

Olin Corporation (OLN)

\$16.53 (As of 01/09/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/16/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: F

Summary

Earnings estimates for Olin for the fourth quarter are going down of late. The company's investment in the IT project is likely to provide annual cost savings. The Lake City Army contract will also drive the company's Winchester unit. Olin also remains committed to boost shareholders' returns. However, Olin's Chlor Alkali and Epoxy units are facing headwinds from a challenging pricing and demand environment. The company faces continued weakness in caustic soda pricing. It is also witnessing lower liquid epoxy resin pricing across all regions, which is hurting the Epoxy unit's revenues. Olin also faces headwind from planned maintenance turnaround costs, which are likely to weigh on its margins in the fourth quarter. The company's high debt level is another concern. It has also underperformed the industry over a year.

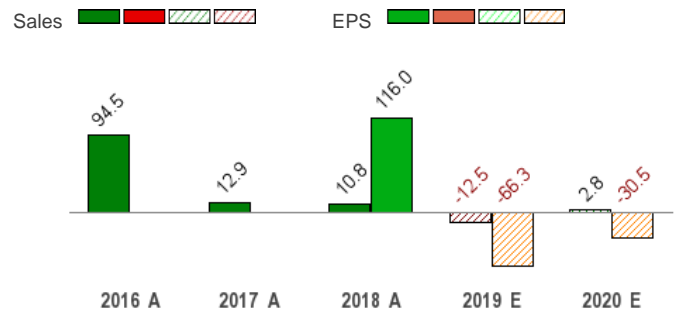
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$27.32 - \$15.38
20 Day Average Volume (sh)	1,743,386
Market Cap	\$2.6 B
YTD Price Change	-4.2%
Beta	1.53
Dividend / Div Yld	\$0.80 / 4.8%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 13% (221 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.9%
Last Sales Surprise	-8.9%
EPS F1 Est- 4 week change	-19.5%
Expected Report Date	02/03/2020
Earnings ESP	27.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,543 E	1,604 E	1,618 E	1,594 E	6,247 E
2019	1,553 A	1,593 A	1,577 A	1,335 E	6,076 E
2018	1,710 A	1,728 A	1,872 A	1,635 A	6,946 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.06 E	-\$0.11 E	\$0.31 E	\$0.20 E	\$0.41 E
2019	\$0.28 A	-\$0.01 A	\$0.41 A	-\$0.09 E	\$0.59 E
2018	\$0.15 A	\$0.54 A	\$0.75 A	\$0.32 A	\$1.75 A

*Quarterly figures may not add up to annual.

P/E TTM	16.5
P/E F1	40.3
PEG F1	2.2
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

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 (57% of 2018 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.

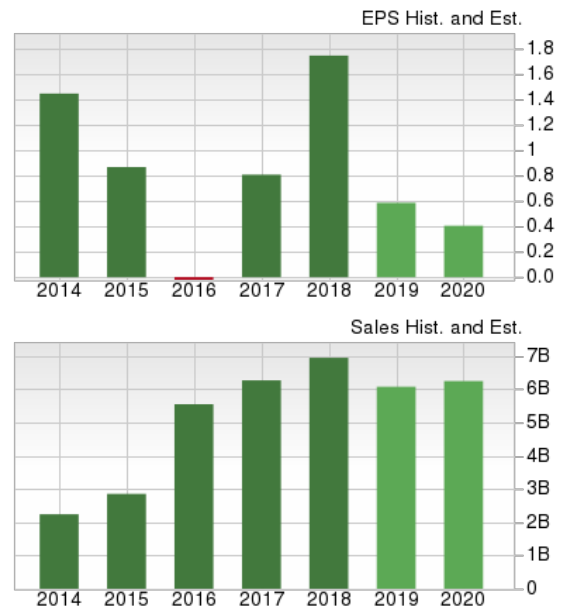
Products from this segment are delivered through deep water and coastal barge, pipeline, marine vessel, truck and railcar.

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 (10%) – The unit produces and sells sporting ammunition, small caliber military ammunition and components, reloading components and industrial cartridges.

In December 2018, the division submitted a proposal for operating and maintaining the Lake City Army Ammunition Plant, which is the primary location for small caliber ammunition of the U.S. Army. The decision is expected to be made during third-quarter 2019. The move indicates a long-term opportunity for the segment.



Reasons To Buy:

- ▲ 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. The company expects the project to be completed during 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. Olin repurchased roughly 1.6 million shares of common stock for around \$30 million in the fourth quarter of 2018. For 2018, it repurchased 2.1 million shares worth around \$50 million. The company also completed the accelerated share repurchase program in October 2019, repurchasing 5.7 million shares worth \$100 million. It also expects to generate around \$230 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. While the company sees some seasonal weakness in this business in the fourth quarter, it expects results for full-year 2019 to be comparable to or modestly higher than what was witnessed in 2018. The recent Lake City Army contract represents a significant driver for the segment. The company expects this multi-year 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.

