



Dow Inc. (DOW)

Updated January 31st, 2022, by Josh Arnold

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	11.1%	Market Cap:	\$44 B
Fair Value Price:	\$88	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	02/27/22 ¹
% Fair Value:	68%	5 Year Valuation Multiple Estimate:	7.9%	Dividend Payment Date:	03/11/22
Dividend Yield:	4.7%	5 Year Price Target	\$88	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	N/A

Overview & Current Events

Dow Inc. is a standalone company that was 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 \$54 billion in revenue this year and trades with a market capitalization of \$44 billion.

Dow reported fourth quarter and full-year earnings on January 27th, 2022, and results were better than expected on both the top and bottom lines. Earnings-per-share came to \$2.15, which was 12 cents better than expected. Revenue was \$14.4 billion, up 35% year-over-year, and besting estimates by \$110 million. The company said its fourth quarter was aided by higher prices, and said it expects supply chain pressures to ease throughout 2022. Q4 net income was \$1.74 billion, up sharply from \$1.24 billion a year ago. The gain in revenue and profits was broad-based, as it saw better pricing and margins across the board.

Overall volumes were down -4% year-over-year, and down -3% quarter-over-quarter, which were driven by supply constraints. However, pricing soared across the company's segments due to inflationary cost pressures.

We forecast \$6.75 in earnings-per-share for this year, which would represent a sizable decline against 2021. However, the extraordinary conditions of 2021 will be extremely difficult to replicate, so we see more normalized, but still elevated earnings from 2022.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	---	---	---	---	---	---	\$3.99	\$3.49	\$1.66	\$8.98	\$6.75	\$6.75
DPS	---	---	---	---	---	---	---	\$2.10	\$2.80	\$2.80	\$2.80	\$2.80
Shares²	---	---	---	---	---	---	747	743	745	735	725	675

We now expect no earnings growth as Dow's base of earnings is much lower for 2022, up from an expected -7% growth rate. We also note that earnings growth for Dow and its predecessor companies has generally been a challenge, even under good conditions. With enormous pricing power helping drive results in 2021, we see it as very likely that 2021 marks a top in earnings for the foreseeable future.

Gains can accrue in the coming years from stabilized pricing, which improved immensely in 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 under normalized conditions, but we see normalized pricing as offsetting these factors in 2022 and beyond. 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. In reversing the losses suffered in 2020, 2021 is likely to prove an outlier as well, with mean reversion to follow.

The dividend is \$2.80 annually, good for a 4.7% yield on today's share price.

¹ Estimated date

² 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.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	---	---	---	---	14.4	26.5	6.8	8.9	13.0
Avg. Yld.	---	---	---	---	---	---	---	4.2%	6.4%	4.6%	4.7%	3.2%

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 favorably to the current valuation of 8.9 times earnings, which implies the stock is still undervalued. However, we note that expectations are currently for lower earnings for 2022, so the stock isn't quite as cheap as it was given lower estimates. The yield is now 4.7%, so the stock's appeal as an income stock remains quite strong.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	---	---	60%	169%	31%	42%	42%

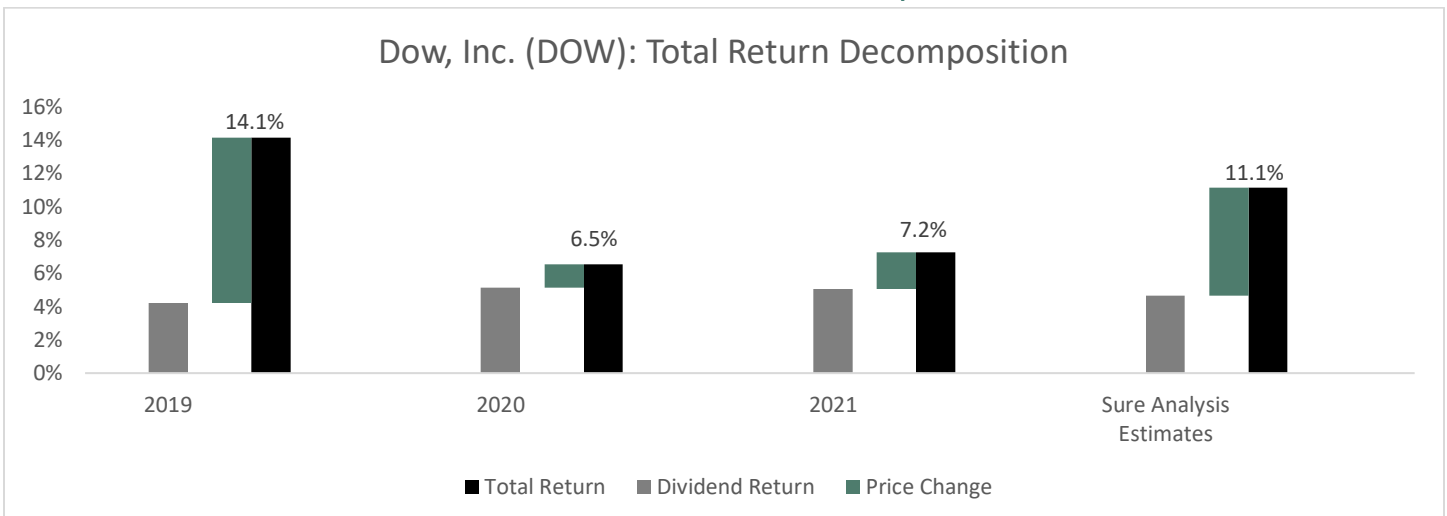
Dow's payout ratio is currently at 42% of estimated earnings. We think dividend raises will be tough to come by in the coming years, even as earnings are forecast to be quite strong this year. Given the strong yield, management doesn't appear to be interested in raising the payout at the moment.

