

Owens Corning (OC)

\$66.52 (As of 01/21/20)

Price Target (6-12 Months): **\$70.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/22/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: B

Summary

Shares of Owens Corning has outperformed its industry in a year. Earnings estimates for 2020 have also moved north over the past seven days, depicting analysts' optimism surrounding the company's bottom-line growth potential. The upside was primarily attributed to increased organic growth, improved operating efficiencies, and higher contribution from Roofing and Composites businesses. Notably, strategic initiatives, acquisitions and strong price realization bode well for the company. However, increased raw material and transportation costs, adverse geographic mix and negative impact of foreign currency translation as well as lower shingle volumes have been hurting its performance over the past few quarters.

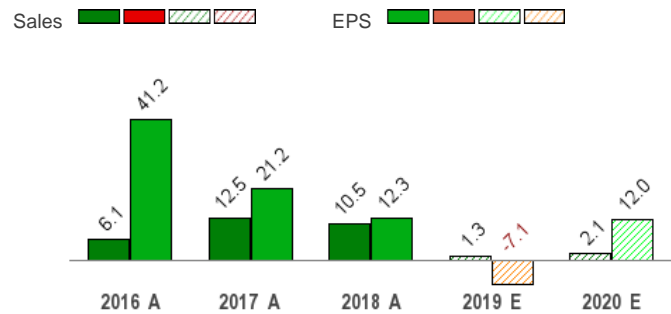
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.72 - \$44.46
20 Day Average Volume (sh)	880,644
Market Cap	\$7.2 B
YTD Price Change	2.2%
Beta	1.23
Dividend / Div Yld	\$0.96 / 1.4%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 26% (67 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.0%
Last Sales Surprise	2.2%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	13.7
P/E F1	12.9
PEG F1	1.5
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,700 E	1,952 E	1,940 E	1,737 E	7,303 E
2019	1,667 A	1,918 A	1,883 A	1,682 E	7,151 E
2018	1,691 A	1,824 A	1,818 A	1,724 A	7,057 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.67 E	\$1.45 E	\$1.76 E	\$1.30 E	\$5.14 E
2019	\$0.54 A	\$1.31 A	\$1.63 A	\$1.07 E	\$4.59 E
2018	\$0.80 A	\$1.17 A	\$1.54 A	\$1.38 A	\$4.94 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 01/21/2020. The reports text is as of 01/22/2020.

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.

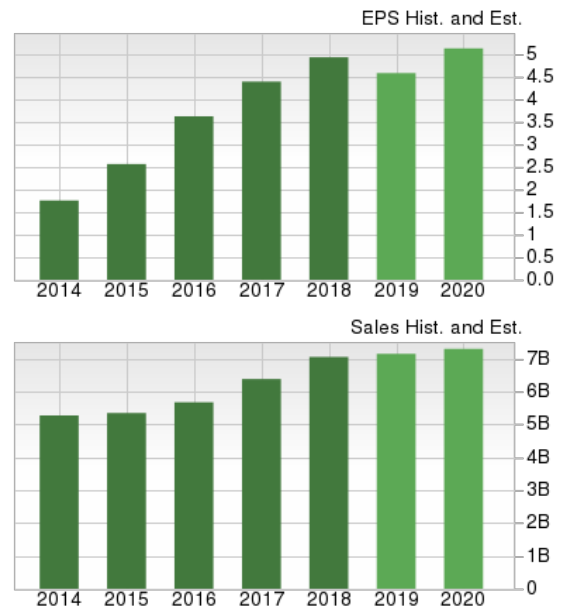
The company has three reportable segments — Composites, Insulation and Roofing.

Composites segment (accounting for 28.2% of total third-quarter 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 (37.9%) 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 (36.9%) 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 the third-quarter, corporate eliminations were 3% 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, its technical and other building insulation businesses are delivering solid results 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 strong price realization 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.

Notably, in third-quarter 2019, its top and bottom lines grew year over year on the back of the above-mentioned tailwinds.

