



Dow Inc. (DOW)

Updated October 25th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$49	5 Year CAGR Estimate:	4.7%	Market Cap:	\$35 B
Fair Value Price:	\$25	5 Year Growth Estimate:	14.0%	Ex-Dividend Date:	11/29/23
% Fair Value:	198%	5 Year Valuation Multiple Estimate:	-12.8%	Dividend Payment Date:	12/08/23
Dividend Yield:	5.7%	5 Year Price Target	\$48	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	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 \$44 billion in revenue this year and trades with a market capitalization of \$35 billion.

Dow posted third quarter earnings on October 24th, 2023, and results were better than expected on both the top and bottom lines. The company's adjusted earnings-per-share came to 48 cents, which was three cents better than estimates. Revenue was down 24% year-over-year to \$10.7 billion, but was \$320 million ahead of expectations.

Net sales reflected declines in all operating segments due to slower global macroeconomic activity. Sales were down 6% sequentially, as volume gains were more than offset by lower local pricing. Volume fell 6% year-over-year, mainly due to declines in hydrocarbons and energy sales. Local price was off 18% year-over-year, with declines in all regions and segments, which was primarily from feedstock and energy costs. Pricing was weakest in Europe, the Middle East, Africa, and India. Currency was flat year-over-year.

Operating EBIT was cut in half year-over-year to \$626 million. Cash provided by operating activities came to \$1.7 billion, lower by \$282 million year-over-year. Returns to shareholders were \$617 million, including \$492 million in dividends and \$125 million in share repurchases.

We now see just \$2.25 in earnings-per-share for this year, but a sharp rebound into 2024.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	---	---	---	---	---	\$3.99	\$3.49	\$1.66	\$8.98	\$6.25	\$2.25	\$4.33
DPS	---	---	---	---	---	---	\$2.10	\$2.80	\$2.80	\$2.80	\$2.80	\$2.80
Shares¹	---	---	---	---	---	747	743	745	735	705	700	600

We expect 14% earnings growth as Dow's base of earnings is very low for 2023. 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. This is particularly true given results in 2023 thus far, as pricing has become a headwind instead of a tailwind.

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. We are cautious on guidance for 2023 as Dow is exhibiting its characteristic extreme earnings volatility.

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.



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The dividend is \$2.80 annually, good for a 5.7% yield on today's share price.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	---	---	---	---	---	---	14.4	26.5	6.8	8.1	21.8	11.0
Avg. Yld.	---	---	---	---	---	---	4.2%	6.4%	4.6%	5.6%	5.7%	5.9%

Since Dow only fairly recently began trading on its own, there is only a short history in which to compare the current valuation. We see 11 times earnings as a reasonable valuation. That compares very unfavorably to the current valuation of 21.8 times earnings, which implies the stock is still quite overvalued. This is the product of a decline in earnings estimates, primarily. The yield is now 5.7%, so the stock's appeal as an income stock remains very strong, nonetheless.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	---	---	---	60%	169%	31%	45%	124%	65%

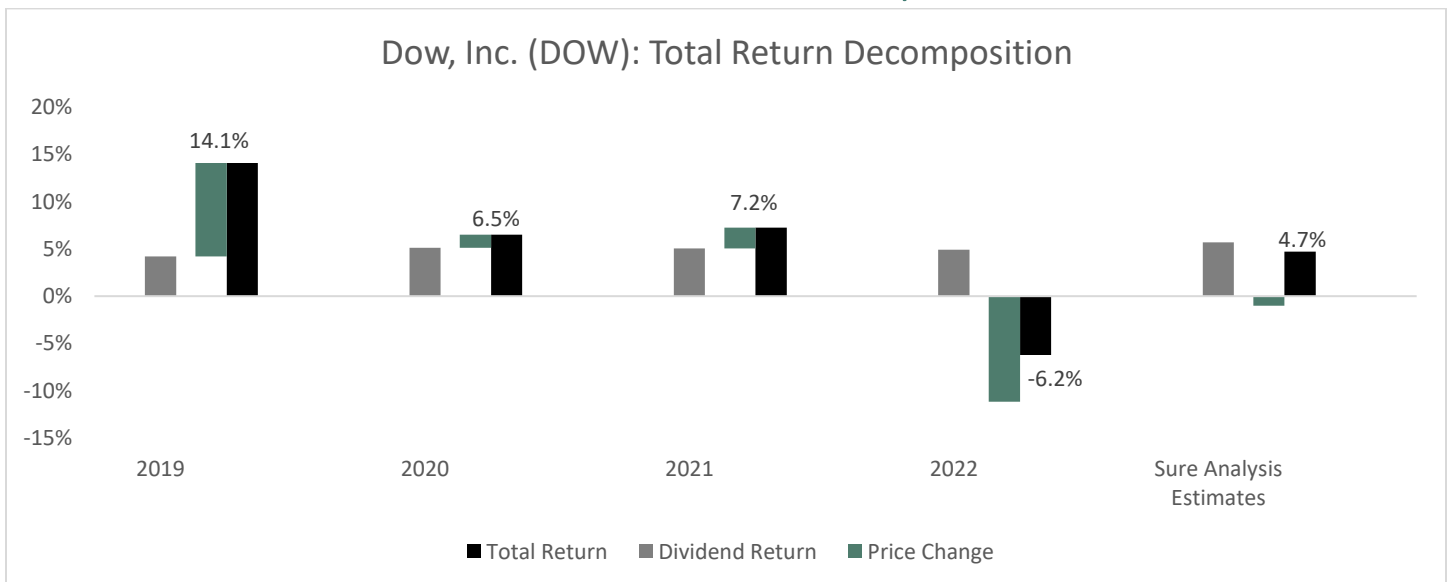
Dow's payout ratio is currently at 124% of estimated earnings. We think dividend raises will be tough to come by in the coming years. Given the strong yield, management doesn't appear to be interested in raising the payout at the moment.

