Owens Corning (OC)

Updated November 27th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$133	**5 Year CAGR Estimate:**	9.8%	**Market Cap:**	$11.8 B
Fair Value Price:	$124	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	01/03/2024[1]
% Fair Value:	108%	**5 Year Valuation Multiple Estimate:**	-1.5%	**Dividend Payment Date:**	01/19/2024[2]
Dividend Yield:	1.6%	**5 Year Price Target**	$199	**Years Of Dividend Growth:**	9
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

Owens Corning (OC), a global company, produces and sells insulation, roofing, and fiberglass materials across diverse markets. Operating in Composites, Insulation, and Roofing segments, it manufactures and sells glass reinforcements, fiber products, thermal insulation, foam sheathing, roofing shingles, and components used in construction and various industries. Its wide distribution network directly supplies manufacturers, installers, retailers, and distributors.

On October 25th, 2023, the company announced results for the third quarter of 2023. Owens Corning reported non-GAAP EPS of $4.15, beating market estimates by $0.29, and revenue of $2.48 billion, down 2% compared to the prior year. Notably, they improved adjusted EBIT and EBITDA margins to 21% and 26%, respectively, while generating a robust Operating Cash Flow of $691 million and Free Cash Flow of $581 million, returning $187 million to shareholders. CEO Brian Chambers emphasized the team's adaptability to market changes, reflecting resilience. Owens Corning's consistent performance amid dynamic conditions demonstrates strategic prowess, positioning them favorably for sustained growth and resilience in future market cycles.

Owens Corning showcased a commendable safety record in Q3 with a recordable incident rate (RIR) of 0.66. The company's strategic focus on innovation yielded eight new product launches, totaling 25 in nine months, fostering customer support and future growth. Joining the European Alliance to Save Energy underscores Owens Corning's commitment to sustainable practices, enhancing regional partnerships for material innovation toward a greener future. Their roofing team's successful pilot reclaiming 100% of recycled waste shingles demonstrates a commitment to sustainability, collaborating with the National Center for Asphalt Technology to explore shingle use in asphalt paving. These initiatives align to recycle two million tons of shingles annually in the U.S. by 2030,

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.71	$1.91	$2.79	$3.41	$2.55	$4.89	$3.68	-$3.53	$9.54	$12.70	***$13.73***	***$22.11***
DPS	$0.00	$0.64	$0.68	$0.74	$0.81	$0.85	$0.90	$0.98	$1.13	$1.57	***$2.08***	***$3.06***
Shares[3]	119.1	118.3	118.2	115.4	113.2	111.4	110.1	108.6	104.3	97.7	***95.6***	***85.7***

In the last quarter, its Roofing segment saw an 8% increase in net sales, reaching $1.1 billion, driven by heightened storm activity and favorable pricing. EBIT margins expanded to 32%, backed by positive price/cost and increased volumes. Conversely, Insulation net sales decreased 5% to $913 million due to lower volumes, offset by price improvements, impacting EBIT margins at 16%. Composites faced a notable 11% net sales decline to $567 million, influenced by reduced volumes and pricing due to the glass reinforcement slowdown. EBIT margins remained at 14%, emphasizing production adjustments to align with demand.

Therefore, for the company's EPS estimate for 2023, we used the midpoint of analysts' estimates at $13.73, and with a 10.0% annual growth through 2028, it leads to our estimated EPS of $22.11. Moreover, the company has a solid record

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[1] Estimated ex-dividend date

[2] Estimated dividend payment date

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of paying dividends despite operating in an industrial sector, as Owens Corning has paid increasing dividends for the past five years. We expect the company to maintain its dividend growth and have forecasted a dividend CAGR of 8.0%, leading to a dividend of $3.06 in 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	23.2	19.7	15.4	14.6	27.7	13.0	15.4	-	9.6	6.9	***9.7***	***9.0***
Avg. Yld.	0.0%	1.7%	1.6%	1.5%	1.1%	1.3%	1.6%	1.6%	1.2%	1.8%	***1.6%***	***1.5%***

The building products manufacturer trades at a forward P/E of 9.7, considerably lower than the long-term average P/E of 16.2 and the five-year average P/E of 11.2. Even though the stable volumes and demand will benefit the company in the near term, we assign a P/E of 9.0 to the stock, which is a fair reflection of its value. Accordingly, with an EPS of $22.11 and P/E of 9.0, our target price for the stock stands at $199 by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

