



Dow Inc. (DOW)

Updated November 6th, 2020 by Josh Arnold

Key Metrics

Current Price:	\$49	5 Year CAGR Estimate:	4.0%	Market Cap:	\$36.3 B
Fair Value Price:	\$36	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	11/27/20
% Fair Value:	137%	5 Year Valuation Multiple Estimate:	-6.1%	Dividend Payment Date:	12/11/20
Dividend Yield:	5.7%	5 Year Price Target	\$46	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	N/A

Overview & Current Events

Dow Inc. is a new standalone company that was recently spun off from its former parent, DowDuPont. That company has broken into three publicly traded, standalone parts, with the former Materials Science business becoming the new Dow Inc. Dow began trading on its own on April 1st, 2019 with the ticker DOW. It should produce about \$37 billion in revenue this year and trades with a market capitalization of \$36 billion.

Dow reported third quarter earnings on October 22nd, with results coming in ahead of expectations on the top and bottom lines. Total sales were off -9.8% year-over-year to \$9.71 billion but were better than feared as the company's choppy recovery is continuing. Packaging and specialty plastics sales were down -9.8% to \$4.57 billion, industrial intermediates and infrastructure revenues were off -9.1% to \$3.06 billion, and performance materials and coatings sales slumped -11% to \$2 billion. However, all three segments performed better than expected. Some of the outperformance was due to robust pricing, while volumes held up against year-ago levels.

Dow reported adjusted earnings-per-share of \$0.50 in Q3, down from \$0.91 in the same period last year. Dow is no stranger to highly volatile earnings, and COVID-19 has exacerbated that volatility. We've boosted our estimate for this year to \$1.40, as the recovery appears to be progressing more quickly than originally thought. We have also boosted our estimate for earnings power to \$2.75, which we use for fair value and valuation calculations.

The company cautioned that the recovery is uneven across its markets, so we believe investors should remain vigilant.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	---	---	---	---	---	---	---	---	\$3.99	\$3.49	\$1.40	\$3.51
DPS	---	---	---	---	---	---	---	---	---	\$2.10	\$2.80	\$2.80
Shares¹	---	---	---	---	---	---	---	---	747	743	740	720

We previously cut our long-term growth estimate down from 5% to 3% given the revenue and margin issues the company is experiencing. However, we are moving back to an estimate of 5% given that the company's recovery in earnings is progressing better than expected.

Gains can accrue in the coming years from stabilized pricing, which management believes will improve into 2021, margin gains from cost savings, and the company's share repurchase program. These factors combined should afford Dow the ability to produce some measure of earnings-per-share growth annually for the foreseeable future, with upside potential should pricing improve more than expected. We like the company's diverse product portfolio and it should see demand hold up in a variety of environments. We note that 2020 is a negative outlier due to collapsing demand in many of Dow's markets, but this should abate as the world's economy returns to normal over time. Indeed, Q3 showed some of this improvement in the company's results.

The dividend was initiated at \$2.80 annually, good for a 5.7% yield on today's share price. However, given the protracted weakness in earnings, we believe the dividend will remain flat for the foreseeable future.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Dow Inc. (DOW)

Updated November 6th, 2020 by Josh Arnold

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2024
Avg. P/E	---	---	---	---	---	---	---	---	---	14.4	17.8	13.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	4.2%	5.7%	6.1%

With earnings temporarily depressed this year, we're using a normalized earnings power value of \$2.75 to compute fair value and valuation metrics. Since Dow only recently began trading on its own, there is no history in which to compare the current valuation. We see 13 times earnings as a reasonable valuation. That compares very unfavorably to the current valuation of 17.8 times earnings power, implying an annual headwind to total returns of about -6%.

On the other hand, the yield is 5.7%, which is generally reserved for stocks like REITs or BDCs, so Dow is attractive for income investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	---	---	---	---	60%	102%	80%

