

## Olin Corporation (OLN)

**\$11.29** (As of 08/10/20)

Price Target (6-12 Months): **\$9.50**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 08/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: C

### Summary

Olin's adjusted loss for the second quarter was wider than the Zacks Consensus Estimate while sales missed. The company's Chlor Alkali & Vinyls and Epoxy segments are facing headwinds from challenging pricing and demand environment. Olin faces persistent weakness in caustic soda pricing, which is affecting its margins. Also, ethylene dichloride prices are witnessing a declining trend. The company's Epoxy business also faces headwind from weak demand across a number of end-markets, including automotive, oil & gas and industrial coatings. Softer demand in these markets are hurting epoxy resin volumes and prices. Weak demand and pricing are likely to continue across these segments in the third quarter. The company's high debt level is another matter of concern. Olin has also underperformed the industry over a year.

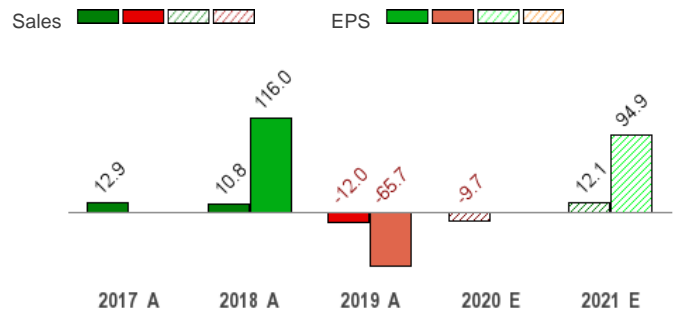
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$19.82 - \$8.76</b>
20 Day Average Volume (sh)	<b>2,087,153</b>
Market Cap	<b>\$1.8 B</b>
YTD Price Change	<b>-34.6%</b>
Beta	<b>1.38</b>
Dividend / Div Yld	<b>\$0.80 / 7.1%</b>
Industry	<b><a href="#">Chemical - Diversified</a></b>
Zacks Industry Rank	<b>Bottom 21% (200 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-28.6%</b>
Last Sales Surprise	<b>-2.1%</b>
EPS F1 Est- 4 week change	<b>-15.9%</b>
Expected Report Date	<b>10/29/2020</b>
Earnings ESP	<b>-62.4%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,505 E	1,535 E	1,569 E	1,505 E	6,189 E
2020	1,425 A	1,241 A	1,352 E	1,449 E	5,519 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	-\$0.03 E	-\$0.01 E	\$0.30 E	\$0.18 E	-\$0.07 E
2020	-\$0.41 A	-\$0.63 A	-\$0.18 E	-\$0.20 E	-\$1.38 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	<b>NA</b>
P/E F1	<b>NA</b>
PEG F1	<b>NA</b>
P/S TTM	<b>0.3</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

## 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.

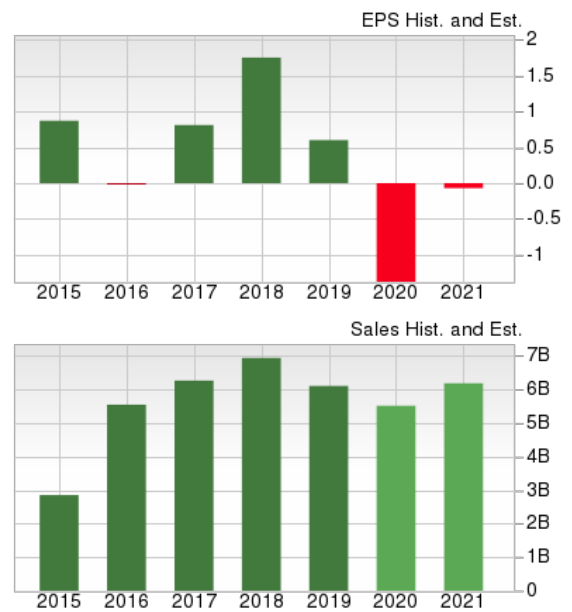
Products from this segment are delivered through deep water and coastal barge, pipeline, marine vessel, truck and railcar.

