

Olin Corporation (OLN)

\$11.31 (As of 06/24/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/23/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

Summary

Earnings estimates for Olin for the second quarter have been going down over the past month. The company's strategic investment in the IT project is likely to provide annual cost savings. The Lake City contract will also drive the Winchester unit. The company also remains committed to boost shareholders' returns. However, Olin's Chlor Alkali and Epoxy units 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 and hydrochloric acid pricing are witnessing a declining trend. The company's Epoxy business also faces headwind from weak demand across a number of end-markets, including automotive, in the second quarter. The company's high debt level is another matter of concern.

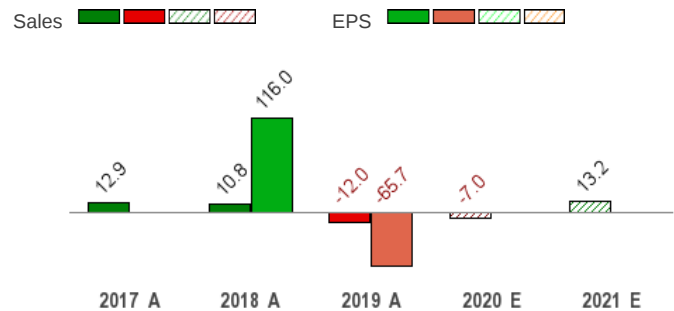
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$22.12 - \$8.76
20 Day Average Volume (sh)	2,732,496
Market Cap	\$1.8 B
YTD Price Change	-34.4%
Beta	1.41
Dividend / Div Yld	\$0.80 / 7.1%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 31% (174 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-51.9%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	7.4%
Expected Report Date	07/29/2020
Earnings ESP	-5.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,654 E	1,700 E	1,757 E	1,666 E	6,431 E
2020	1,425 A	1,294 E	1,465 E	1,521 E	5,680 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	\$0.16 E	\$0.09 E	\$0.70 E	\$0.45 E	\$0.23 E
2020	-\$0.41 A	-\$0.50 E	-\$0.08 E	-\$0.10 E	-\$1.20 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	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/24/2020. The reports text is as of 06/25/2020.

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.

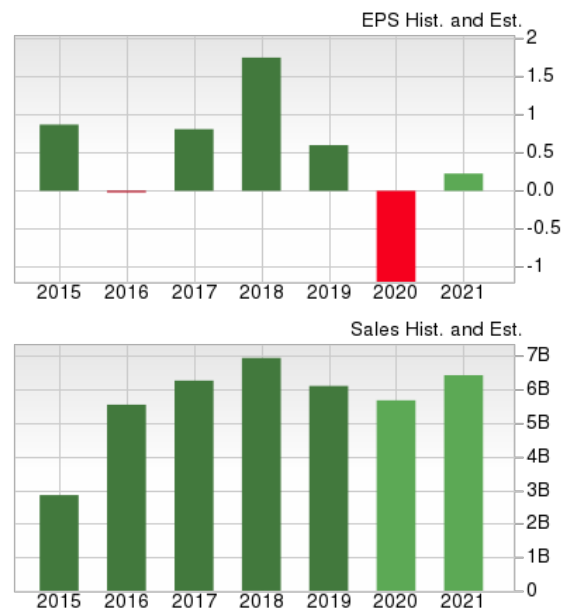
Products from this segment are delivered through deep water and coastal barge, pipeline, marine vessel, truck and railcar.

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 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. 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-\$500 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.