The company's strategic investment in the IT project is likely to provide annual cost savings. It also remains committed to boost shareholders' returns. Lake City Army contract will also drive the Winchester unit.

Reasons To Sell:

- ▼ Olin's shares have lost around 27.8% over a year, underperforming the industry's decline of 22.3%. 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 and margins in its Chlor Alkali Products and Vinyls segment in the quarter. Caustic soda prices dropped more than 20% in the quarter. The company has reduced its profit forecast for 2019 factoring in lower caustic soda pricing. It expects caustic soda prices to decline in the fourth quarter along with sustained demand weakness, hurting its earnings.
- ▼ Olin is seeing lower product pricing in its Epoxy business. The company witnessed lower liquid epoxy resin pricing in all regions in the most recent quarter, hurting revenues in the Epoxy unit. Average global epoxy resin prices fell 15% through the third quarter of 2019. Lower demand from automotive and electronics customers across Europe and Asia are hurting prices in these regions. The company expects sustained weakness in epoxy pricing in the fourth quarter, resulting in a year-over-year decline in results in the Epoxy unit.
- ▼ The company faces headwind from cost associated with maintenance turnaround. Olin saw higher planned turnaround costs on a year over year comparison basis in the third quarter in the Chlor Alkali segment. Turnaround costs are among the key factors that are expected to hurt Olin's margins in the fourth quarter of 2019, as reflected by the company's guidance.
- ▼ 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 125.3%, much higher than industry's average of 65.2%. Moreover, its cash and cash equivalents were roughly \$177 million at the end of the most recent quarter, while long-term debt was considerably high at roughly \$3.3 billion.

Olin's Chlor Alkali and Epoxy units are exposed to headwinds from weak prices and demand. Planned maintenance turnaround costs are also likely to hurt margin. High debt level is another concern.

Last Earnings Report

Olin's Earnings Beat, Revenues Miss Estimates in Q3

Olin reported net income of \$44.2 million or 27 cents per share in third-quarter 2019, down from profit of \$195.1 million or \$1.16 per share a year ago.

Excluding one-time items, adjusted earnings for the quarter were 41 cents per share, which surpassed the Zacks Consensus Estimate of 36 cents.

The company's revenues fell 15.8% year over year to \$1,576.6 million in the quarter. Moreover, it missed the Zacks Consensus Estimate of \$1,729.8 million.

The company witnessed continued weakness in caustic soda pricing in the quarter. Prices declined modestly on a sequential basis in the quarter.

Segment Review

Chlor Alkali Products and Vinyls: Revenues at the division fell 16.6% year over year to \$876.3 million in the quarter on lower caustic soda pricing and volume.

Epoxy: Revenues at the division declined 20.9% year over year to \$511.6 million on lower product prices as well as reduced volume.

Winchester: Revenues rose 8.4% year over year to \$188.7 million on higher commercial sales.

Financials

Olin ended the quarter with cash and cash equivalents of \$177.4 million, up 13.2% year over year. Long-term debt was \$3,339 million at the end of the quarter, up 0.1% year over year.

Outlook

Moving ahead, Olin expects to continue witnessing weaker demand from refrigerant agricultural, urethane, alumina, and pulp and paper customers. The company also expects caustic soda prices to decline in the fourth quarter.

So far this year, the Epoxy unit has witnessed lower product demand from industrial coatings, electrical laminate and automotive customers, thereby putting pressure on prices of epoxy resin.

The company predicts net income of \$30-\$59 million for 2019. Adjusted EBITDA for the year is expected to be \$930-\$980 million. Olin anticipates challenging demand and pricing environment to continue in the fourth quarter.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-8.86%
EPS Surprise	13.89%
Quarterly EPS	0.41
Annual EPS (TTM)	1.00

Recent News

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.

Olin Declares Quarterly Dividend – Oct 23, 2019

Olin's board has declared a quarterly dividend of 20 cents per share of common stock. The dividend was paid on Dec 10, 2019 to shareholders of record at the close of business as of Nov 12, 2019. Notably, this is the 372nd consecutive quarterly dividend paid by it.

Olin Unit Wins US Army Deal to Run Lake City Ammunition Plant - Sep 27, 2019

Olin announced that its ammunition unit, Olin Winchester, LLC, has been picked by the U.S. Army to manage and operate the Lake City Army Ammunition Plant in Independence, MO.

Per the company, Winchester will assume full operational control over the Lake City facility on Oct 1, 2020, subsequent to a one-year transition period. Notably, the latest contract is initially valid for seven years and may be extended up to three additional years, based on the U.S. Army's discretion.

Valuation

Olin's shares are down 27.8% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 22.3% and up 1.1% over the past year, respectively.

