

Olin Corporation (OLN)

\$14.00 (As of 03/05/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

Summary

Earnings estimates for Olin have been going down over the past month. Olin expects to continue witnessing a challenging pricing environment in 2020. The company's Chlor Alkali and Epoxy units are facing headwinds from challenging pricing and demand environment. The company faces persistent weakness in caustic soda pricing, which is affecting margins. Also, ethylene dichloride prices and hydrochloric acid pricing are witnessing a declining trend. The company is also seeing lower liquid epoxy resin pricing across all regions, which is hurting the Epoxy unit's revenues. Continuing demand weakness from global automotive, global electrical laminate and industrial coatings markets have led to price erosion globally. The company's high debt level is another concern. Olin has also underperformed the industry it belongs to over a year.

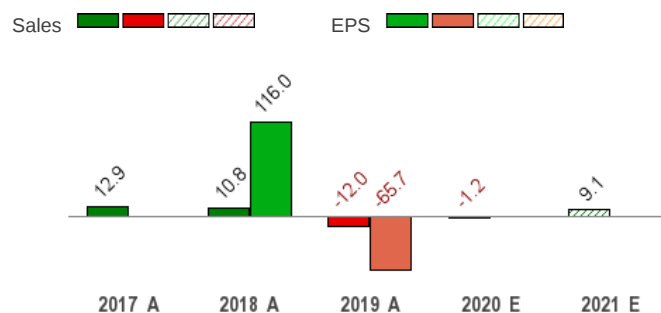
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.35 - \$13.87
20 Day Average Volume (sh)	4,092,576
Market Cap	\$2.2 B
YTD Price Change	-18.8%
Beta	1.30
Dividend / Div Yld	\$0.80 / 5.7%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 15% (216 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.0%
Last Sales Surprise	4.2%
EPS F1 Est- 4 week change	-211.5%
Expected Report Date	05/05/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,588 E
2020	1,434 E	1,519 E	1,555 E	1,502 E	6,038 E
2019	1,553 A	1,593 A	1,577 A	1,387 A	6,110 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$0.97 E
2020	-\$0.25 E	-\$0.21 E	\$0.14 E	\$0.05 E	-\$0.27 E
2019	\$0.28 A	-\$0.01 A	\$0.41 A	-\$0.08 A	\$0.60 A

*Quarterly figures may not add up to annual.

P/E TTM	23.3
P/E F1	NA
PEG F1	NA
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/05/2020. The reports text is as of 03/06/2020.

Overview

Based in Clayton, MO, Olin Corporation is a vertically-integrated global producer and distributor of chemical products and U.S. maker of ammunition. Internationally, the company operates in regions including Latin America, Asia Pacific and Europe.

Olin's operations are focused in three business segments — Chlor Alkali Products and Vinyls, Epoxy and Winchester.

Chlor Alkali Products and Vinyls segment (56% of 2019 Sales) –

The division produces and sells chlorine and caustic soda, vinyl chloride monomer and ethylene dichloride, methylene chloride, methyl chloride, carbon tetrachloride, chloroform, trichloroethylene, perchloroethylene, hydrochloric acid, vinylidene chloride, hydrogen, potassium hydroxide and bleach products.

The division is one of the largest marketers of caustic soda in Brazil. The company's diversified caustic soda sourcing enables it to supply global customers cost effectively. Notably, caustic soda is used in various end-use applications including water treatment, pulp and paper, soaps and detergents.

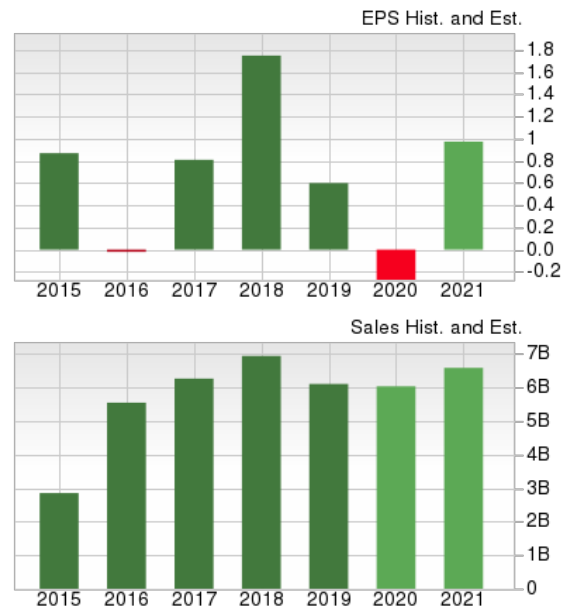
Products from this segment are delivered through deep water and coastal barge, pipeline, marine vessel, truck and railcar.