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

Reasons To Sell:

- ▼ 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 first quarter. Caustic soda prices dropped nearly 8% sequentially in the last reported quarter. Also, ethylene dichloride prices went down around 14% sequentially, while hydrochloric acid pricing declined roughly 25% sequentially in the first quarter. The company entered 2020 with weaker prices than 2019 averages. It expects to continue witnessing a challenging pricing environment this year. The company expects lower ethylene dichloride pricing in the second quarter. As such, declining prices is a headwind for the company. Olin also anticipates Chlor Alkali Products and Vinyls volumes for the second quarter to decline sequentially on account of weaker customer demand and higher level of maintenance turnaround activities.
- ▼ 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 8.9% year over year to \$477.2 million in the last reported quarter on lower prices. Also, the Epoxy business faced manufacturing plant closures and operating reductions in Asia due to the coronavirus pandemic. These lowered the segment's earnings by roughly \$10 million for the first quarter. 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. Notably, Olin expects the Epoxy business to face weaker product demand from customers of automotive, oil and gas, and industrial coatings in Europe and North America for the second quarter of 2020. As such, sustained weakness in the epoxy business is a concern.
- ▼ The company's high debt level is concerning. At the end of the first quarter of 2020, its long-term debt was \$3,489.5 million, up from \$3,338.7 million in the prior quarter and \$3,067.2 million from the year-ago quarter. Moreover, its total debt-to-total capital stood at 60.4% as of Mar 31, 2020, higher than 58% as of Dec 31, 2019. With a cash balance of just \$194.5 million as of Mar 31, 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.

Last Earnings Report

Olin's Earnings Miss, Revenues Beat Estimates in Q1

Olin slipped to a loss of \$80 million or 51 cents per share in first-quarter 2020 from a profit of \$41.7 million or 25 cents per share a year ago.

The bottom line in the reported quarter was hurt by planned maintenance turnaround costs.

Excluding one-time items, adjusted loss for the quarter was 41 cents per share, which was wider than the Zacks Consensus Estimate of a loss of 27 cents.

The chemical maker's revenues fell 8.3% year over year to \$1,425.1 million in the quarter. However, it topped the Zacks Consensus Estimate of \$1,412.4 million.

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

Segment Review

Chlor Alkali Products and Vinyls: Revenues at the division fell 12.9% year over year to \$759.9 million in the reported quarter on lower caustic soda and ethylene dichloride pricing.

Epoxy: Revenues at the division dropped 8.9% year over year to \$477.2 million on lower product prices.

Winchester: Revenues rose 19.6% year over year to \$188 million on higher commercial and military sales.

Financials

Olin ended the quarter with cash and cash equivalents of \$194.5 million, up 84% year over year. Long-term debt was \$3,489.5 million at the end of the quarter, up 13.8% year over year.

Outlook

The company expects a sequential improvement in caustic soda pricing and sequentially lower ethylene dichloride pricing in the second quarter.

It anticipates Chlor Alkali Products and Vinyls volumes for the second quarter to decline sequentially on account of weaker customer demand and higher level of maintenance turnaround activities.

For the second quarter, Olin expects the Epoxy business to face weaker product demand from customers of automotive and industrial coatings in Europe and North America.

The company expects the U.S. Army Lake City contract to increase Winchester's annual revenues by \$450-\$500 million and adjusted EBITDA by \$40-\$50 million. Moreover, it anticipates commercial ammunition demand to continue to increase in the second quarter.

Also, the company projects planned maintenance turnaround costs of \$55 million for the second quarter.

Quarter Ending 03/2020

Report Date	Apr 29, 2020
Sales Surprise	0.90%
EPS Surprise	-51.85%
Quarterly EPS	-0.41
Annual EPS (TTM)	-0.09

Valuation

Olin's shares are down 34.5% in the year-to-date period and 47.4% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 16.6% and 8.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 15.2% and 7.6%, respectively.

The S&P 500 index is down 2.7% in the year-to-date period and up 7.6% in the past year.

The stock is currently trading at 6.82X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.51X for the Zacks sub-industry, 9.19X for the Zacks sector and 11.61X 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 9.44X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12 price target reflects 0.83X 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	6.82	7.51	9.19	11.61
	5-Year High	21.81	13.21	18.38	12.85
	5-Year Low	4.97	5.27	6.5	8.25
	5-Year Median	9.44	7.43	10.47	10.83
P/B TTM	Current	0.78	1.64	2.78	4.28
	5-Year High	2.69	3.35	3.35	4.56
	5-Year Low	0.62	0.88	1.23	2.83
	5-Year Median	1.5	1.77	2.2	3.68
P/S F12M	Current	0.3	1.22	1.9	3.51
	5-Year High	1.01	1.26	2.31	3.51
	5-Year Low	0.23	0.76	1.33	2.53
	5-Year Median	0.57	1	1.9	3.02

