

Owens Corning (OC)

\$61.87 (As of 02/24/20)

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

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:B

Value: A

Growth: C

Momentum: F

Summary

Owens Corning reported better-than-expected fourth-quarter 2019 results. Earnings and net sales topped the Zacks Consensus Estimate by 1.8% and 0.6%, respectively. The upside was backed by increased organic growth, and improved operating efficiencies and manufacturing performance. Backed by favorable environment conditions for global industrial production, strong U.S. housing starts, and global commercial and industrial construction indices, it provided a solid 2020 view. Yet, modest declines in technical insulation in Europe and the U.S. shingle market, along with input cost inflation, unfavorable currency, and a competitive price environment impacted the results. Its shares have underperformed its industry in the past three months. Estimates have moved south over the past seven days, reflecting concerns surrounding the stock.

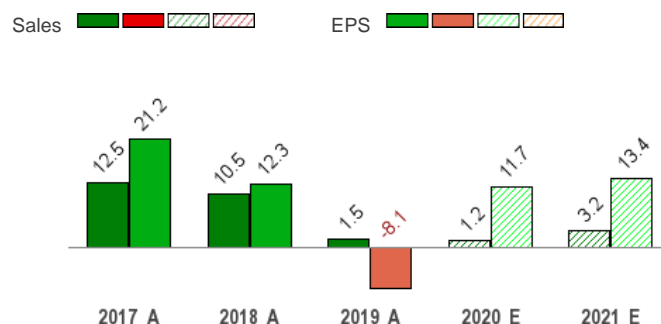
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$68.72 - \$44.46
20 Day Average Volume (sh)	1,183,642
Market Cap	\$6.7 B
YTD Price Change	-5.0%
Beta	1.33
Dividend / Div Yld	\$0.96 / 1.6%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 25% (64 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.8%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	-1.3%
Expected Report Date	04/22/2020
Earnings ESP	0.0%
P/E TTM	13.4
P/E F1	12.2
PEG F1	1.4
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,731 E	1,998 E	1,998 E	1,793 E	7,474 E
2020	1,662 E	1,930 E	1,920 E	1,733 E	7,243 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	\$0.79 E	\$1.58 E	\$2.02 E	\$1.48 E	\$5.75 E
2020	\$0.59 E	\$1.41 E	\$1.71 E	\$1.34 E	\$5.07 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 02/24/2020. The reports text is as of 02/25/2020.

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.

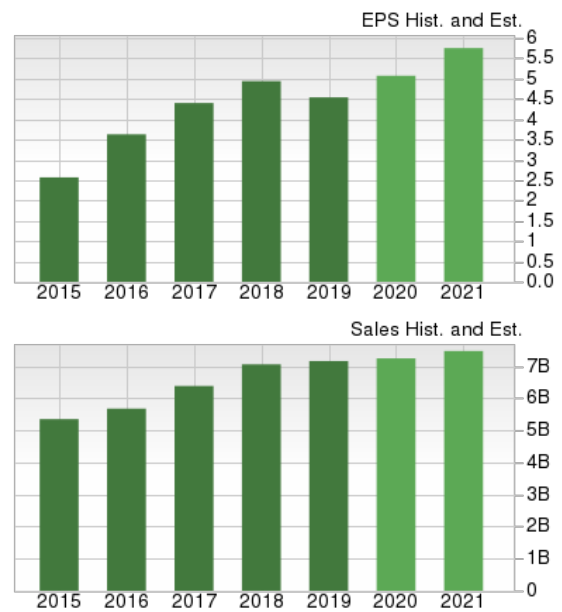
The company has three reportable segments — Composites, Insulation and Roofing.

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 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.

▲ **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.

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.

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

In 2019, EBIT in the Roofing business improved by \$21 million to \$455 million as price improvement and tailwind from transportation costs more than offset the impact of asphalt inflation. Within Insulation, it generated adjusted EBIT of \$828 million, driven by improved commercial execution, strong manufacturing performance and good cost management across the company, which was more than offset by negative foreign currency, inflation and curtailment actions undertaken in the installation business.

▲ **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 favorable market conditions in the U.S. new residential construction, and modest growth in global construction and industrial markets. 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.

Reasons To Sell:

▼ **Tepid Performance in 2019:** During 2019, the company's adjusted earnings declined 8.1% from a year ago. Owens Corning's business witnessed two one-time charges that impacted the results. In first-quarter 2019, it witnessed a \$12-million non-cash income tax charge related to 2017 U.S. corporate tax reform. Additionally, in third-quarter 2019, the company issued a green bond, and tendered portions of its 2022 and 2036 bonds. Alongside, it incurred a \$32-million loss on extinguishment of debt during the year.

