

Owens Corning (OC)

\$60.47 (As of 07/31/20)

Price Target (6-12 Months): **\$71.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 07/31/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: C

Momentum: A

Summary

Owens Corning's shares have outperformed its industry in the past three months. The trend is likely to continue on the back of impressive second-quarter 2020 results. The top and the bottom line surpassed the Zacks Consensus Estimate by 238.5% and 6%, respectively, on the back of market leading businesses, innovative product and process technologies, and capabilities. Faster recovery in residential end markets, particularly in the United States, improved manufacturing leverage and strong cost controls helped it deliver solid results. Although the COVID-19 impacts continue to hurt, it expects to capitalize on near-term market demand and control costs. Also, it plans to maintain a strong conversion of adjusted earnings into free cash flow as residential, commercial and industrial markets are rebounding.

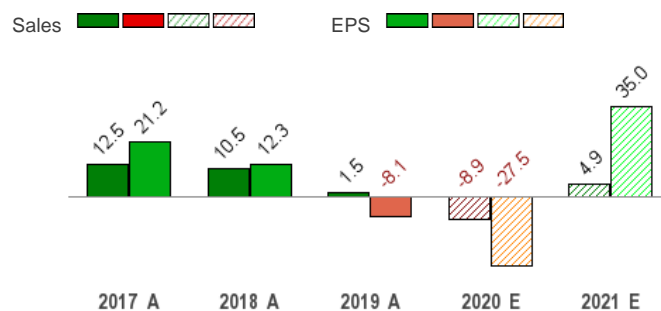
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.72 - \$28.56
20 Day Average Volume (sh)	969,871
Market Cap	\$6.5 B
YTD Price Change	-7.1%
Beta	1.53
Dividend / Div Yld	\$0.96 / 1.6%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 20% (51 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	238.5%
Last Sales Surprise	6.0%
EPS F1 Est- 4 week change	17.4%
Expected Report Date	NA
Earnings ESP	7.0%
P/E TTM	14.3
P/E F1	18.4
PEG F1	2.2
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,690 E	1,697 E	1,853 E	1,724 E	6,842 E
2020	1,601 A	1,625 A	1,715 E	1,651 E	6,522 E
2019	1,667 A	1,918 A	1,883 A	1,692 A	7,160 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.51 E	\$0.73 E	\$1.51 E	\$1.33 E	\$4.44 E
2020	\$0.60 A	\$0.88 A	\$1.16 E	\$1.13 E	\$3.29 E
2019	\$0.54 A	\$1.31 A	\$1.63 A	\$1.13 A	\$4.54 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

Owens Corning is a world leader in building materials systems and composite solutions. Since its inception in 1938, the company has evolved as a market-leading innovator of glass fiber technology. Its products include glass fiber that is used to support composite materials for transportation, electronics, marine, infrastructure, wind energy and other high-performance markets for insulation as well as roofing for residential, commercial and industrial applications.

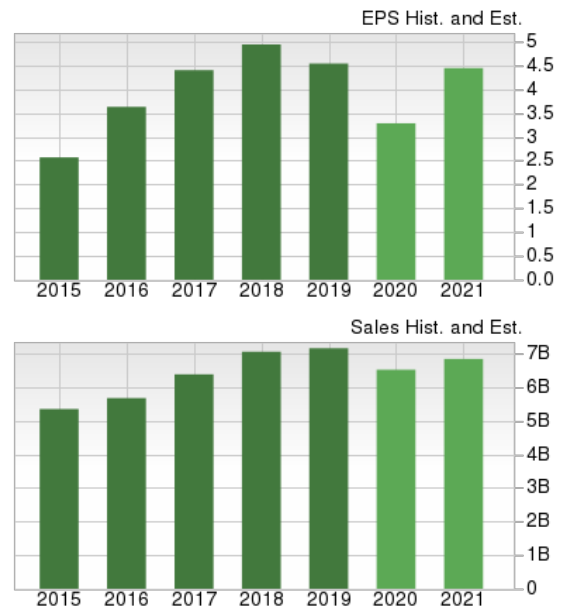
The company has three reportable segments — Composites, Insulation and Roofing.

Composites segment (accounting for 28.8% of total 2019 sales) includes vertically integrated downstream activities and specializes in the production of glass fiber reinforcement materials. Demand for composites is driven by general global economic activity and by the increasing replacement of traditional materials such as aluminum, wood and steel with composites that offer lighter weight, improved strength, lack of conductivity and corrosion resistance.

Insulation segment (37.3%) products include thermal and acoustical batts, loose-fill insulation, foam sheathing and accessories, glass fiber pipe insulation, energy efficient flexible duct media, bonded and granulated mineral wool insulation, cellular glass insulation as well as foam insulation. Demand for Owens Corning's insulating products is driven by new residential construction, remodeling and repair activity, commercial and industrial construction activity, increasingly stringent building codes and the growing need for energy efficiency.