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.

Final Thoughts & Recommendation

We forecast Dow producing 11.1% total returns in the coming years, consisting of the ample yield, but earnings having peaked in 2021. Dow's earnings outlook has improved since our last update, and we're reiterating the stock at a buy rating. The safety of the dividend appears to remain quite good for 2022. However, we are very cautious on the company's ability to grow earnings from extremely high levels in 2021, and our projected total returns are reliant upon the valuation moving higher over time.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	---	---	---	---	48,158	55,508	60,278	42,951	38,542	54,968
Gross Profit	---	---	---	---	10,490	11,896	12,573	6,294	5,196	10,777
Gross Margin	---	---	---	---	21.8%	21.4%	20.9%	14.7%	13.5%	19.6%
SG&A Exp.	---	---	---	---	4,066	3,602	2,846	1,590	1,471	1,645
D&A Exp.	---	---	---	---	2,862	3,155	3,329	2,938	2,874	2,842
Operating Profit	---	---	---	---	4,287	6,022	7,569	3,520	2,556	7,887
Operating Margin	---	---	---	---	8.9%	10.8%	12.6%	8.2%	6.6%	14.3%
Net Profit	---	---	---	---	4,318	466	4,499	-1,359	1,225	6,311
Net Margin	---	---	---	---	9.0%	0.8%	7.5%	-3.2%	3.2%	11.5%
Free Cash Flow	---	---	---	---	-6,948	-8,102	1,336	3,969	4,839	4,685
Income Tax	---	---	---	---	9	2,204	1,285	470	777	1,740

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	---	---	---	---	79,940	77,378	60,524	61,470	62,990
Cash & Equivalents	---	---	---	---	---	6,188	2,669	2,367	5,104	2,988
Accounts Receivable	---	---	---	---	---	7,338	8,246	4,844	4,839	6,841
Inventories	---	---	---	---	---	8,376	9,260	6,214	5,701	7,372
Goodwill & Int. Ass.	---	---	---	---	---	19,487	18,761	12,555	12,260	11,645
Total Liabilities	---	---	---	---	---	52,931	49,409	46,430	48,465	44,251
Accounts Payable	---	---	---	---	---	5,360	5,378	3,889	3,763	5,577
Long-Term Debt	---	---	---	---	---	21,001	19,899	16,996	17,107	14,672
Shareholder's Equity	---	---	---	---	---	25,823	26,831	13,541	12,435	18,165
LTD/E Ratio	---	---	---	---	---	0.81	0.74	1.26	1.38	0.81

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	---	---	---	---	5.7%	-2.0%	2.0%	10.1%
Return on Equity	---	---	---	---	---	---	17.1%	-6.7%	9.4%	41.2%
ROIC	---	---	---	---	---	---	9.4%	-3.4%	4.0%	19.9%
Shares Out.	---	---	---	---	747	748	747	743	745	735
Revenue/Share	---	---	---	---	64.21	74.01	80.37	57.85	51.92	73.39
FCF/Share	---	---	---	---	-9.26	-10.80	1.78	5.35	6.52	6.26

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

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