Adjusted EBIT declined 3.8% year over year in 2019 due to pension obligations and restructuring costs. The company expects general corporate expenses in the range of \$125-\$135 million in 2020, indicating an increase from \$104 million in 2019.

Shares of Owens Corning have underperformed its industry in the past three months. Bottom-line estimates for 2020 have moved south over the past seven days, depicting analysts' concern surrounding the company's earnings growth potential.

▼ **Input Cost Inflation:** 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.

▼ **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.

Apart from the Composites business, its Insulation segment experienced 1% lower year-over-year sales in 2019 due to decline in sales volumes in the technical and other building insulation business in Europe, as well as foreign currency headwinds. EBIT margin also contracted 400 bps due to continued curtailment costs and lower volumes.

Higher input costs, lower shingle volumes and currency headwinds mar the company's prospects.

Last Earnings Report

Owens Corning Q4 Earnings Beat Estimates, 2020 View Strong

Owens Corning reported better-than-expected results in fourth-quarter 2019. The top and bottom lines topped their respective Zacks Consensus Estimate but declined on a year-over-year basis.

Inside the Headlines

In the quarter under review, the company reported adjusted earnings of \$1.13 per share, beating the consensus mark of \$1.11 by 1.8%. However, the said figure declined 18.1% year over year. Net sales of \$1.69 billion surpassed analysts' expectation of \$1.68 billion by 0.6% in the reported quarter. However, the metric fell 1.9% year over year due to pricing headwinds, and modest declines in technical insulation in Europe and the U.S. shingle market.

Segment Details

Net sales in the Composites segment dropped 0.2% year over year to \$480 million. Segment sales grew 6% on a constant-currency basis. Despite slower global growth, composites volumes moderately outpaced the broader market. Earnings before interest and taxes (EBIT) margin in the quarter was \$56 million, in line with the year-ago period. Continued strong commercial and operational performance was more than offset by input cost inflation, unfavorable currency, and a competitive price environment.

Insulation segment's net sales came in at \$723 million, down 1% year over year. The downside was mainly caused by lower sales volumes in the technical and other building insulation business in Europe, as well as foreign currency headwinds. EBIT margin in the quarter under review contracted 400 basis points (bps) to 12% due to continued curtailment costs and lower volumes.

The Roofing segment's net sales also declined 3% year over year to \$529 million, courtesy of slightly lower shingle volumes and moderately low selling prices. U.S. asphalt shingle shipments were down 5% from the prior year. EBIT margin, however, improved 100 bps in the quarter, as seasonal decline in asphalt and transportation costs was partly offset by lower prices.

Operating Highlights

During the fourth quarter, Owens Corning's adjusted EBIT decreased 10.5% to \$204 million from \$228 million in the year-ago period. The downside was mainly due to unimpressive performance of the insulation business.

Balance Sheet

As of Dec 31, 2019, the company had cash and cash equivalents of \$172 million compared with \$78 million at 2018-end. Net cash provided by operating activities was \$1,037 million in 2019, up from \$803 million a year ago. Free cash flow was \$590 million compared with \$266 million in the year-ago period. In 2019, the company bought back 1 million shares of common stock for \$48 million.

2019 Highlights

In full-year 2019, adjusted earnings came in at \$4.54 per share, which missed the consensus estimate by 1.1% and declined 8.1% year over year. Net sales of \$7.16 billion were up 1.5% from a year ago.

2020 Outlook

Backed by favorable environment conditions for global industrial production, strong U.S. housing starts, and global commercial and industrial construction indices, the company provided a solid 2020 view.

In Roofing, the company expects U.S. shingle industry shipments to be relatively flat year over year, given average storm demand. Meanwhile, the newly effective International Maritime Organization's 2020 regulations on marine sector emissions are currently not expected to have a significant impact on the business' asphalt costs.

In Composites, the company expects the glass fiber market to be weak in the first half but regain strength in the second half of the year. Notably, Owens Corning will continue to focus on growth in higher-value downstream applications and delivering strong operating performance.

In Insulation, it anticipates favorable market conditions in the U.S. new residential construction, and modest growth in global construction and industrial markets. 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.

Owens Corning estimates an effective tax rate of 26-28%. The company expects general corporate expenses in the range of \$125-\$135 million in 2020. Capital expenditures are expected to be \$460 million. Interest expenses are likely to be \$115 million. It continues to expect strong conversion of adjusted earnings to free cash flow. At the end of 2019, 3.6 million shares were available for repurchase under the current authorization. Owens Corning intends to return at least 50% of free cash flow to its shareholders over time.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	0.59%
EPS Surprise	1.80%
Quarterly EPS	1.13
Annual EPS (TTM)	4.61

Valuation

Owens Corning's shares are down 4.7% in the year-to-date period but up 25.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.7% but and the Zacks Construction sector is up 1.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 18.9% and 23.2%, respectively.

