

Owens Corning (OC)

\$56.71 (As of 07/08/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/23/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: F

Summary

Although shares of Owens Corning have underperformed the industry so far this year, earnings estimates for 2020 have moved north over the past 30 days, depicting analysts' optimism surrounding its bottom-line growth potential. The upside was primarily attributed to improving housing market conditions, operating efficiencies and rising demand for insulation products. Notably, strategic initiatives, acquisitions and strong price realization also bode well. However, the company has been witnessing lower Roofing volumes, primarily owing to lesser storm demand carryover and reduced shipments to distributors. Worryingly, pricing headwind and foreign currency translation remains a cause of concern.

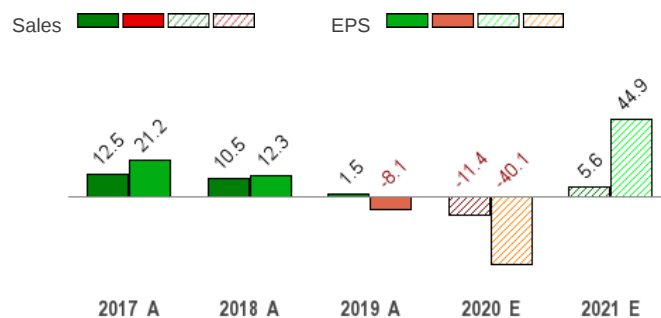
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.72 - \$28.56
20 Day Average Volume (sh)	986,853
Market Cap	\$6.1 B
YTD Price Change	-12.9%
Beta	1.53
Dividend / Div Yld	\$0.96 / 1.7%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 29% (73 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.1%
Last Sales Surprise	-3.0%
EPS F1 Est- 4 week change	10.2%
Expected Report Date	07/29/2020
Earnings ESP	93.0%
P/E TTM	12.1
P/E F1	20.9
PEG F1	2.5
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,650 E	1,630 E	1,764 E	1,696 E	6,700 E
2020	1,601 A	1,478 E	1,643 E	1,609 E	6,343 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	\$0.63 E	\$0.87 E	\$1.30 E	\$1.27 E	\$3.94 E
2020	\$0.60 A	\$0.17 E	\$0.94 E	\$1.02 E	\$2.72 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 07/08/2020. The reports text is as of 07/09/2020.

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.

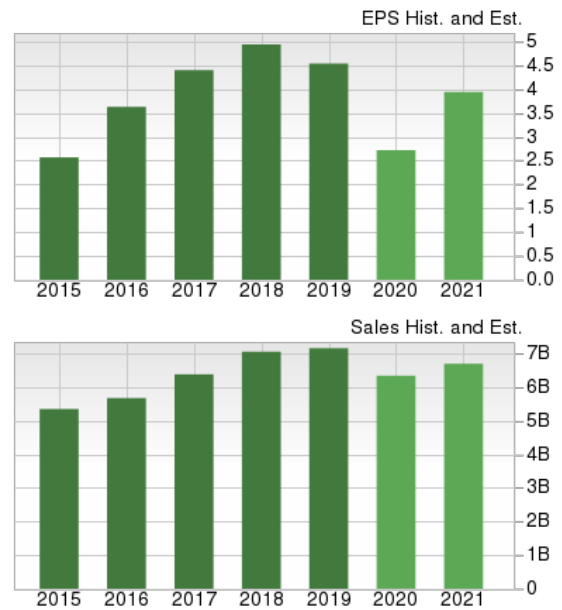
The company has three reportable segments — Composites, Insulation and Roofing.

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.

▲ **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.

The company anticipates favorable market conditions in the U.S. new residential construction, and modest growth in global construction and industrial markets once this ongoing COVID-19 crisis eases. Also, it anticipates solid earnings improvement, backed by volume growth and operating leverage in the North America residential fiberglass insulation business. Continued earnings improvement in technical and other building insulation businesses will add to the positives.

▲ **Enough Liquidity to Tide Over Coronavirus Pandemic:** In response to the unfavorable demand trends owing to the pandemic, the company has been focusing on protecting liquidity and closely managing cash flows. As a precautionary measure, the company has drawn \$400 million from the revolving credit facility in March quarter. Evidently, its total debt increased to \$3,374 million as of Mar 31, 2020 from \$2,993 million sequentially. Nonetheless, Owens Corning, in its first-quarter 2020 earnings release, highlighted that it has enough liquidity to manage the ongoing crisis. The company still has \$396 million available in the facility. It also has an additional \$278 million available on the receivables securitization facility. This leaves \$674 million available credit available to go along with the \$234 million of cash and equivalents, resulting in total liquidity of \$908 million.

Although, the company's cash is quite low in comparison to its debt, it has no debt maturing until February 2021. Available liquidity leaves the company well positioned to weather the pandemic.

