ACPProducts, 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.



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 1.6X. It ended the quarter with approximately \$1.8 billion of balance sheet liquidity, which includes full availability of \$1 billion revolver. Notably, borrowing on revolver is subject to two main covenants and the company has a number of cushions. The first covenant is net debt leverage covenant of less than 4X. At the end of the quarter, Masco was at 1.6X. The second covenant is an interest coverage covenant of no less than 2.5X. At the end of the quarter, Masco was at 8.5X.

Meanwhile, long-term debt (including noncurrent operating lease liabilities) of \$2,928 million, as of Mar 31, 2020, declined from \$2,933 million at 2019-end. The company's cash & equivalents of \$767 million at the end of the first quarter of 2020 grew 10% from \$697 million in the preceding quarter. Masco looks quite well placed from a liquidity point of view.

Turning to debt maturities, Masco's next maturity of \$400 million is not due until April of 2021. On Apr 21, 2020, Fitch Ratings affirmed the ratings of Masco, including the company's Long-term Issuer Default Rating (IDR), at 'BBB-'. This rating reflects a positive outlook due to Masco's improved portfolio of businesses following the divestitures of Cabinetry and Windows segments.

▲ **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.

Reasons To Sell:

▼ **Coronavirus to Weigh on Near-Term Results:** Limits on the number of customers and big box retail stores restrictions on the sale of certain categories in various states and closures of distribution outlets will reduce sales of Masco products in the second quarter. Given uncertainty, Masco expects second-quarter sales to be down 20-25% year over year and decremental EBIT margins to be in the range of 40-45%, given the sudden shutdowns and inefficiencies of plants due to safety precautions.

Coronavirus-related woes, soft international sales and tariff-related headwinds are pressing concerns

Notably, Plumbing sales are expected to decline 30-35%, ex-FX, in the second quarter. Masco's spa business has had a more significant negative impact than its other businesses due to forced closure of its plants in California and Mexico. The company expects second-quarter impact to be about \$100 million in sales, or about one-third of the total segment drawdown.

For Decorative Architectural Products segment, Masco expects second-quarter sales to be down 5-10% year over year. Second-quarter lighting sales will also be negatively impacted by approximately \$15 million due to the loss of a portion of a private label program in inventory rebalancing at a customer.

▼ **Lower International Sales:** Masco's sales have been suffering from softness in certain international markets. The company's international sales decreased 3% in first-quarter 2020 due to lower volumes partially offset by pricing actions. Notably, Masco's 2019 international sales remained flat year over year.

Additionally, Masco's international business is being impacted by shelter-in-place orders in many European countries, including the shutdown of its UK operation. In April, Masco saw high double-digit sales declines in the UK, Italy and France and approximately 20% decline in Germany, its largest market.

▼ **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 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, 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 Q1 Earnings & Revenues Top Estimates, Margins Up

Masco Corporation's first-quarter 2020 earnings and revenues handily beat the Zacks Consensus Estimate and improved year over year, courtesy of strong contributions of North American plumbing products as well as paint and other coatings products.

Inside the Headlines

Masco reported adjusted earnings of 46 cents per share, beating the consensus mark of 36 cents by 27.8%. Moreover, the metric increased 24.3% from the year-ago figure.

Net sales of \$1,581 million topped analysts' expectation of \$1,521 million by 3.6% and grew 4% from the year-ago figure of \$1,531 million. Notably, the metric grew 5% year over year in local currency.

In local currency, sales in the North American region rose 8% from the prior-year period but fell 3% internationally.

Segmental Analysis

Plumbing Products: Sales in the segment inched up 2% year over year to \$955 million, driven by 7% sales growth in North America. In local currency, segment's sales grew 3% year over year. Adjusted operating margin expanded 30 basis points (bps) year over year to 16.6%. Adjusted EBITDA improved 4.1% year over year to \$179 million.

Decorative Architectural Products: The segment reported sales of \$626 million, up 9% from the prior-year period, driven by growth in paints and other coating products. Adjusted operating margin increased 100 bps to 15.3%. Adjusted EBITDA grew 16.3% from the prior-year period to \$107 million.

Margins Performance

Adjusted gross margin came in at 34.8%, which expanded 30 bps from the prior year. Selling, general and administrative expenses — as a percentage of net sales — were down 50 bps from the year-ago figure.

Adjusted operating margin expanded 80 bps on a year-over-year basis to 14.4%. Adjusted EBITDA increased 10.1% year over year to \$261 million.

Financials

As of Mar 31, 2020, the company had cash and cash investments of \$767 million compared with \$697 million at 2019-end. At the quarter-end, long-term debt was \$2.77 billion, on par with 2019-end level. Net cash used for operating activities was \$92 million in the first quarter compared with \$131 million a year ago. It returned \$639 million to shareholders through share repurchases and dividends. Liquidity at the end of the first quarter was \$1.767 billion, including full availability on \$1 billion revolving credit facility.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	3.96%
EPS Surprise	27.78%
Quarterly EPS	0.46
Annual EPS (TTM)	2.56

Valuation

Masco shares are down 13.6% in the year-to-date period but up 12.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 14.5% and 19.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 3.4% but sector is down 4.9%.