The S&P 500 index is up 24.4% in the past year.

The stock is currently trading at 35.01X forward 12-month earnings, which compares to 12.61X for the Zacks sub-industry, 13.51X for the Zacks sector and 18.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 40.05X and as low as 7.43X, with a 5-year median of 13.81X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 38.3X forward 12-month earnings per share.

The table below shows summary valuation data for OLN:

Valuation Multiples - OLN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	35.01	12.61	13.51	18.82
	5-Year High	40.05	15.05	21.12	19.34
	5-Year Low	7.43	8.18	9.76	15.17
	5-Year Median	13.81	12.38	13.77	17.44
P/S F12M	Current	0.42	1.12	1.83	3.49
	5-Year High	1.06	1.15	2.24	3.49
	5-Year Low	0.23	0.74	1.48	2.54
	5-Year Median	0.61	0.96	1.81	3
P/B TTM	Current	0.99	1.71	2.32	4.44
	5-Year High	2.69	3.51	3.54	4.45
	5-Year Low	0.87	0.88	1.34	2.85
	5-Year Median	1.67	2.53	2.18	3.61

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (221 out of 254)



Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	OLN Neutral	X Industry	S&P 500	BASFY Neutral	HUN Neutral	WLK Neutral
VGM Score	C	-	-	D	A	C
Market Cap	2.64 B	2.82 B	23.94 B	67.54 B	5.24 B	8.70 B
# of Analysts	4	3	13	3	3	5
Dividend Yield	4.84%	1.74%	1.78%	3.48%	2.85%	1.55%
Value Score	A	-	-	A	A	A
Cash/Price	0.07	0.07	0.04	0.04	0.08	0.17
EV/EBITDA	4.53	6.56	13.97	7.34	5.27	5.24
PEG Ratio	2.19	1.49	2.03	1.61	1.48	2.53
Price/Book (P/B)	0.99	2.02	3.33	1.47	1.99	1.37
Price/Cash Flow (P/CF)	3.08	6.73	13.73	6.24	4.72	5.27
P/E (F1)	40.66	14.17	18.79	15.32	12.00	16.36
Price/Sales (P/S)	0.42	0.89	2.64	0.96	0.64	1.06
Earnings Yield	2.48%	6.77%	5.32%	6.53%	8.33%	6.11%
Debt/Equity	1.25	0.61	0.72	0.39	0.97	0.59
Cash Flow (\$/share)	5.37	3.41	6.94	2.95	4.83	12.86
Growth Score	D	-	-	F	B	C
Hist. EPS Growth (3-5 yrs)	6.25%	10.15%	10.56%	1.11%	11.72%	6.61%
Proj. EPS Growth (F1/F0)	-30.78%	9.04%	7.49%	11.11%	6.06%	7.48%
Curr. Cash Flow Growth	28.84%	3.75%	14.83%	136.40%	24.70%	26.46%
Hist. Cash Flow Growth (3-5 yrs)	25.39%	6.70%	9.00%	-0.12%	6.55%	16.64%
Current Ratio	1.64	1.83	1.23	1.78	1.96	2.81
Debt/Capital	55.62%	39.72%	42.99%	28.03%	49.18%	37.11%
Net Margin	1.87%	5.57%	11.08%	14.64%	-0.99%	5.74%
Return on Equity	5.92%	11.94%	17.16%	9.36%	17.06%	8.52%
Sales/Assets	0.69	0.85	0.55	0.69	0.98	0.67
Proj. Sales Growth (F1/F0)	2.80%	2.35%	4.20%	4.29%	-7.76%	5.34%
Momentum Score	F	-	-	F	B	F
Daily Price Chg	-0.96%	0.00%	0.53%	0.41%	-0.26%	-0.26%
1 Week Price Chg	-2.84%	-1.61%	-0.30%	-1.06%	-4.42%	-3.24%
4 Week Price Chg	-7.13%	-2.72%	1.92%	-2.88%	-7.27%	-5.34%
12 Week Price Chg	-8.37%	3.77%	6.54%	0.14%	0.09%	10.69%
52 Week Price Chg	-27.12%	0.33%	22.58%	-0.33%	5.99%	-10.55%
20 Day Average Volume	1,743,386	153,033	1,580,816	190,350	1,313,457	308,987
(F1) EPS Est 1 week change	-8.96%	0.00%	0.00%	-2.70%	-0.73%	-1.35%
(F1) EPS Est 4 week change	-19.47%	0.00%	0.00%	-5.88%	-0.73%	-3.08%
(F1) EPS Est 12 week change	-76.03%	-2.84%	-0.50%	-0.83%	-8.34%	-11.85%
(Q1) EPS Est Mthly Chg	-200.00%	0.00%	0.00%	NA	3.38%	NA

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	D
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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