▲ **Acquisitions to Boost Top-line Growth:** Acquisitions are an important part of Owens Corning's growth strategy. In February 2018, the company completed the acquisition of Paroc — a leading producer of mineral wool insulation for building and technical applications in Europe — for approximately \$1,121 million. This deal 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.

In the first nine months of 2019, the Paroc acquisition added \$38 million to total net sales. Notably, net sales during the said period grew mainly due to higher sales volumes and selling prices in the Roofing segment, partially offset by lower volumes in the Insulation segment.

Shares of Owens Corning have outperformed its industry in a year. Bottom-line estimates for 2020 have moved north over the past seven days, depicting analysts' optimism surrounding the company's earnings growth potential.

▲ **Successful Pricing Actions:** Although material and transportation inflation has been negatively impacting the company, particularly the Roofing and Insulation business, solid pricing momentum has been somewhat offsetting the same.

Owens Corning achieved strong price realization, which partially offset asphalt cost inflation that continued to grow throughout the second quarter but remained stable in the third quarter. Moreover, in April 2019, the company announced a price increase, which added \$43 million to total net sales. Again, in July, it raised prices to offset expected asphalt inflation. Although this increase didn't have any material impact on third-quarter performance due to comparatively higher rebates, the above-mentioned initiatives are likely to benefit the company going forward. Remarkably, in 2018, these actions resulted in price gains of \$255 million (with \$130-million improvement in Insulation).

During the third quarter, its adjusted EBIT increased 3.7% year over year, given volume growth in Roofing and Composites businesses, as well as manufacturing productivity across the business. The company remains focused on achieving further positive pricing for the rest of 2019. It expects benefits from higher price realization to drive substantial earnings growth going forward.

▲ **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. The peak season for home construction and remodeling in the markets served by the company generally corresponds with the second and third calendar quarters.

Notably, the company anticipates improved operating performance to boost profits in technical and other building insulation businesses. However, it anticipates continued positive pricing to be offset by lower volumes and production curtailments in the North American residential fiberglass insulation business.

Reasons To Sell:

▼ **Tepid Outlook:** Concurrent with the results in the first three months of 2019, Owens Corning provided a soft view for full-year 2019. In the Roofing business, the U.S. asphalt shingle end market is expected to be relatively flat year over year. Also, its fourth-quarter market size is expected to be lower than the prior year, based on third-quarter market performance and a tough comparison.

Notably, in Composites, it expects growth in the glass fiber market but at a lower rate than the previous expectation.

▼ **Rising Raw Materials, Transportation and Start-Up Costs:** Material and transportation costs are dampening Owens Corning's operating performance. Although asphalt prices were moderate at the end of 2018, the same moved higher in February and April, and remained on par in third-quarter 2019. 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.

Notably, input cost and transportation inflation, as well as higher rebuild and start-up costs have been negatively impacting the company's operating results.

▼ **Lower Volumes & Currency Headwinds:** Owens Corning is witnessing lower sales volumes, primarily in the North American residential fiberglass insulation business, and negative foreign currency translation, which are dampening overall bottom-line results. Owens Corning is exposed to foreign exchange rate fluctuation risks due to its operations in Europe and Asia-Pacific.

Its Insulation segment experienced 2% lower year-over-year sales due to soft demand, mainly in the North American residential fiberglass insulation business, and currency headwinds. EBIT margin also contracted 100 bps due to the said headwinds.

Rising raw material and transportation costs, along with lower shingle volumes mar the prospects of the company.

Last Earnings Report

Owens Corning Beats Q3 Earnings & Revenue Estimates

Owens Corning reported better-than-expected third-quarter 2019 results. The company's earnings and net sales topped their respective Zacks Consensus Estimate and improved on a year-over-year basis. The upside was backed by increased organic growth, improved operating efficiencies as well as higher contribution from the Roofing and Composites businesses. However, bearish view for the roofing industry in fourth-quarter 2019 seems to have dented investors' sentiment.