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 4.7% annualized total returns in the coming years, consisting of the 5.7% yield, and a 14% expansion in earnings from the very low base, offset by a 12.8% headwind from the valuation. We're boosting Dow the stock from sell to hold. The safety of the dividend appears to be okay for 2023 given strong free cash flow conversion. However, we are cautious on the company's ability to grow earnings going forward given massive earnings volatility.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	---	---	48,158	55,508	60,278	42,951	38,542	54,968	56,902
Gross Profit	---	---	---	10,490	11,896	12,573	6,294	5,196	10,777	8,564
Gross Margin	---	---	---	21.8%	21.4%	20.9%	14.7%	13.5%	19.6%	15.1%
SG&A Exp.	---	---	---	4,066	3,602	2,846	1,590	1,471	1,645	1,675
D&A Exp.	---	---	---	2,862	3,155	3,329	2,938	2,874	2,842	2,758
Operating Profit	---	---	---	4,287	6,022	7,569	3,520	2,556	7,887	5,702
Operating Margin	---	---	---	8.9%	10.8%	12.6%	8.2%	6.6%	14.3%	10.0%
Net Profit	---	---	---	4,318	466	4,499	-1,359	1,225	6,311	4,582
Net Margin	---	---	---	9.0%	0.8%	7.5%	-3.2%	3.2%	11.5%	8.1%
Free Cash Flow	---	---	---	-6,948	-8,102	1,336	3,969	4,839	4,685	5,417
Income Tax	---	---	---	9	2,204	1,285	470	777	1,740	1,450

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	---	---	---	79,940	77,378	60,524	61,470	62,990	60,603
Cash & Equivalents	---	---	---	---	6,188	2,669	2,367	5,104	2,988	3,886
Accounts Receivable	---	---	---	---	7,338	8,246	4,844	4,839	6,841	5,611
Inventories	---	---	---	---	8,376	9,260	6,214	5,701	7,372	6,988
Goodwill & Int. Ass.	---	---	---	---	19,487	18,761	12,555	12,260	11,645	11,086
Total Liabilities	---	---	---	---	52,931	49,409	46,430	48,465	44,251	39,356
Accounts Payable	---	---	---	---	5,360	5,378	3,889	3,763	5,577	4,940
Long-Term Debt	---	---	---	---	21,001	19,899	16,996	17,107	14,672	15,422
Shareholder's Equity	---	---	---	---	25,823	26,831	13,541	12,435	18,165	20,718
LTD/E Ratio	---	---	---	---	0.81	0.74	1.26	1.38	0.81	0.74

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	---	---	5.7%	-2.0%	2.0%	10.1%	7.4%
Return on Equity	---	---	---	---	---	17.1%	-6.7%	9.4%	41.2%	23.6%
ROIC	---	---	---	---	---	9.4%	-3.4%	4.0%	19.9%	13.2%
Shares Out.	---	---	---	747	748	747	743	745	735	726
Revenue/Share	---	---	---	64.21	74.01	80.37	57.85	51.92	73.39	78.42
FCF/Share	---	---	---	-9.26	-10.80	1.78	5.35	6.52	6.26	7.47

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

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