



Dow Inc. (DOW)

Updated January 29th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$54	5 Year CAGR Estimate:	4.6%	Market Cap:	\$38 B
Fair Value Price:	\$44	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	02/28/24 ¹
% Fair Value:	123%	5 Year Valuation Multiple Estimate:	-4.0%	Dividend Payment Date:	03/08/24
Dividend Yield:	5.2%	5 Year Price Target	\$54	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 \$46 billion in revenue this year and trades with a market capitalization of \$38 billion.

Dow reported fourth quarter and full-year earnings on January 25th, 2024, and results were better than expected on both the top and bottom lines, but on reduced expectations. Adjusted earnings-per-share came to 43 cents, which was three cents better than expected. Revenue was down 10.5% year-over-year to \$10.62 billion, but was \$220 million ahead of estimates.

Volume was up 2% year-over-year, as the company saw gains across all regions with the exception of Asia-Pacific. The company said revenue fell due to worsening macroeconomic activity globally. Price and volume gains in Packaging & Specialty Plastics were more than offset by seasonal demand declines in Performance Materials & Coatings. Local price fell 13% year-over-year, with declines in all operating segments. This was due to lower feedstock and energy costs. Sequentially, local price was flat on the third quarter. Currency translation added 1%.

Cash provided by operating activities was \$1.6 billion, down \$450 million year-over-year. Free cash flow came to \$870 million. Dividends paid during the quarter were \$491 million, and share repurchase were \$125 million.

We start 2024 with earnings-per-share of \$2.95, but we've used \$4.00 in earnings-per-share as estimated earnings power, which we've incorporated into calculations below.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	---	---	---	\$3.99	\$3.49	\$1.66	\$8.98	\$6.25	\$2.24	\$2.95	\$4.87
DPS	---	---	---	---	---	\$2.10	\$2.80	\$2.80	\$2.80	\$2.80	\$2.80	\$2.80
Shares²	---	---	---	---	747	743	745	735	705	702	700	690

We expect 4% 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, as pricing has become a massive 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. 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

¹ Estimated date

² Share count in millions

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should abate as the world's economy returns to normal over time. We are cautious on guidance for 2024 as Dow is exhibiting its characteristic extreme earnings volatility.

The dividend is \$2.80 annually, good for a 5.2% yield on today's share price.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	---	---	---	---	---	14.4	26.5	6.8	8.1	24.5	13.5	11.0
Avg. Yld.	---	---	---	---	---	4.2%	6.4%	4.6%	5.6%	5.1%	5.2%	5.2%

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 unfavorably to the current valuation of 13.5 times earnings power, which implies the stock is still overvalued. This is the product of a decline in earnings estimates, primarily. The yield is now 5.2%, so the stock's appeal as an income stock remains very strong, nonetheless.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	60%	169%	31%	45%	125%	70%	58%

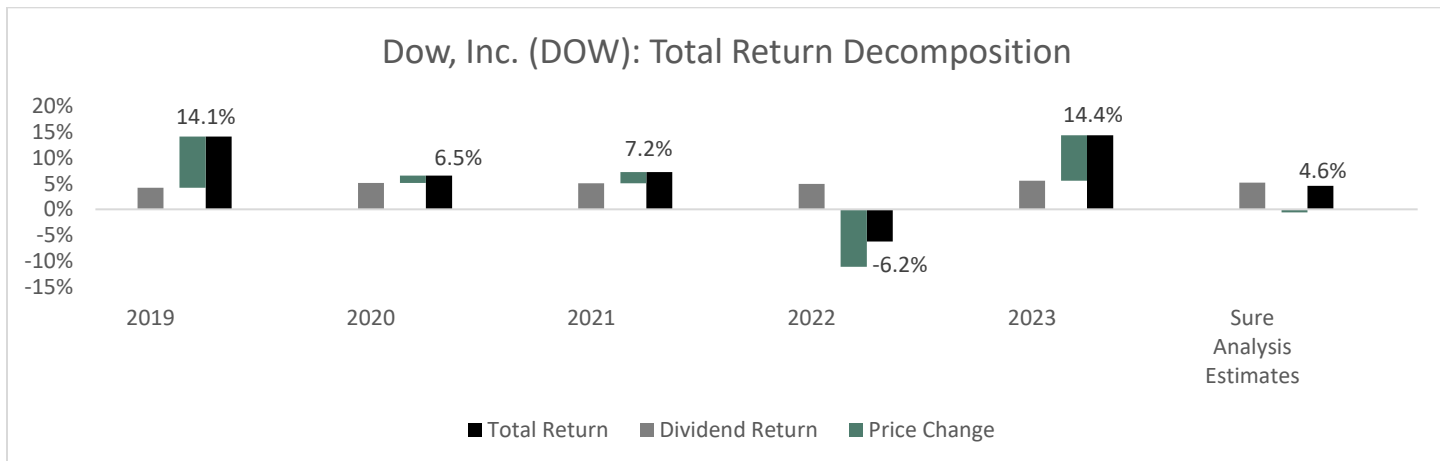
Dow's payout ratio is currently at 70% of estimated earnings power. We think dividend raises will be tough to come by in the coming years. Given the strong yield, management doesn't appear to be interested in raising the payout at the moment.