The company reported adjusted earnings of \$1.63 per share in the quarter, which beat the consensus mark of \$1.51 by 7.9%. Adjusted earnings also increased 3.8% year over year owing to strong performance of the Roofing business and manufacturing productivity across the board.

Net sales of \$1.88 billion surpassed analysts' expectation of \$1.84 billion by 2.2% in the reported quarter. Moreover, the metric grew 3.6% year over year on higher sales volume in the Roofing business.

Segment Details

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

Net sales in the Composites segment increased 5% year over year to \$531 million. Segment sales grew 6% on a constant-currency basis. Despite witnessing slower global growth, its volume grew 7%. Also, the company's focus on higher value applications, such as specialty glass non-wovens and wind energy, led to higher demand for these products that contributed to sales growth. Earnings before interest and taxes (EBIT) margin in the quarter was recorded flat year over year at 13%, as benefits from lower furnace rebuild and start-up costs as well as higher sales volumes were partially offset by lower selling prices and higher input cost inflation.

The Roofing segment's net sales grew 11% year over year to \$713 million, courtesy of higher volumes backed by strong market growth in shingles. The U.S. asphalt shingle market grew 16% in the third quarter. EBIT margin were flat year over year at 20% in the quarter, as higher sales volumes and lower transportation costs were partly offset by lower selling prices.

Net sales in the Insulation segment came in at \$693 million, down 2% year over year. The downside was mainly caused by lower sales volumes, primarily in the North American residential fiberglass insulation business as well as unfavorable currency translation. EBIT margin in the quarter under review contracted 100 basis points (bps) to 12% due to lower sales and production volumes as well as inflation.

Operating Highlights

During the third quarter, Owens Corning's adjusted EBIT increased 3.7% to \$277 million from \$267 million in the year-ago quarter. Volume growth in the Roofing and Composites businesses as well as manufacturing productivity across the company led to the upside.

Balance Sheet

As of Sept 30 2019, the company had cash and cash equivalents of \$35 million compared with \$78 million at 2018-end. Net cash flow provided by operating activities was \$309 million in the quarter, up 54.5% year over year. Moreover, free cash flow was \$208 million in the quarter, up 163% year over year.

During the first nine months of 2019, net cash from operating activities came in at \$596 million compared with \$506 million in the year-ago period. Free cash flow was \$282 million in the said period compared with \$81 million in the year-ago period.

2019 Outlook

In Roofing, the company expects U.S. shingle industry shipments to be relatively flat year over year. It expects higher share of shipments and a favorable geographic mix. The company expects fourth-quarter market size for Roofing business to be lower than the prior year, based on the third quarter market performance and a tough comparison.

In Composites, the company expects growth in the glass fiber market but at a lower rate than its previous expectation. It projects increased volume and improved operating performance to offset higher inflation.

In Insulation, Owens Corning anticipates improved operating performance to boost profit in technical and other building insulation businesses. It anticipates continued positive pricing to be offset by lower volumes and production curtailments in the North American residential fiberglass insulation business.

Owens Corning estimates an effective tax rate of 26-28%. The company expects general corporate expenses in the range of \$110-\$115 million in 2019. Capital expenditures are expected to be approximately \$460 million (compared with \$475 million expected earlier). It continues to expect strong conversion of adjusted earnings to free cash flow.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	2.19%
EPS Surprise	7.95%
Quarterly EPS	1.63
Annual EPS (TTM)	4.86

Valuation

Owens Corning shares are up 46.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 40.9% and 38% in the past year, respectively.

The S&P 500 index is up 28.1% in the past year.