**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.



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## Reasons To Sell:

- ▼ Olin's shares have lost 33.1% in the past year, underperforming the industry's 0.6% rise. It is exposed to pricing pressure in the Chlor Alkali Products and Vinyls segment. The company entered 2020 with weaker prices than 2019 averages. 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 quarter. Both caustic soda and ethylene dichloride prices declined in the quarter. Notably, prices of ethylene dichloride tumbled around 50% on a sequential comparison basis, hurt by softer global vinyls demand. The challenging pricing environment is likely to continue moving ahead. As such, sales and margins in this segment are expected to remain under pressure.
- ▼ The company faces headwind from muted demand across certain key markets. Volumes in the Chlor Alkali Products and Vinyls segment declined in the second quarter of 2020 due to lower customer demand and maintenance turnaround activities. The company idled certain chlor alkali assets in response to lower demand in the quarter. It expects the Chlor Alkali Products and Vinyls unit to remain challenged amid current weak economic conditions due to the coronavirus pandemic. Olin is seeing weak demand across automotive, aerospace, construction and oil and gas markets. Demand for chlorine from urethane, isocyanates and titanium dioxide customers remains challenged and the company expects weakness to continue moving ahead as customer order patterns remain volatile.
- ▼ Olin is seeing lower product pricing in its Epoxy business, impacted by weak demand. Average global epoxy resin prices plunged 20% in 2019. Moreover, revenues at the Epoxy division dropped around 23% year over year in the second quarter on lower product prices and volumes. Demand weakness in automotive, industrial coatings and oil & gas markets in Europe and North America contributed to the price erosion and volume decline. Epoxy resin volumes tumbled 30% year over year in these regions in the second quarter. The Epoxy business is expected to continue to face weak product demand moving ahead amid an uncertain economic environment. As such, sustained pricing and volume weakness in the epoxy business is a concern.
- ▼ The company's high debt level is concerning. At the end of the second quarter of 2020, its long-term debt was \$4,075.7 million, up from \$3,489.5 million in the prior quarter and \$3,233 million in the year-ago quarter. With a cash balance of just \$237.9 million as of Jun 30, 2020, the company may not be able to meet its debt obligations.

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

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## 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.
  - 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 increase of 19.6% year over year in the last reported quarter, driven by higher commercial and military sales. The multi-year contract to operate the government-owned Lake City ammunition facility represents a significant driver for the unit. The company expects the contract to increase Winchester's annual revenues by \$450-\$550 million and adjusted EBITDA by \$40-\$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 also remains committed to maintain its dividend payouts.
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## Last Earnings Report

### Olin's Earnings and Revenues Miss Estimates in Q2

Olin recorded a loss of \$120.1 million or 76 cents per share in second-quarter 2020 against loss of \$20 million or 12 cents per share a year ago.

Excluding one-time items, adjusted loss for the quarter was 63 cents per share, wider than the Zacks Consensus Estimate of a loss of 49 cents.

The company's revenues fell 22% year over year to \$1,241.2 million in the quarter. It also lagged the Zacks Consensus Estimate of \$1,268.4 million. Weaker demand hurt sales across Chlor Alkali Products & Vinyls and Epoxy segments in the quarter.

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	-2.14%
EPS Surprise	-28.57%
Quarterly EPS	-0.63
Annual EPS (TTM)	-0.71

### Segment Review

**Chlor Alkali Products and Vinyls:** Revenues at the division fell roughly 28% year over year to \$651.2 million in the reported quarter on reduced volumes and lower caustic soda and ethylene dichloride pricing.

**Epoxy:** Revenues at the division dropped around 23% year over year to \$397.4 million on reduced epoxy resin volumes and lower product prices.

**Winchester:** Revenues rose around 17% year over year to \$192.6 million on increased commercial ammunition sales.

### Financials

Olin ended the quarter with cash and cash equivalents of \$237.9 million, up roughly 87% year over year. Long-term debt was \$4,073.9 million at the end of the quarter, up around 26% year over year.

### Outlook

Moving ahead, the company said that Chlor Alkali Products & Vinyls and Epoxy units remain challenged amid the current economic conditions and visibility around future demand remains limited.

Olin envisions adjusted EBITDA for the third quarter to be more than double second-quarter levels on improved sales volumes, reduced maintenance turnaround costs and higher product pricing.

The company also expects the U.S. Army Lake City contract to increase Winchester's annual revenues by \$450-\$550 million. Moreover, it anticipates commercial ammunition demand to continue to increase through the balance of 2020.

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## Valuation

Olin's shares are down 34.6% in the year-to-date period and 33.1% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 9.5% and 0.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.6% and 10.7%, respectively.

The S&P 500 index is up 3.8% in the year-to-date period and up 16.3% in the past year.