Epoxy segment (33%) – The division makes and sells a complete range of epoxy materials including epichlorohydrin, allyl chloride, solid epoxy resins, liquid epoxy resins. It also produces downstream products such as differentiated epoxy resins and additives.

The division offers a wide range of applications including marine coatings, electrical laminates, wind energy, consumer goods and composites. It also caters to numerous applications in protective coatings and civil engineering.

The Winchester segment (11%) – The unit produces and sells sporting ammunition, small caliber military ammunition and components, reloading components and industrial cartridges.

The company also bagged a multi-year contract that was awarded by the U.S. Army to operate the government-owned Lake City ammunition facility. The move is expected to boost Winchester unit's annual sales by \$450-\$550 million. The contract will become effective during fourth-quarter 2020.



Reasons To Sell:

- ▼ Olin's shares are down 42.4% over a year, underperforming the industry's decline of 35.7%. Olin is exposed to certain challenges in Chlor Alkali Products and Vinyls segment. Lower caustic soda prices are hurting the company's margins as witnessed in the last reported quarter. Lower prices, partly due to weaker demand, contributed to a double-digit decline in sales of its Chlor Alkali Products and Vinyls unit in the fourth quarter. Caustic soda prices dropped nearly 24% in the last reported quarter. Also, ethylene dichloride prices went down around 23% while hydrochloric acid pricing declined roughly 40% in the fourth quarter. The company entered 2020 with weaker prices than 2019 averages. It expects to continue witnessing a challenging pricing environment this year. As such, declining prices is a headwind for the company.
- ▼ Olin is seeing lower product pricing in its Epoxy business, impacted by weak demand. The company witnessed liquid epoxy resin pricing to decline persistently in all regions in the last reported quarter, which hurt revenues in the Epoxy unit. Average global epoxy resin prices plunged 20% in 2019. Per the company, demand weakness from global automotive, global electrical laminate and industrial coatings markets have led to the price erosion globally. The company expects weak demand conditions to continue in 2020. As such, sustained weakness in the epoxy business is a concern.
- ▼ While Olin is taking actions to de-leverage its balance sheet, it continues to operate with a high debt level. The company's long-term debt-to-equity ratio is 138.1%, much higher than industry's average of 65.2%. Moreover, its cash and cash equivalents were \$220.9 million at the end of 2019, while long-term debt was considerably high at nearly \$3.3 billion.

Olin's Chlor Alkali and Epoxy segments are exposed to headwinds from weak prices and demand. High debt level is another concern.

Risks

- Olin is likely to benefit from the strategic investment in its IT project. In 2017, the company started a multiyear project for implementing a new enterprise resource planning, engineering and manufacturing systems across its heritage business and the acquired Dow Chlorine Products businesses. The project, which involves implementation of necessary IT infrastructure, is expected to maximize cost effectiveness, efficiency and control over its global chemical operations by standardizing business processes. Total capital spending for the project is projected to be around \$250 million, including associated expense of \$100 million. In 2019, the multiyear IT integration project spending were nearly \$56 million. The company expects the project to be completed in 2020 and provide an annual cost savings of roughly \$50 million.
 - Olin is using its cash strategically and the company remains committed to boost shareholders' returns. In April 2018, the company's board approved a share repurchase program of up to \$500 million of common stock. The company also completed the accelerated share repurchase program in October 2019, repurchasing 5.7 million shares worth \$100 million. In 2019, the company repurchased roughly 7.9 million shares worth \$145.9 million. At the end of 2019, it had around \$304 million available under its share repurchase authorization. It generated around \$252 million of free cash flow in 2019.
 - The company's Winchester segment rebounded in the third quarter of 2019 with first quarterly year-over-year increase in adjusted EBITDA since 2016. The upside was driven by higher commercial and military volumes and favorable costs. Moreover, the segment witnessed revenues to increase around 6% year over year in the last reported quarter, mainly driven by higher commercial sales. The recent multi-year contract to operate the government-owned Lake City ammunition facility represents a significant driver for the unit. The company expects this contract to significantly boost annual profitability of the Winchester unit starting 2020. It also sees incremental annual revenues of \$450-\$550 million from the contract.
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Last Earnings Report

Olin's Earnings and Revenues Beat Estimates in Q4

Olin slipped to a loss of \$77.2 million or 49 cents per share in fourth-quarter 2019 from a profit of \$53.3 million or 32 cents per share a year ago.