The stock is currently trading at 12.86X forward 12-month price to earnings, which compares to 14.09X for the Zacks sub-industry, 16.11X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.71X and as low as 7.09X, with a 5-year median of 14.7X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$70 price target reflects 13.54X 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 F 12M	Current	12.86	14.09	16.11	19.18
	5-Year High	21.71	17.91	18.83	19.34
	5-Year Low	7.09	7.19	10.63	15.17
	5-Year Median	14.7	14.09	16.11	17.44
P/S F 12M	Current	0.99	1.23	1.94	3.57
	5-Year High	1.67	3.63	2.23	3.57
	5-Year Low	0.62	0.69	1.25	2.54
	5-Year Median	0.97	0.87	1.63	3
EV/EBITDA TTM	Current	7.92	22.37	19.57	12.38
	5-Year High	10.64	30.09	22.86	12.86
	5-Year Low	6.15	17.59	14.6	8.48
	5-Year Median	8.26	23.45	19.38	10.67

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 26% (67 out of 255)



Top Peers

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

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	OC Neutral	X Industry	S&P 500	AWI Neutral	MAS Neutral	URI Neutral
VGM Score	A	-	-	C	B	A
Market Cap	7.24 B	1.10 B	24.43 B	5.08 B	14.11 B	11.65 B
# of Analysts	7	3	13	4	5	7
Dividend Yield	1.44%	0.00%	1.75%	0.76%	1.09%	0.00%
Value Score	A	-	-	C	B	A
Cash/Price	0.00	0.09	0.04	0.02	0.03	0.01
EV/EBITDA	8.39	9.87	14.00	15.59	11.93	6.12
PEG Ratio	1.54	1.43	2.06	1.31	1.93	0.63
Price/Book (P/B)	1.60	1.84	3.39	13.83	613.44	3.19
Price/Cash Flow (P/CF)	7.40	9.95	13.69	19.20	15.93	4.06
P/E (F1)	13.07	17.92	19.00	20.42	19.28	7.52
Price/Sales (P/S)	1.01	1.27	2.68	4.93	1.73	1.27
Earnings Yield	7.73%	5.44%	5.26%	4.90%	5.19%	13.30%
Debt/Equity	0.73	0.60	0.72	1.77	120.48	2.93
Cash Flow (\$/share)	8.99	2.50	6.94	5.46	3.10	38.21
Growth Score	C	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	23.82%	22.67%	10.60%	16.19%	23.69%	23.46%
Proj. EPS Growth (F1/F0)	11.96%	14.47%	7.57%	12.32%	15.12%	7.10%
Curr. Cash Flow Growth	13.12%	13.50%	14.00%	7.22%	22.86%	32.33%
Hist. Cash Flow Growth (3-5 yrs)	12.19%	13.23%	9.00%	3.47%	14.68%	13.13%
Current Ratio	1.69	1.75	1.23	2.09	1.46	0.71
Debt/Capital	42.36%	39.39%	42.99%	63.91%	99.18%	74.55%
Net Margin	6.99%	5.51%	11.15%	19.55%	8.27%	12.45%
Return on Equity	12.14%	12.44%	17.16%	78.13%	1,500.49%	42.89%
Sales/Assets	0.72	1.06	0.55	0.57	1.47	0.49
Proj. Sales Growth (F1/F0)	2.14%	3.80%	4.05%	6.41%	3.07%	2.97%
Momentum Score	B	-	-	D	D	A
Daily Price Chg	1.33%	0.00%	-0.27%	2.71%	0.47%	-2.35%
1 Week Price Chg	1.11%	2.18%	2.29%	3.38%	3.83%	-0.47%
4 Week Price Chg	1.93%	1.95%	2.13%	10.58%	2.77%	-7.99%
12 Week Price Chg	7.17%	3.82%	6.99%	12.20%	10.46%	13.10%
52 Week Price Chg	39.28%	31.08%	21.25%	60.80%	59.15%	31.08%
20 Day Average Volume	880,644	150,689	1,415,064	266,240	1,831,083	742,937
(F1) EPS Est 1 week change	0.07%	0.00%	0.00%	0.00%	0.00%	0.17%
(F1) EPS Est 4 week change	0.58%	0.00%	0.00%	0.24%	0.00%	0.13%
(F1) EPS Est 12 week change	-2.20%	-0.64%	-0.34%	0.15%	-11.23%	0.19%
(Q1) EPS Est Mthly Chg	-1.10%	0.00%	0.00%	0.00%	0.00%	0.30%

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	A
Growth Score	C
Momentum Score	B
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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