As of 06/24/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (174 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ashland Global Holdings Inc. (ASH)	Neutral	3
BASF SE (BASFY)	Neutral	3
Cabot Corporation (CBT)	Neutral	3
Eastman Chemical Company (EMN)	Neutral	3
Huntsman Corporation (HUN)	Neutral	3
PolyOne Corporation (POL)	Neutral	3
Westlake Chemical Corporation (WLK)	Neutral	3
Albemarle Corporation (ALB)	Underperform	5

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	OLN	X Industry	S&P 500	BASFY	HUN	WLK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	B	D	D
Market Cap	1.79 B	2.47 B	21.05 B	51.48 B	3.87 B	6.71 B
# of Analysts	4	3	14	3	7	5
Dividend Yield	7.07%	1.91%	1.99%	4.76%	3.70%	2.00%
Value Score	D	-	-	A	C	C
Cash/Price	0.10	0.10	0.07	0.06	0.39	0.22
EV/EBITDA	6.32	7.11	12.43	7.11	6.08	7.07
PEG Ratio	NA	2.59	2.85	14.52	4.43	18.23
Price/Book (P/B)	0.78	1.66	2.87	1.09	1.15	1.04
Price/Cash Flow (P/CF)	2.60	5.99	11.32	5.88	6.47	5.95
P/E (F1)	NA	18.75	20.46	19.46	60.29	43.02
Price/Sales (P/S)	0.30	0.75	2.19	0.75	0.54	0.84
Earnings Yield	-10.61%	5.14%	4.57%	5.14%	1.65%	2.32%
Debt/Equity	1.52	0.59	0.77	0.35	0.71	0.74
Cash Flow (\$/share)	4.35	3.41	7.01	2.38	2.71	8.84
Growth Score	F	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	8.24%	9.93%	10.84%	-1.82%	5.99%	1.53%
Proj. EPS Growth (F1/F0)	-299.17%	-30.29%	-10.79%	-35.71%	-80.95%	-62.52%
Curr. Cash Flow Growth	-22.35%	-8.41%	5.46%	-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	1.11	1.87	1.29	1.87	2.13	3.68
Debt/Capital	60.39%	39.57%	45.14%	26.17%	41.64%	42.60%
Net Margin	-2.22%	4.87%	10.53%	13.70%	16.10%	6.16%
Return on Equity	-0.55%	12.29%	16.06%	8.06%	12.72%	6.41%
Sales/Assets	0.65	0.79	0.55	0.69	0.85	0.61
Proj. Sales Growth (F1/F0)	-7.04%	-7.92%	-2.70%	-9.48%	-27.09%	-11.39%
Momentum Score	A	-	-	C	A	A
Daily Price Chg	-7.30%	-2.69%	-3.07%	-3.50%	-3.94%	-3.82%
1 Week Price Chg	-2.05%	1.13%	0.92%	-2.38%	1.66%	3.47%
4 Week Price Chg	-7.60%	-1.33%	-3.03%	2.20%	-6.74%	7.26%
12 Week Price Chg	3.95%	26.00%	22.03%	27.15%	31.71%	47.46%
52 Week Price Chg	-47.44%	-18.39%	-8.53%	-20.34%	-11.66%	-22.13%
20 Day Average Volume	2,732,496	100,375	2,805,937	230,090	2,163,452	772,884
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	10.27%	0.00%
(F1) EPS Est 4 week change	7.36%	0.00%	0.00%	0.00%	10.27%	7.38%
(F1) EPS Est 12 week change	-172.62%	-20.50%	-12.33%	-18.49%	-70.68%	-53.39%
(Q1) EPS Est Mthly Chg	-2.41%	0.00%	0.00%	0.00%	2.16%	122.22%

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	D
Growth Score	F
Momentum Score	A
VGM Score	D

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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