Roofing segment (36.8%) products include laminate and strip asphalt roofing shingles, roofing components, synthetic packaging materials and oxidized asphalt. Demand for products in the Roofing segment is generally driven by residential repair and remodeling activity and by new residential construction. Roofing damage from major storms can significantly increase demand in the segment.

[Note: In 2019, corporate eliminations constituted 2.9% of net sales]



Reasons To Buy:

▲ **Strategic Initiatives to Drive Performance:** Owens Corning has implemented strategic initiatives to drive overall performance. Segment-wise, in the Insulation business, technical and other building insulation businesses look strong on the back of geographic and product expansion through acquisitions. Also, in the North American residential fiberglass business, the company is utilizing automation and additional investments in process technology to improve manufacturing efficiencies, as well as reduce costs.

Strategic initiatives, acquisitions and enough liquidity bode well for the company

In Composites, the segment has been generating higher volumes backed by its efforts on higher value applications for glass non-wovens and specific markets like India. Notably, the company focuses on improving low-cost manufacturing position through strategic supply agreements, accomplished large-scale furnace investments and additional productivity.

In the Roofing segment, Owens Corning is leveraging vertical integration, material science capabilities, and commercial strength to design as well as market unique roofing shingles and components that attract contractors, homeowners and distributors.

Apart from improving operational strength, the company undertook certain actions during the second quarter to reduce costs within its Composites segment, primarily through global workforce reductions. It lowered \$5 million of charges during the first six months of 2020 and expects to recognize additional \$5 million charges in the second half.

▲ **Acquisitions to Boost Top-line Growth:** Acquisitions are an important part of Owens Corning's growth strategy. The acquisition of Paroc — a leading producer of mineral wool insulation for building and technical applications in Europe — enabled the company to expand its geographic scope in Europe, and augment portfolio in a bid to include insulation products in all three major markets — North America, Europe and China.

▲ **Strength in Insulation Business:** Owens Corning's business experiences strong demand for insulating products. This is primarily driven by commercial and industrial construction activity, new residential construction, remodeling and repair activity, and increased energy efficiency. Although the peak season for home construction and remodeling in the markets served by the company generally corresponds with the second and third calendar quarters, the coronavirus pandemic remains a potent headwind. Nonetheless, its performance is expected to revive once the effects of this pandemic phase out.

In the second quarter, North American residential fiberglass insulation business witnessed year-over-year flat volumes and some favorable price realization despite coronavirus headwinds. Also, technical and other building Installation volumes grew sequentially. Notably, its mineral wool businesses in Europe and the United States still encourage us. Moreover, the company expects to realize margin improvement of approximately 50% from the second-quarter level.

▲ **Strong Liquidity Position:** In response to the unfavorable demand trends due to the pandemic, the company has been focusing on protecting liquidity and closely managing cash flows. As of Jun 30, 2020, it had \$582 million cash and cash equivalents, significantly up from \$172 million at 2019-end and \$234 million at March-end. During the second quarter, it repaid \$210 million of revolving credit facility. It currently has approximately \$900 million available under the facility.

As of Jun 30, it had \$3.4 billion of long-term debt, net of current portion, slightly up from \$3.3 billion reported in the March quarter and \$3.1 billion at 2019 end. Although the company's long-term debt is marginally up sequentially, it has no significant debt maturing until February 2021.

Moreover, the company has total debt to capital ratio of 48.3, down from 48.7 sequentially. Notably, it plans to repay the remaining \$150 million term-loan balance in 2020.

Risks

- **Coronavirus to Hurt Near-Term Results:** Despite seeing a positive momentum in recent months, the company anticipates low Roofing demand in 2020. Also, it expects to face an increasing year-over-year pricing headwind due to lack of a higher spring price.

In the Insulation segment, the company expects soft year-over-year volumes for the third quarter. For Composites, management expects a greater impact of COVID-19 on demand. In fact, July volumes were down in low double digits from last-year levels. This trend is likely to continue in the near term as well. Moreover, the company expects pricing headwinds to persist due to contract negotiations completed last year.

- **Pricing Headwind & Input Cost Inflation:** The company expects some pricing weakness in insulation business. It reported a price decline of \$11 million in the first quarter and \$6 million in the second quarter. It further expects this trend to continue in third-quarter 2020.

Meanwhile, material costs are dampening Owens Corning's operating performance. In 2019, the Composites business witnessed higher input cost inflation, lower selling prices and negative foreign currency. Although the company has been working to recover higher commodity cost through price increases, we expect this ongoing volatility in material costs to continue in the near term as well.