The stock is currently trading at 9.21X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 8.27X for the Zacks sub-industry, 10.94X for the Zacks sector and 12.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.81X and as low as 4.97X, with a 5-year median of 9.47X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$9.50 price target reflects 0.68X 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	9.21	8.27	10.94	12.62
	5-Year High	21.81	13.12	18.08	12.84
	5-Year Low	4.97	5.24	6.55	8.24
	5-Year Median	9.47	7.48	10.77	10.9
P/B TTM	Current	0.81	1.72	2.43	4.67
	5-Year High	2.69	2.82	3.07	4.67
	5-Year Low	0.62	0.87	1.23	2.83
	5-Year Median	1.46	1.71	2.2	3.74
P/S F12M	Current	0.3	1.28	1.99	3.66
	5-Year High	1.01	1.28	2.31	3.66
	5-Year Low	0.23	0.75	1.33	2.53
	5-Year Median	0.57	1.01	1.9	3.05

As of 08/10/2020

## Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Ashland Global Holdings Inc. (ASH)	Outperform	1
Westlake Chemical Corporation (WLK)	Outperform	3
BASF SE (BASFY)	Neutral	3
Eastman Chemical Company (EMN)	Neutral	3
Huntsman Corporation (HUN)	Neutral	3
Koppers Holdings Inc. (KOP)	Neutral	3
Albemarle Corporation (ALB)	Underperform	4
Cabot Corporation (CBT)	Underperform	4

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	OLN	X Industry	S&P 500	BASFY	HUN	WLK
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	C	-	-	B	B	D
Market Cap	1.78 B	2.50 B	23.56 B	53.02 B	4.45 B	7.84 B
# of Analysts	4	3	14	3	8	5
Dividend Yield	7.09%	1.87%	1.71%	4.62%	3.22%	1.71%
Value Score	B	-	-	A	A	C
Cash/Price	0.14	0.13	0.07	0.06	0.29	0.21
EV/EBITDA	6.99	8.08	13.39	7.28	6.64	7.40
PEG Ratio	NA	3.22	2.92	NA	9.25	18.36
Price/Book (P/B)	0.81	1.81	3.18	1.12	1.34	1.22
Price/Cash Flow (P/CF)	2.59	6.83	12.69	6.06	7.43	6.94
P/E (F1)	NA	20.29	22.16	21.98	49.50	43.34
Price/Sales (P/S)	0.32	0.90	2.55	0.81	0.72	1.03
Earnings Yield	-12.22%	4.64%	4.33%	4.57%	2.03%	2.31%
Debt/Equity	1.86	0.60	0.77	0.35	0.58	0.64
Cash Flow (\$/share)	4.35	3.41	6.94	2.38	2.71	8.84
Growth Score	C	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	11.74%	8.03%	10.41%	-4.75%	-0.57%	-2.25%
Proj. EPS Growth (F1/F0)	-329.17%	-24.36%	-6.51%	-41.37%	-73.37%	-56.56%
Curr. Cash Flow Growth	-22.35%	-9.82%	5.26%	-19.09%	-41.39%	-31.71%
Hist. Cash Flow Growth (3-5 yrs)	22.28%	6.32%	8.55%	-3.10%	-7.56%	3.87%
Current Ratio	1.75	1.89	1.34	1.87	1.53	2.85
Debt/Capital	65.05%	37.80%	44.59%	26.17%	36.72%	39.01%
Net Margin	-4.14%	3.83%	10.13%	1.81%	15.78%	5.14%
Return on Equity	-4.60%	10.94%	14.59%	6.73%	6.41%	4.74%
Sales/Assets	0.62	0.75	0.51	0.67	0.75	0.56
Proj. Sales Growth (F1/F0)	-9.67%	-7.20%	-1.54%	-3.73%	-25.84%	-13.38%
Momentum Score	C	-	-	F	B	A
Daily Price Chg	2.64%	0.98%	0.91%	1.35%	1.87%	6.21%
1 Week Price Chg	-2.14%	4.02%	2.30%	3.87%	7.03%	6.02%
4 Week Price Chg	1.44%	6.94%	8.54%	1.74%	12.06%	17.70%
12 Week Price Chg	-5.29%	20.52%	13.68%	15.09%	19.85%	39.79%
52 Week Price Chg	-33.12%	3.08%	3.71%	-10.47%	3.62%	1.67%
20 Day Average Volume	2,087,153	53,995	2,015,804	235,064	1,883,312	480,468
(F1) EPS Est 1 week change	-15.74%	0.00%	0.00%	0.00%	0.00%	10.11%
(F1) EPS Est 4 week change	-15.94%	0.00%	1.67%	-4.37%	34.55%	13.10%
(F1) EPS Est 12 week change	-6.59%	-0.92%	2.27%	-9.22%	42.63%	24.43%
(Q1) EPS Est Mthly Chg	-78.57%	3.13%	0.67%	-13.33%	147.41%	66.35%

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## 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.

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### 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>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>C</b>
VGM Score	<b>C</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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