Reasons To Sell:

▼ **Coronavirus to Hurt Near-Term Results:** As distributors are working down inventory, the company expects volumes in Roofing to be down 30% in second-quarter 2020. Yet, management anticipates shingle demand to be more resilient once the stay-at-home restrictions are lifted and roofers get back to work. Roofing margins are expected to be flat sequentially in the second quarter but down 790 basis points (bps) year over year. The company expects the pandemic to substantially impact the roofing market in 2020.

Coronavirus-related woes, pricing headwind and currency headwinds mar the company's prospects

For the Insulation segment, North American residential volumes were down 10% year over year in April, and are likely to further contract in May and June. Elsewhere, April volumes were down 10-15%. Decremental margins are expected to be 40% for the second quarter. The company expects the pandemic to substantially impact the insulation segment, particularly commercial and industrial insulation businesses.

For Composites, management expects decremental margins of 50% in the second quarter. April volumes were down 25% year over year and a similar decline is expected to be seen in the second quarter. The pandemic may substantially impact demand for composites in 2020.

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

Last Earnings Report

Owens Corning's Q1 Earnings Top Estimates, Shares Up

Owens Corning reported impressive earnings in first-quarter 2020. The bottom line surpassed the Zacks Consensus Estimate and improved on a year-over-year basis.

Inside the Headlines

The company reported adjusted earnings of 60 cents per share, which beat the consensus mark of 56 cents by 7.1%. Also, the bottom line increased 13.2% year over year.

Net sales of \$1.6 billion lagged the consensus mark of \$1.65 billion by 3% and declined 4% year over year. Also, the metric declined 3% on a constant-currency (cc) basis. The downside was mainly due to lower Roofing volumes, primarily owing to lesser storm demand carryover and reduced shipments to distributors.

Segment Details

Net sales in the **Composites** segment dropped 4% year over year to \$494 million. Segment sales were down 2% on a cc basis, primarily due to pricing-related headwinds. Volumes improved slightly from a year ago, as growth in downstream specialty applications was offset by declines in glass demand in Asia Pacific due to COVID-19 impacts.

Earnings before interest and taxes (EBIT) margin in the quarter contracted 200 bps from the year-ago figure. Continued strength in the manufacturing business was offset by negative impacts of balancing production with demand.

Insulation segment's net sales came in at \$603 million, up 2% year over year and 4% on a cc basis. The upside was mainly driven by strong volume growth across all categories except China, which was affected by COVID-19. However, this was offset by lower selling prices.

EBIT margin surged 300 bps to 6%, driven by higher sales volumes, favorable manufacturing performance and lower curtailment costs.

The **Roofing** segment's net sales declined 10% year over year to \$555 million, thanks to lower shingle volumes stemming from the lack of storm carryover in the quarter and reduced shipments to distributors in March. EBIT margin remained flat year over year at 12%.

Operating Highlights

During the reported quarter, adjusted EBIT came in at \$116 million, flat on a year-over-year basis. Improvement in the Insulation business was offset by softness in Composites and Roofing segments.

Balance Sheet

As of Mar 31, 2020, the company had cash and cash equivalents of \$234 million compared with \$172 million at 2019-end.

It had \$908 million of available liquidity as of Mar 31. During the quarter, it borrowed \$400 million on the existing revolving credit facility to strengthen cash position. Meanwhile, its \$150 million of term loan is likely to mature in February 2021.

Net cash used in operating activities was \$52 million, down from \$151 million in the year-ago quarter.

In the first quarter, the company bought back 1.3 million shares of common stock for \$81 million. At quarter-end, 2.3 million shares were available for repurchase under the current authorization. Notably, it returned \$133 million to shareholders via share repurchases and dividend payouts.

Updated 2020 Outlook

Owens Corning's businesses are witnessing negative trends in global industrial production, U.S. housing starts, and global commercial and industrial construction activities. It expects the COVID-19 outbreak to impact the previously provided expectations for the segment.

Nonetheless, the company has been reducing costs, minimizing capital expenditures and managing working capital.

The company now expects general corporate expenses in the range of \$100-\$120 million compared with \$125-\$135 million expected earlier. Capital additions are expected in the range of \$150-\$200 million, lower than depreciation and amortization of \$460 million. It continues to expect strong conversion of adjusted earnings to free cash flow.

Interest expenses are likely to be between \$120 million and \$125 million compared with \$115 million projected earlier. Owens Corning estimates an effective tax rate of 26-28%.

Quarter Ending **03/2020**

Report Date	Apr 29, 2020
Sales Surprise	-2.95%
EPS Surprise	7.14%
Quarterly EPS	0.60
Annual EPS (TTM)	4.67

Valuation

Owens Corning's shares are down 12.9% in the year-to-date period but up 1.7% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 0.7 but the Zacks Construction sector is down 6.5% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 17% and 5.7%, respectively.

The S&P 500 index is down 2.2% in the year-to-date period but up 5.6% in the past year.