- **Currency Headwinds:** Owens Corning is witnessing negative foreign currency translation, which is dampening overall bottom-line results. Owens Corning is exposed to foreign exchange rate fluctuation risks due to its operations in Europe and Asia-Pacific.
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Last Earnings Report

Owens Corning Q2 Earnings Beat Estimates, Fall Y/Y

Owens Corning reported impressive results for second-quarter 2020. The top and the bottom line surpassed the Zacks Consensus Estimate on the back of its market leading businesses, innovative product and process technologies, and capabilities. Faster recovery in residential end markets, particularly in the United States, improved manufacturing leverage and strong cost controls helped it deliver solid results.

The company is confident about the remainder of this year and 2021 by focusing on four key areas: safety of employees and other key stakeholders; close connection with customers, suppliers and markets; adapting to rapid changes in businesses to overcome near-term challenges while positioning well for long-term success; and a strong balance sheet.

Quarter Ending **06/2020**

Report Date	Jul 29, 2020
Sales Surprise	5.95%
EPS Surprise	238.46%
Quarterly EPS	0.88
Annual EPS (TTM)	4.24

Inside the Headlines

The company reported adjusted earnings of 88 cents per share, surpassing the consensus mark of 26 cents by a whopping 238.5%. However, the said metric declined 31.8% year over year.

Net sales of \$1.63 billion topped the consensus mark of \$1.53 billion by 6% but declined 15.3% year over year. Also, the metric declined 14% on a constant-currency (cc) basis. The downside was mainly due to significant drop in order volumes. Nonetheless, it has started seeing recovery, mainly in U.S. residential market and parts of Europe.

Segment Details

Net sales in the Composites segment dropped 26% year over year to \$398 million. Segment sales were down 23% on a constant-currency basis, primarily due to soft volumes. Also, unfavorable customer mix and slightly lower selling prices added to the woes. Earnings before interest and taxes (EBIT) margin of 2% contracted 1100 basis points (bps) from the year-ago quarter's 13%. Reduced sales and production volumes along with negative impacts from production curtailments, lower selling prices and foreign currency translation impacted the results.

Insulation segment's net sales came in at \$595 million, down 10% year over year and 9% on a constant-currency basis. The downside was mainly due to COVID-19-impacted volumes and lower selling prices. Within Insulation umbrella, North American residential fiberglass insulation volumes remained flat year over year with favorable price realization. Volume in mineral wool businesses, in Europe and United States, also remained flat with the year-ago period. However, technical and other building Installation's volumes were down from prior year. EBIT margin also contracted 100 bps to 5%.

The Roofing segment's net sales declined 13% year over year to \$677 million, thanks to lower shingle volumes stemming from destocking at distribution early in the second quarter as well as lower out-the-door demand in April. Additionally, lower selling prices and third-party asphalt sales led to the downside. EBIT margin, however, expanded 300 bps year over year as low marketing and administrative expenses offset the volume and production curtailments woes.

Operating Highlights

Adjusted EBIT during the quarter totaled \$167 million, indicating a 27.7% decline on a year-over-year basis due to decline in Composites.

Balance Sheet

As of Jun 30, 2020, the company had cash and cash equivalents of \$582 million compared with \$172 million at 2019-end. Long-term debt, net of current portion totaled \$3.3 billion, rose from \$3 billion at 2019-end. The company has \$1.5 billion of available liquidity at the end of the second quarter. During the quarter, it repaid \$210 million in revolving credit facility. Meanwhile, its \$150-million term loan is likely to mature in February 2021. In the first six months of 2020, net cash used in operating activities was \$229 million, down from \$287 million a year ago. Free cash flow came in at \$233 million, down from \$323 million a year ago. Through June, the company returned \$133 million to shareholders in the form of share repurchases and dividends. At quarter-end, 2.3 million shares were available under the current authorization.

Updated 2020 Outlook

Owens Corning's businesses are witnessing negative trends in global industrial production, U.S. housing starts as well as global commercial and industrial construction activity. It expects continuation of COVID-19 impacts to hurt its end markets. Nonetheless, it expects to capitalize on near-term market demand, control costs and maintain strong conversion of adjusted earnings into free cash flow, as residential, commercial, and industrial markets are rebounding. The company narrowed general corporate expense expectation to \$105-\$115 million from \$100-\$120 million expected earlier. Capital additions are now expected in the range of \$250-\$300 million versus \$150-\$200 expected earlier. Interest expenses are projected within \$125-\$130 million, compared with \$120-\$125 million projected earlier. Owens Corning estimates an effective tax rate of 26-28%.

Valuation

Owens Corning's shares are down 7.1% in the year-to-date period but up 10% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 30% and 19% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector is up 6.5% and 1.9%, respectively.

The S&P 500 index is up 1.7% in the year-to-date period and 15.5% in the past year.

The stock is currently trading at 15.24X 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 21.71X and as low as 6X, with a 5-year median of 14.35X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$71 price target reflects 17.66X forward 12-month earnings.