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 4.6% annualized total returns in the coming years, consisting of the 5.2% yield, and 4% expansion in earnings from the very low base, offset by a 4% headwind from the valuation. We're reiterating the stock at a hold rating. The safety of the dividend appears to be okay 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	---	---	48,158	55,508	60,278	42,951	38,542	54,968	56,902	44,622
Gross Profit	---	---	10,490	11,896	12,573	6,294	5,196	10,777	8,564	4,880
Gross Margin	---	---	21.8%	21.4%	20.9%	14.7%	13.5%	19.6%	15.1%	10.9%
SG&A Exp.	---	---	4,066	3,602	2,846	1,590	1,471	1,645	1,675	1,627
D&A Exp.	---	---	2,862	3,155	3,329	2,938	2,874	2,842	2,758	2,611
Operating Profit	---	---	4,287	6,022	7,569	3,520	2,556	7,887	5,702	2,100
Operating Margin	---	---	8.9%	10.8%	12.6%	8.2%	6.6%	14.3%	10.0%	80.4%
Net Profit	---	---	4,318	466	4,499	-1,359	1,225	6,311	4,582	589
Net Margin	---	---	9.0%	0.8%	7.5%	-3.2%	3.2%	11.5%	8.1%	28.0%
Free Cash Flow	---	---	-6,948	-8,102	1,336	3,969	4,839	4,685	5,417	2,719
Income Tax	---	---	9	2,204	1,285	470	777	1,740	1,450	(4)

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	---	---	---	79,940	77,378	60,524	61,470	62,990	60,603	57,967
Cash & Equivalents	---	---	---	6,188	2,669	2,367	5,104	2,988	3,886	2,987
Accounts Receivable	---	---	---	7,338	8,246	4,844	4,839	6,841	5,611	4,718
Inventories	---	---	---	8,376	9,260	6,214	5,701	7,372	6,988	6,076
Goodwill & Int. Ass.	---	---	---	19,487	18,761	12,555	12,260	11,645	11,086	10,713
Total Liabilities	---	---	---	52,931	49,409	46,430	48,465	44,251	39,356	38,859
Accounts Payable	---	---	---	5,360	5,378	3,889	3,763	5,577	4,940	4,529
Long-Term Debt	---	---	---	21,001	19,899	16,996	17,107	14,672	15,422	15,086
Shareholder's Equity	---	---	---	25,823	26,831	13,541	12,435	18,165	20,718	18,607
LTD/E Ratio	---	---	---	0.81	0.74	1.26	1.38	0.81	0.74	0.81

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	---	---	---	5.7%	-2.0%	2.0%	10.1%	7.4%	1.0%
Return on Equity	---	---	---	---	17.1%	-6.7%	9.4%	41.2%	23.6%	3.0%
ROIC	---	---	---	---	9.4%	-3.4%	4.0%	19.9%	13.2%	1.7%
Shares Out.	---	---	747	748	747	743	745	735	726	709
Revenue/Share	---	---	64.21	74.01	80.37	57.85	51.92	73.39	78.42	62.94
FCF/Share	---	---	-9.26	-10.80	1.78	5.35	6.52	6.26	7.47	3.84

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

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