The stock is currently trading at 16.89X forward 12-month earnings, which compares to 19.12X for the Zacks sub-industry, 18.06X for the Zacks sector and 22.46X 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 Neutral recommendation indicates that the stock will perform in-line with the market. Our \$60 price target reflects 17.87X 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	16.89	19.12	18.06	22.46
	5-Year High	21.71	19.28	18.7	22.46
	5-Year Low	6	7.14	10.75	15.27
	5-Year Median	14.35	13.83	15.88	17.59
P/S F12M	Current	0.94	1.32	1.93	3.5
	5-Year High	1.67	3.59	2.12	3.5
	5-Year Low	0.46	0.69	1.18	2.52
	5-Year Median	0.97	0.91	1.63	3.04
EV/EBITDA TTM	Current	3.98	20.03	17.52	12
	5-Year High	10.72	31.34	21.07	12.45
	5-Year Low	2.97	13.7	12.11	8.04
	5-Year Median	8.02	22.69	17.67	10.76

As of 07/08/2020

Industry Analysis Zacks Industry Rank: Top 29% (73 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Masco Corporation (MAS)	Outperform	1
Armstrong World Industries, Inc. (AWI)	Neutral	3
Beacon Roofing Supply, Inc. (BECN)	Neutral	3
Installed Building Products, Inc. (IBP)	Neutral	3
Lumber Liquidators Holdings, Inc (LL)	Neutral	2
Gibraltar Industries, Inc. (ROCK)	Neutral	3
Simpson Manufacturing Company, Inc. (SSD)	Neutral	3
United Rentals, Inc. (URI)	Neutral	3

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	OC	X Industry	S&P 500	AWI	MAS	URI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	1	3
VGM Score	C	-	-	A	D	A
Market Cap	6.12 B	1.13 B	21.57 B	3.65 B	13.24 B	10.71 B
# of Analysts	8	3	14	4	8	8
Dividend Yield	1.69%	0.00%	1.94%	1.05%	1.08%	0.00%
Value Score	C	-	-	C	D	A
Cash/Price	0.04	0.10	0.07	0.04	0.06	0.05
EV/EBITDA	7.83	7.99	12.68	10.12	12.38	4.97
PEG Ratio	2.46	4.16	2.88	5.09	2.18	1.03
Price/Book (P/B)	1.73	1.54	3.03	9.84	NA	2.95
Price/Cash Flow (P/CF)	6.45	8.94	11.62	11.85	17.55	3.10
P/E (F1)	20.85	23.60	21.12	18.17	22.32	12.39
Price/Sales (P/S)	0.86	1.15	2.27	3.49	1.78	1.14
Earnings Yield	4.80%	4.18%	4.44%	5.51%	4.48%	8.07%
Debt/Equity	0.95	0.34	0.76	1.83	-17.75	2.96
Cash Flow (\$/share)	8.80	2.31	6.94	6.43	2.86	47.99
Growth Score	C	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	16.50%	20.32%	10.90%	20.32%	21.58%	25.81%
Proj. EPS Growth (F1/F0)	-40.06%	-19.44%	-9.99%	-12.24%	-0.05%	-38.52%
Curr. Cash Flow Growth	-2.64%	-4.68%	5.51%	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	1.63	2.14	1.30	2.03	1.83	1.11
Debt/Capital	48.66%	38.98%	44.46%	64.69%	NA	74.72%
Net Margin	-7.84%	2.76%	10.62%	-4.86%	18.13%	12.52%
Return on Equity	11.93%	11.84%	15.75%	71.34%	-2,296.06%	41.15%
Sales/Assets	0.72	1.07	0.55	0.64	1.41	0.49
Proj. Sales Growth (F1/F0)	-11.41%	-0.08%	-2.57%	-7.41%	-17.60%	-12.72%
Momentum Score	F	-	-	A	C	B
Daily Price Chg	2.70%	0.44%	0.23%	-0.50%	0.34%	0.73%
1 Week Price Chg	-0.11%	2.76%	3.66%	6.64%	3.81%	5.35%
4 Week Price Chg	-2.07%	-2.48%	-4.65%	-6.32%	5.09%	-4.47%
12 Week Price Chg	44.15%	23.34%	11.62%	-0.82%	31.28%	43.22%
52 Week Price Chg	1.69%	-3.35%	-7.46%	-22.19%	30.70%	13.93%
20 Day Average Volume	986,853	219,155	2,368,260	408,469	3,046,247	1,320,682
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	10.23%	0.00%	0.00%	4.42%	12.30%	0.65%
(F1) EPS Est 12 week change	-38.17%	-18.09%	-7.67%	-16.27%	-4.76%	-3.24%
(Q1) EPS Est Mthly Chg	10.98%	0.00%	0.00%	12.01%	8.62%	0.20%

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	F
VGM Score	C

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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