The table below shows summary valuation data for OC.

Valuation Multiples - OC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.24	18.85	18.98	22.64
	5-Year High	21.71	19.28	18.99	22.64
	5-Year Low	6	7.15	10.74	15.25
	5-Year Median	14.35	13.75	15.86	17.55
P/S F12M	Current	0.95	1.38	2.07	3.59
	5-Year High	1.67	3.59	2.12	3.59
	5-Year Low	0.46	0.69	1.17	2.53
	5-Year Median	0.97	0.91	1.63	3.04
EV/EBITDA TTM	Current	4.15	21.01	18.76	12.67
	5-Year High	10.72	30.63	21.52	12.85
	5-Year Low	2.97	13.63	12.49	8.24
	5-Year Median	7.99	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
Beacon Roofing Supply, Inc. (BECN)	Outperform	1
Lumber Liquidators Holdings, Inc (LL)	Outperform	3
Masco Corporation (MAS)	Outperform	1
United Rentals, Inc. (URI)	Outperform	1
Installed Building Products, Inc. (IBP)	Neutral	3
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		
	OC	X Industry	S&P 500	AWI	MAS	URI
Zacks Recommendation (Long Term)	Outperform	-	-	Underperform	Outperform	Outperform
Zacks Rank (Short Term)	1	-	-	5	1	1
VGM Score	A	-	-	C	B	A
Market Cap	6.52 B	1.25 B	22.59 B	3.41 B	15.08 B	11.20 B
# of Analysts	7	2.5	14	4	8	7
Dividend Yield	1.59%	0.00%	1.83%	1.12%	0.94%	0.00%
Value Score	B	-	-	C	C	A
Cash/Price	0.04	0.12	0.07	0.04	0.05	0.04
EV/EBITDA	8.24	8.69	12.94	9.37	13.53	4.81
PEG Ratio	2.21	4.28	3.04	9.99	2.27	0.98
Price/Book (P/B)	1.78	1.67	3.17	8.46	407.47	2.87
Price/Cash Flow (P/CF)	6.87	9.54	12.51	11.08	19.99	3.24
P/E (F1)	18.77	22.99	21.87	19.89	23.27	11.79
Price/Sales (P/S)	0.96	1.24	2.44	3.49	2.18	1.24
Earnings Yield	5.44%	4.27%	4.31%	5.03%	4.30%	8.48%
Debt/Equity	0.94	0.47	0.75	1.51	68.16	2.46
Cash Flow (\$/share)	8.80	2.31	6.94	6.43	2.86	47.99
Growth Score	C	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	16.50%	20.32%	10.85%	20.32%	21.58%	25.81%
Proj. EPS Growth (F1/F0)	-27.63%	-8.20%	-7.75%	-25.05%	9.16%	-32.51%
Curr. Cash Flow Growth	-2.64%	-3.66%	5.39%	15.31%	-13.53%	17.38%
Hist. Cash Flow Growth (3-5 yrs)	13.33%	13.97%	8.55%	3.83%	8.58%	13.02%
Current Ratio	1.87	2.10	1.31	2.04	1.50	0.84
Debt/Capital	48.32%	38.98%	44.32%	60.13%	98.55%	71.07%
Net Margin	-8.79%	2.59%	10.44%	-5.64%	19.23%	12.37%
Return on Equity	11.35%	11.35%	14.73%	56.59%	-1,729.19%	37.16%
Sales/Assets	0.71	1.03	0.52	0.64	1.34	0.48
Proj. Sales Growth (F1/F0)	-8.91%	0.00%	-1.95%	-7.41%	-15.62%	-12.03%
Momentum Score	A	-	-	D	B	A
Daily Price Chg	-2.20%	0.00%	-0.92%	1.34%	1.22%	-3.98%
1 Week Price Chg	2.54%	0.00%	0.37%	2.00%	1.48%	1.13%
4 Week Price Chg	11.86%	2.09%	3.81%	-6.83%	14.00%	5.04%
12 Week Price Chg	45.01%	21.12%	11.93%	-2.36%	37.57%	37.82%
52 Week Price Chg	7.24%	-0.31%	-1.92%	-25.29%	45.96%	28.53%
20 Day Average Volume	969,871	189,054	1,887,986	467,875	2,093,210	847,680
(F1) EPS Est 1 week change	7.19%	0.00%	0.00%	-12.16%	0.00%	0.00%
(F1) EPS Est 4 week change	17.44%	0.00%	0.38%	-12.16%	6.06%	8.59%
(F1) EPS Est 12 week change	29.45%	4.20%	-0.07%	-14.95%	22.70%	11.49%
(Q1) EPS Est Mthly Chg	19.64%	0.00%	0.16%	-21.18%	8.17%	2.81%

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	B
Growth Score	C
Momentum Score	A
VGM Score	A

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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