The S&P 500 index is down 9% in the year-to-date period but up 4% in the past year.

The stock is currently trading at 19.93X forward 12-month earnings, which compares to 18.37X for the Zacks sub-industry, 16.92X for the Zacks sector and 21.15X 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 17.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 20.85X 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	19.93	18.37	16.92	21.15
	5-Year High	22.61	18.37	17.94	21.15
	5-Year Low	9.74	7.15	10.76	15.19
	5-Year Median	17.6	13.83	15.88	17.45
P/S F12M	Current	1.77	1.17	1.65	3.3
	5-Year High	2.05	3.59	2.12	3.44
	5-Year Low	0.94	0.69	1.17	2.54
	5-Year Median	1.38	0.9	1.6	3.02
EV/EBITDA TTM	Current	10.14	18.93	15.65	10.64
	5-Year High	22.84	30.63	21.48	12.86
	5-Year Low	7.74	14.76	12.5	8.28
	5-Year Median	10.76	23.26	17.88	10.77

As of 05/08/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (216 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Armstrong World Industries Inc (AWI)	Neutral	4
Acuity Brands Inc (AYI)	Neutral	4
Caesarstone Ltd (CSTE)	Neutral	3
Fortune Brands HomeSecurity Inc (FBHS)	Neutral	4
Gibraltar Industries Inc (ROCK)	Neutral	3
Simpson Manufacturing Company Inc (SSD)	Neutral	4
LouisianaPacific Corporation (LPX)	Underperform	3
Owens Corning Inc (OC)	Underperform	5

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	MAS	X Industry	S&P 500	AWI	LPX	OC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	4	3	5
VGM Score	D	-	-	B	D	D
Market Cap	11.11 B	970.77 M	20.19 B	3.55 B	2.46 B	4.70 B
# of Analysts	8	3	14	4	4	8
Dividend Yield	1.28%	0.00%	2.12%	1.08%	2.65%	2.20%
Value Score	C	-	-	D	D	D
Cash/Price	0.07	0.12	0.06	0.04	0.08	0.05
EV/EBITDA	10.67	7.42	11.95	9.90	27.60	6.63
PEG Ratio	2.29	2.52	2.60	4.80	NA	2.67
Price/Book (P/B)	NA	1.30	2.75	9.59	2.50	1.33
Price/Cash Flow (P/CF)	14.74	7.60	10.78	11.55	15.31	4.96
P/E (F1)	21.28	21.27	19.85	17.14	47.61	17.67
Price/Sales (P/S)	1.49	1.01	2.03	3.40	1.06	0.66
Earnings Yield	4.70%	4.59%	4.83%	5.83%	2.10%	5.66%
Debt/Equity	-17.75	0.47	0.75	1.83	0.74	0.95
Cash Flow (\$/share)	2.86	2.52	7.01	6.43	1.43	8.80
Growth Score	D	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	21.58%	20.32%	10.87%	20.32%	13.59%	16.50%
Proj. EPS Growth (F1/F0)	-11.94%	-14.28%	-9.87%	-9.36%	24.32%	-45.62%
Curr. Cash Flow Growth	-13.53%	-0.35%	5.88%	15.31%	-67.52%	-2.64%
Hist. Cash Flow Growth (3-5 yrs)	8.58%	15.08%	8.55%	3.83%	32.59%	13.33%
Current Ratio	1.83	1.91	1.24	2.03	4.56	1.63
Debt/Capital	99.18%	36.28%	44.23%	64.69%	42.99%	48.66%
Net Margin	18.13%	2.76%	10.68%	-4.86%	0.04%	-7.84%
Return on Equity	-2,296.06%	11.69%	16.36%	71.34%	5.91%	11.93%
Sales/Assets	1.41	1.04	0.55	0.64	1.14	0.72
Proj. Sales Growth (F1/F0)	-20.13%	-5.21%	-2.26%	-4.53%	-9.22%	-12.85%
Momentum Score	D	-	-	A	D	F
Daily Price Chg	1.42%	1.66%	2.40%	1.78%	9.45%	4.60%
1 Week Price Chg	-0.02%	4.71%	0.53%	-2.82%	11.04%	11.37%
4 Week Price Chg	4.38%	3.56%	2.68%	-11.90%	19.22%	-1.09%
12 Week Price Chg	-9.36%	-25.30%	-19.20%	-27.29%	-35.07%	-32.31%
52 Week Price Chg	11.39%	-10.97%	-8.44%	-14.92%	-12.08%	-13.14%
20 Day Average Volume	3,453,285	190,761	2,398,409	414,297	1,492,753	1,320,592
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-56.67%	-12.84%
(F1) EPS Est 4 week change	-16.09%	-13.17%	-6.95%	-13.52%	-56.67%	-43.91%
(F1) EPS Est 12 week change	-22.55%	-32.11%	-15.68%	-15.51%	-75.79%	-51.95%
(Q1) EPS Est Mthly Chg	-36.81%	-23.21%	-13.12%	-22.97%	103.33%	-97.81%

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	D
Momentum Score	D
VGM Score	D

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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