The S&P 500 index is up 0.4% in the year-to-date period and 17.1% in the past year.

The stock is currently trading at 11.93X forward 12-month earnings, which compares to 13.4X for the Zacks sub-industry, 15.85X for the Zacks sector and 18.44X 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 14.62X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$66 price target reflects 12.6X 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	11.93	13.4	15.85	18.44
	5-Year High	21.71	17.9	18.86	19.34
	5-Year Low	7.09	7.13	10.71	15.18
	5-Year Median	14.62	13.87	15.96	17.47
P/S F12M	Current	0.92	1.17	1.92	3.39
	5-Year High	1.67	3.59	2.23	3.43
	5-Year Low	0.62	0.69	1.25	2.54
	5-Year Median	0.97	0.88	1.65	3
EV/EBITDA TTM	Current	7.51	22.21	19.58	12
	5-Year High	10.64	30.62	22.6	12.87
	5-Year Low	6.15	17.85	14.43	8.48
	5-Year Median	8.16	23.45	19.38	10.77

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Top 25% (64 out of 255)



Top Peers

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

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	OC Neutral	X Industry	S&P 500	AWI Neutral	MAS Neutral	URI Outperform
VGM Score	B	-	-	C	B	A
Market Cap	6.70 B	1.00 B	23.50 B	5.15 B	12.53 B	10.56 B
# of Analysts	8	2.5	13	4	7	6
Dividend Yield	1.55%	0.00%	1.83%	0.75%	1.20%	0.00%
Value Score	A	-	-	C	C	B
Cash/Price	0.02	0.08	0.04	0.02	0.06	0.00
EV/EBITDA	8.19	9.84	13.56	15.78	11.74	4.97
PEG Ratio	1.41	1.30	2.02	1.71	1.58	0.54
Price/Book (P/B)	1.44	1.80	3.20	14.02	NA	2.76
Price/Cash Flow (P/CF)	7.03	10.10	13.05	19.46	15.77	2.96
P/E (F1)	11.93	18.18	18.56	20.70	18.18	6.88
Price/Sales (P/S)	0.94	1.20	2.60	4.96	1.61	1.13
Earnings Yield	8.19%	5.41%	5.38%	4.83%	5.50%	14.53%
Debt/Equity	0.67	0.54	0.70	1.77	-49.48	2.72
Cash Flow (\$/share)	8.80	2.38	7.03	5.46	2.86	47.99
Growth Score	C	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	20.63%	21.79%	10.85%	16.19%	22.75%	24.77%
Proj. EPS Growth (F1/F0)	11.73%	13.40%	6.90%	7.27%	10.22%	5.66%
Curr. Cash Flow Growth	-2.64%	7.22%	6.78%	7.22%	-13.53%	17.38%
Hist. Cash Flow Growth (3-5 yrs)	13.33%	13.33%	8.38%	3.47%	8.58%	13.02%
Current Ratio	1.55	1.76	1.22	2.09	1.75	0.84
Debt/Capital	40.08%	39.41%	42.37%	63.91%	99.18%	73.14%
Net Margin	5.66%	4.94%	11.57%	20.66%	12.03%	12.56%
Return on Equity	11.30%	12.00%	16.80%	80.83%	3,655.00%	42.34%
Sales/Assets	0.71	1.05	0.55	0.58	1.43	0.49
Proj. Sales Growth (F1/F0)	1.16%	4.01%	4.03%	7.31%	-12.11%	2.59%
Momentum Score	F	-	-	D	D	A
Daily Price Chg	-5.99%	-2.15%	-2.98%	-0.27%	-0.18%	-6.25%
1 Week Price Chg	3.12%	0.04%	-0.94%	2.50%	-0.94%	-3.47%
4 Week Price Chg	-2.81%	-1.35%	-0.94%	4.52%	-5.96%	-2.95%
12 Week Price Chg	-6.74%	2.05%	1.75%	12.58%	-1.66%	-6.73%
52 Week Price Chg	24.99%	17.36%	10.97%	43.93%	19.03%	4.15%
20 Day Average Volume	1,183,642	158,827	2,001,782	279,812	2,747,948	1,100,313
(F1) EPS Est 1 week change	-1.27%	0.00%	0.00%	0.00%	0.00%	0.74%
(F1) EPS Est 4 week change	-1.27%	0.00%	-0.05%	0.00%	-3.05%	0.04%
(F1) EPS Est 12 week change	-1.33%	0.00%	-0.21%	0.24%	-4.98%	0.38%
(Q1) EPS Est Mthly Chg	-11.71%	0.00%	-0.49%	0.00%	-12.73%	-0.85%

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	F
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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