The bottom line in the reported quarter was hurt by restructuring charges, mainly related to the company's earlier announced plan to permanently shut down a chlor alkali plant and a vinylidene chloride ("VDC") production facility in Freeport, TX.

Excluding one-time items, adjusted loss for the quarter was 8 cents per share, which was narrower than the Zacks Consensus Estimate of a loss of 10 cents.

The chemical maker's revenues fell roughly 15% year over year to \$1,387.1 million in the quarter. However, it topped the Zacks Consensus Estimate of \$1,330.7 million.

The company witnessed continued weakness in caustic soda pricing in the quarter. Lower product prices also hurt its Epoxy unit.

Full-Year Results

For 2019, loss was \$11.3 million or 7 cents per share, compared with a profit of \$327.9 million or \$1.95 per share a year ago.

Revenues were \$ \$6,110 million for the full year, down around 12% year over year.

Segment Review

Chlor Alkali Products and Vinyls: Revenues at the division fell around 22% year over year to \$762.4 million in the reported quarter on lower caustic soda and ethylene dichloride pricing.

Epoxy: Revenues at the division dropped around 8% year over year to \$470 million on lower product prices that more than offset increased resin volumes.

Winchester: Revenues rose around 6% year over year to \$154.7 million on higher commercial sales.

Financials

Olin ended 2019 with cash and cash equivalents of \$220.9 million, up around 23% year over year. Long-term debt was \$3,338.7 million at the end of the year, up around 7% year over year.

The company repurchased roughly 7.9 million shares worth \$145.9 million during 2019.

Outlook

Moving ahead, Olin expects to continue witnessing a challenging pricing environment this year. The company envisions its cost control and productivity actions from 2019 along with ongoing initiatives in 2020 to partly offset the weak product pricing environment.

The company anticipates the closures of the chlor alkali plant and the VDC facility to complete before the end of this year. It expects these actions, when completed, to reduce its annual operating costs by around \$35 million.

Olin also expects its capital spending for this year to be \$250-\$300 million, compared with \$386 million in 2019.

Quarter Ending 12/2019

Report Date	Feb 04, 2020
Sales Surprise	4.24%
EPS Surprise	20.00%
Quarterly EPS	-0.08
Annual EPS (TTM)	0.60

Recent News

Olin Declares Quarterly Dividend – Jan 24, 2020

Olin's board has declared a quarterly dividend of 20 cents per share of common stock. The dividend will be paid on Mar 10, 2020 to shareholders of record at the close of business as of Feb 10, 2020. Notably, this is the 373rd consecutive quarterly dividend paid by the company.

Olin Closes Freeport Facility to Reduce Operating Costs - Dec 11, 2019

Olin has announced plans to permanently close down a 230,000-ton chlor alkali plant and its Vinylidene Chloride (VDC) production facility. The facilities are located in Freeport, TX.

The company expects that these closures will be completed before the end of 2020. Moreover, these initiatives are expected to reduce the company's annual operating costs by around \$35 million when completed.

In connection with these actions, Olin's results for the fourth quarter of 2019 are expected to include roughly \$65 million pretax non-cash restructuring (asset impairment) charges.

Per management, closure of the Freeport facility is expected to reduce the company's annual fixed costs and match its production capacity with the market's current needs. Also, Olin will be able to concentrate on the chlorine derivatives that generate the most value.

Valuation

Olin's shares are down 42.4% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 35.7% and 13.1% over the past year, respectively.

The S&P 500 index is up 12.5% in the past year.

The stock is currently trading at 6.45X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.29X for the Zacks sub-industry, 9X for the Zacks sector and 10.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.81X and as low as 5.01X, with a 5-year median of 9.48X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$12 price target reflects 0.72X tangible book value.

