



Dow Inc. (DOW)

Updated May 10th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	8.2%	Market Cap:	\$49 B
Fair Value Price:	\$100	5 Year Growth Estimate:	-3.0%	Ex-Dividend Date:	05/27/22
% Fair Value:	67%	5 Year Valuation Multiple Estimate:	8.3%	Dividend Payment Date:	06/10/22
Dividend Yield:	4.2%	5 Year Price Target	\$86	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

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 \$60 billion in revenue this year and trades with a market capitalization of \$49 billion.

Dow reported first quarter earnings on April 21st, 2022, and results were much better than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$2.34, which was 29 cents ahead of estimates. Revenue soared 29% to \$15.3 billion, beating expectations by nearly \$800 million. The company said they continue to see strong end market demand across its businesses.

The company announced a new \$3 billion share repurchase program, which is in addition to the \$775 million that was still outstanding from the old one. At the current price, that's good for about 7.7% of the market cap.

Total revenue was due to gains in all operating segments, businesses, and regions. Local price increased 28%, making up the entirety of the revenue gain. Volume was up 3% year-over-year.

Earnings were driven by higher revenue, as well as lower planned maintenance activity, which more than offset higher raw material and energy costs. Operating cash was \$1.6 billion, and free cash flow was \$1.3 billion. Dow returned \$1.1 billion to shareholders in Q1, with dividends and buybacks split roughly equally. We now see \$8.30 in earnings-per-share following a blockbuster Q1.

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	\$8.30	\$7.13
DPS	---	---	---	---	---	---	---	\$2.10	\$2.80	\$2.80	\$2.80	\$2.80
Shares¹	---	---	---	---	---	---	747	743	745	735	725	675

We now expect -3% earnings growth as Dow's base of earnings is much lower for 2022, down from an expected 0% 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.

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 May 10th, 2022, by Josh Arnold

The dividend is \$2.80 annually, good for a 4.2% yield on today's share price.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	---	---	---	---	---	14.4	26.5	6.8	8.1	12.0
Avg. Yld.	---	---	---	---	---	---	---	4.2%	6.4%	4.6%	4.2%	3.3%

Since Dow only recently began trading on its own, there is no history in which to compare the current valuation. We see 12 times earnings as a reasonable valuation. That compares very favorably to the current valuation of 8.1 times earnings, which implies the stock is still quite 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 4.2%, 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%	34%	39%

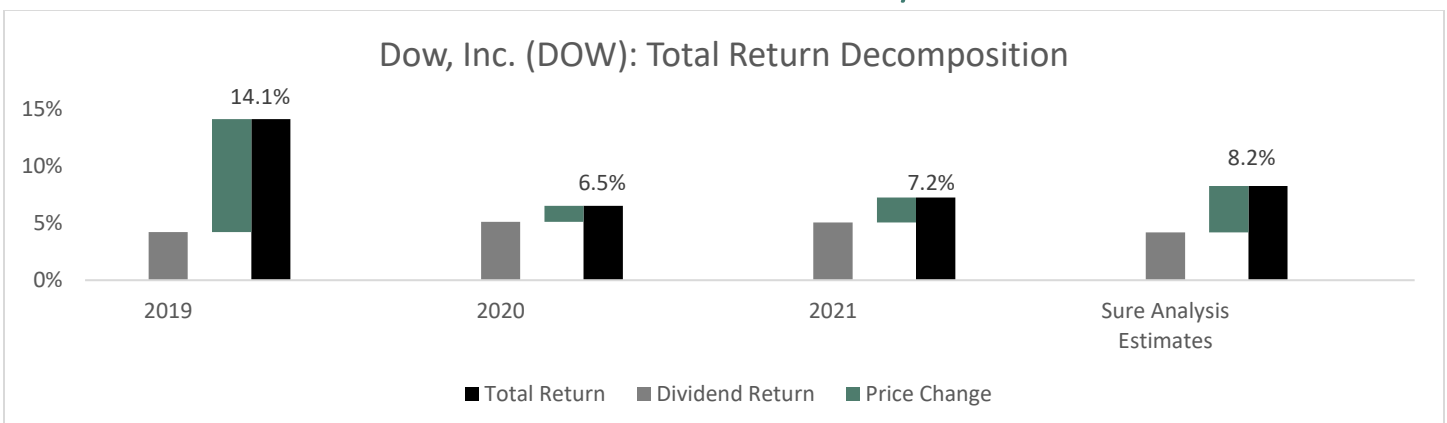
Dow's payout ratio is currently at 34% of estimated earnings. We think dividend raises will be tough to come by in the coming years, even as earnings are forecast to be quite strong this year. Given the strong yield, management doesn't appear to be interested in raising the payout at the moment, and is instead focusing on boosting the buyback allocation, particularly with low valuations.

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 8.2% total returns in the coming years, consisting of the ample yield, but earnings having peaked in 2021. Dow's earnings outlook has improved again since our last update, but we're moving the stock from buy to hold. 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. The yield is nearly offset by the negative projected growth rate.

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 May 10th, 2022, by Josh Arnold

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.

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.