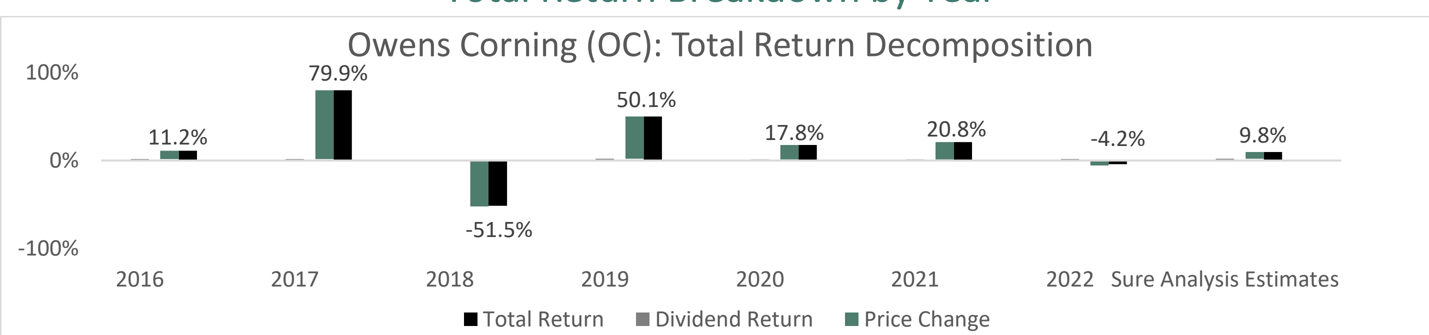
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	0%	34%	24%	22%	32%	17%	24%	-28%	12%	12%	***15%***	***14%***

Owens Corning possesses robust liquidity, holding $1.3 billion in Cash and cash equivalents as of September 30, 2023. Its $800 million Senior Revolving Credit Facility matures in July 2026, while the $280 million Receivables Securitization Facility matures in April 2024. With $3.0 billion total debt, the company maintains compliance with covenants and amended its Senior Revolving Credit Facility in May 2023, aligning with the transition from LIBOR to Term Secured Overnight Financing Rate (SOFR). Foreign-held Cash, subject to withholding taxes upon repatriation, amounted to $120 million on September 30, 2023. The company has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging 15%, and we expect the company to maintain and increase its payout in the future. The demand for the company's product has been stable in recent quarters, and we expect the company to be in a much better position in the future than it is today. In Q3, Owens Corning returned $187 million to shareholders through dividends and share buybacks. With a quarterly cash dividend of $47 million and a repurchase of 1.0 million shares for $140 million, it aims to strengthen its investment-grade balance sheet.

Final Thoughts & Recommendation

We expect subdued economic growth due to higher interest rates and geopolitical tensions. Building and construction markets in the US and Europe likely remain steady in Q4. Owens Corning may experience slightly lower net sales but aims for mid-teen EBIT margins, signaling stable performance amid these economic and geopolitical challenges. Hence, our hold rating is premised upon 9.8% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, the 1.6% dividend yield, and a fair valuation.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5,295	5,260	5,350	5,677	6,384	7,057	7,160	7,055	8,498	9,761
Gross Profit	966	976	1,153	1,377	1,569	1,632	1,609	1,610	2,217	2,616
Gross Margin	18.2%	18.6%	21.6%	24.3%	24.6%	23.1%	22.5%	22.8%	26.1%	26.8%
SG&A Exp.	530	487	525	584	620	700	698	664	757	803
D&A Exp.	332	304	300	343	371	433	457	493	502	531
Operating Profit	385	392	548	697	797	807	787	806	1,438	1,584
Op. Margin	7.3%	7.5%	10.2%	12.3%	12.5%	11.4%	11.0%	11.4%	16.9%	16.2%
Net Profit	204	226	330	393	289	545	405	(383)	995	1,241
Net Margin	3.9%	4.3%	6.2%	6.9%	4.5%	7.7%	5.7%	-5.4%	11.7%	12.7%
Free Cash Flow	72	78	341	570	679	266	590	828	1,087	1,314
Income Tax	68	5	120	188	269	156	186	129	319	373

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	7,647	7,542	7,326	7,741	8,632	9,771	10,006	9,481	10,015	10,752
Cash & Equivalents	57	67	96	112	246	78	172	717	959	1,099
Accounts Receivable	683	674	709	678	806	794	770	919	939	961
Inventories	810	817	644	710	841	1,072	1,033	855	1,078	1,334
Goodwill & Int. Ass.	2,206	2,185	2,166	2,474	2,867	3,728	3,653	2,656	2,607	2,985
Total Liab.	3,817	3,812	3,547	3,852	4,428	5,447	5,335	5,540	5,680	6,131
Accounts Payable	547	542	535	615	834	851	815	875	1,095	1,345
Long-Term Debt	2,028	2,012	1,871	2,102	2,405	3,362	2,986	3,126	2,960	2,992
Total Equity	3,793	3,692	3,739	3,849	4,162	4,283	4,631	3,901	4,296	4,575
LTD/E Ratio	0.53	0.55	0.50	0.55	0.58	0.79	0.64	0.80	0.69	0.65

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	2.7%	3.0%	4.4%	5.2%	3.5%	5.9%	4.1%	-3.9%	10.2%	12.0%
Return on Equity	5.6%	6.0%	8.9%	10.4%	7.2%	12.9%	9.1%	-9.0%	24.3%	28.0%
ROIC	3.5%	3.9%	5.8%	6.8%	4.6%	7.6%	5.3%	-5.2%	13.9%	16.6%
Shares Out.	119.1	118.3	118.2	115.4	113.2	111.4	110.1	108.6	104.3	97.7
Revenue/Share	44.46	44.46	45.26	49.19	56.40	63.35	65.03	64.96	81.48	99.91
FCF/Share	0.60	0.66	2.88	4.94	6.00	2.39	5.36	7.62	10.42	13.45

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