The table below shows summary valuation data for OLN:

Valuation Multiples - OLN					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	6.45	7.29	9	10.93
	5-Year High	21.81	13.25	17.75	12.88
	5-Year Low	5.01	5.6	7.45	8.49
	5-Year Median	9.48	7.53	10.88	10.79
P/B TTM	Current	0.92	1.28	1.58	4.18
	5-Year High	2.69	3.55	3.54	4.54
	5-Year Low	0.87	0.89	1.34	2.85
	5-Year Median	1.58	2.46	2.17	3.63
P/S F12M	Current	0.36	1.24	1.07	3.37
	5-Year High	1.16	3.95	3.34	3.65
	5-Year Low	0.36	0.72	1.01	2.48
	5-Year Median	0.79	1.26	2.49	3.15

As of 03/05/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (216 out of 255)



Top Peers

Albemarle Corporation (ALB)	Neutral
Ashland Global Holdings Inc. (ASH)	Neutral
Cabot Corporation (CBT)	Neutral
Huntsman Corporation (HUN)	Neutral
PolyOne Corporation (POL)	Neutral
BASF SE (BASFY)	Underperform
Eastman Chemical Company (EMN)	Underperform
Westlake Chemical Corporation (WLK)	Underperform

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	OLN Underperform	X Industry	S&P 500	BASFY Underperform	HUN Neutral	WLK Underperform
VGM Score	C	-	-	D	C	D
Market Cap	2.21 B	2.46 B	21.47 B	54.30 B	4.18 B	6.97 B
# of Analysts	5	4	13	3	5	4
Dividend Yield	5.71%	1.89%	2.04%	4.33%	3.50%	1.93%
Value Score	B	-	-	B	A	C
Cash/Price	0.09	0.09	0.05	0.05	0.12	0.10
EV/EBITDA	6.63	7.31	12.81	6.17	8.05	7.14
PEG Ratio	NA	1.50	1.88	2.75	1.47	1.81
Price/Book (P/B)	0.92	1.73	2.95	1.18	1.51	1.09
Price/Cash Flow (P/CF)	3.22	5.48	11.75	5.02	6.84	6.14
P/E (F1)	NA	12.18	17.19	14.54	12.18	19.09
Price/Sales (P/S)	0.36	0.77	2.32	0.79	0.55	0.86
Earnings Yield	-1.93%	7.91%	5.81%	6.90%	8.19%	5.25%
Debt/Equity	1.38	0.55	0.70	0.39	0.91	0.59
Cash Flow (\$/share)	4.35	3.41	7.01	2.95	2.71	8.84
Growth Score	D	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	5.06%	9.85%	10.85%	0.04%	9.15%	4.21%
Proj. EPS Growth (F1/F0)	-145.33%	1.16%	6.27%	-9.22%	-0.39%	-12.73%
Curr. Cash Flow Growth	-22.35%	-5.85%	6.07%	136.40%	-41.39%	-31.71%
Hist. Cash Flow Growth (3-5 yrs)	22.28%	5.70%	8.52%	-0.12%	-7.56%	3.87%
Current Ratio	1.58	1.83	1.23	1.78	1.87	2.21
Debt/Capital	58.00%	37.78%	42.57%	28.03%	47.56%	37.24%
Net Margin	-0.18%	5.68%	11.69%	14.63%	7.42%	5.19%
Return on Equity	3.67%	12.26%	16.66%	9.13%	14.86%	7.08%
Sales/Assets	0.66	0.84	0.54	0.68	0.90	0.64
Proj. Sales Growth (F1/F0)	-1.17%	0.00%	3.90%	2.54%	-9.10%	0.69%
Momentum Score	B	-	-	C	F	F
Daily Price Chg	-10.43%	-2.51%	-3.79%	-2.89%	-0.70%	-5.04%
1 Week Price Chg	-15.06%	-12.49%	-12.06%	-10.66%	-9.38%	-10.18%
4 Week Price Chg	-14.11%	-12.05%	-10.92%	-14.32%	-13.76%	-15.58%
12 Week Price Chg	-21.35%	-17.96%	-8.10%	-21.92%	-24.58%	-24.13%
52 Week Price Chg	-42.36%	-24.78%	4.09%	-21.17%	-21.66%	-21.20%
20 Day Average Volume	4,092,576	127,813	2,483,920	504,890	2,557,875	827,209
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-10.29%	-3.54%	0.00%
(F1) EPS Est 4 week change	-211.48%	-1.10%	-0.06%	-10.29%	-18.94%	-29.89%
(F1) EPS Est 12 week change	-153.86%	-5.60%	-0.42%	-20.26%	-20.04%	-33.40%
(Q1) EPS Est Mthly Chg	-535.00%	-9.85%	-0.29%	-12.82%	-44.35%	-49.25%

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	D
Momentum Score	B
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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