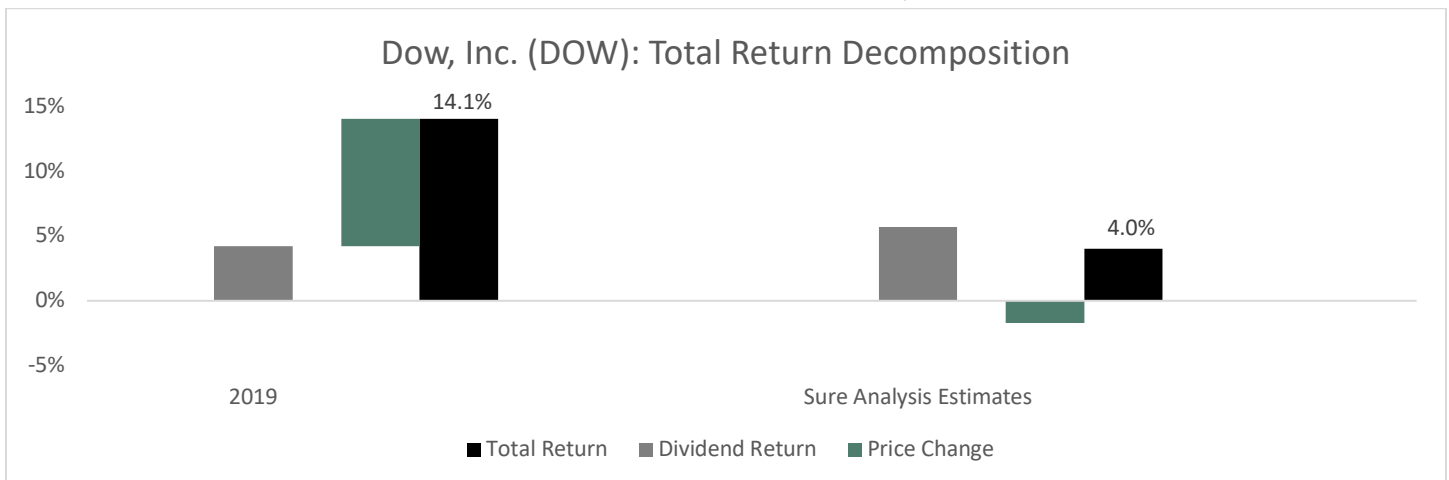
Dow's payout ratio is currently at 102% of earnings power, which has us cautious on the dividend moving forward. We think dividend raises will be tough to come by in the coming years, even with earnings beginning to move higher.

While we don't have any data to understand how Dow will perform in a recession, given that the business has only existed in its current form since April of 2019, we believe the company's product portfolio is not only its competitive advantage, but also should perform well enough during downturns to keep the company profitable. We see the company's focused efforts on high-growth areas such as consumer care, packaging, and infrastructure, as well as its very long operating history as a component of the former company, and its brand, as competitive advantages. That said, 2020 has been rough and the recovery may take a year or two.

Final Thoughts & Recommendation

We see Dow producing just 4% total returns in the coming years, consisting of the ample yield, but with the valuation contracting. Dow's earnings outlook has improved since our last update, but we're reiterating our sell rating. We don't see the dividend as particularly safe, and we see shares as overpriced, particularly given the uncertainty around the company's recovery in earnings.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Dow Inc. (DOW)

Updated November 6th, 2020 by Josh Arnold

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	---	---	---	---	---	---	48,158	55,508	60,278	42,951
Gross Profit	---	---	---	---	---	---	10,490	11,896	12,573	6,294
Gross Margin	---	---	---	---	---	---	21.8%	21.4%	20.9%	14.7%
SG&A Exp.	---	---	---	---	---	---	4,066	3,602	2,846	1,590
D&A Exp.	---	---	---	---	---	---	2,862	3,155	3,329	2,938
Operating Profit	---	---	---	---	---	---	4,287	6,022	7,569	3,520
Operating Margin	---	---	---	---	---	---	8.9%	10.8%	12.6%	8.2%
Net Profit	---	---	---	---	---	---	4,318	466	4,499	-1,359
Net Margin	---	---	---	---	---	---	9.0%	0.8%	7.5%	-3.2%
Free Cash Flow	---	---	---	---	---	---	-6,948	-8,102	1,336	3,969
Income Tax	---	---	---	---	---	---	9	2,204	1,285	470

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	---	---	---	---	---	---	79,940	77,378	60,524
Cash & Equivalents	---	---	---	---	---	---	---	6,188	2,669	2,367
Accounts Receivable	---	---	---	---	---	---	---	7,338	8,246	4,844
Inventories	---	---	---	---	---	---	---	8,376	9,260	6,214
Goodwill & Int. Ass.	---	---	---	---	---	---	---	19,487	18,761	12,555
Total Liabilities	---	---	---	---	---	---	---	52,931	49,409	46,430
Accounts Payable	---	---	---	---	---	---	---	5,360	5,378	3,889
Long-Term Debt	---	---	---	---	---	---	---	21,001	19,899	16,996
Shareholder's Equity	---	---	---	---	---	---	---	25,823	26,831	13,541
D/E Ratio	---	---	---	---	---	---	---	0.81	0.74	1.26

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	---	---	---	---	---	---	5.7%	-2.0%
Return on Equity	---	---	---	---	---	---	---	---	17.1%	-6.7%
ROIC	---	---	---	---	---	---	---	---	9.4%	-3.4%
Shares Out.	---	---	---	---	---	---	747	748	747	743
Revenue/Share	---	---	---	---	---	---	64.21	74.01	80.37	57.85
FCF/Share	---	---	---	---	---	---	-9.26	-10.80	1.78	5.35

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.