Owens Corning (OC)

Updated June 26th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$172	**5 Year CAGR Estimate:**	6.6%	**Market Cap:**	$15.2 B
Fair Value Price:	$138	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	07/15/2024
% Fair Value:	125%	**5 Year Valuation Multiple Estimate:**	-4.3%	**Dividend Payment Date:**	08/02/2024
Dividend Yield:	1.4%	**5 Year Price Target**	$222	**Years Of Dividend Growth:**	10
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 April 24th, 2024, the company announced results for the first quarter of 2024. Owens Corning reported Q1 non-GAAP EPS of $3.59, beating market estimates by $0.50, and revenue of $2.3 billion that was consistent with the prior year.

Net earnings margins were 13%, with adjusted EBIT margins at 19% and adjusted EBITDA margins at 25%. Diluted EPS was $3.40, and adjusted diluted EPS was $3.59. Operating cash flow was $24 million, with a free cash outflow of $128 million. The company returned $182 million to shareholders through dividends and share repurchases.

The company also updated its strategic initiatives, which include the planned acquisition of Masonite International Corporation and the review of strategic alternatives for its global glass reinforcements business. More specifically, the company invested in strategic acquisitions—such as Masonite International Corporation—and launched 13 new and improved products to spur growth. At Owens Corning, sustainability is owned and managed through the publication of its 2023 Sustainability Report, detailing the progress toward 2030 goals. The company prioritizes repaying short-term debt, targeting a net debt-to-EBITDA ratio of 2 to 3 times to maintain flexibility from an economic perspective.

In addition to this, the management expects further solid demand in the building and construction markets of North America, aided by residential repair and remodeling activity, as well as U.S. housing starts. However macroeconomic trends and geopolitical tensions lower growth globally. For the second quarter of 2024, the company projects net sales to align with Q2 2023 and achieves approximately 20% EBIT margins for its existing businesses. Contrasted against the global challenges, Owens Corning has focused on building its leading market positions, been financially disciplined, and invested in key growth opportunities to deliver long-term value for shareholders.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.91	$2.79	$3.41	$2.55	$4.89	$3.68	-$3.53	$9.54	$12.70	$13.27	***$15.31***	***$24.66***
DPS	$0.64	$0.68	$0.74	$0.81	$0.85	$0.90	$0.98	$1.13	$1.57	$2.16	***$2.40***	***$3.53***
Shares[1]	118.3	118.2	115.4	113.2	111.4	110.1	108.6	104.3	97.7	91.0	***88.4***	***76.5***

For the company's EPS estimate for 2024, we used the midpoint of analysts' estimates at $15.31, and with a 10.0% annual growth through 2029, it leads to our estimated EPS of $24.66. Moreover, the company has a solid record of paying dividends despite operating in an industrial sector, as Owens Corning has paid increasing dividends for the past 10 years. We expect the company to maintain its dividend growth and have forecasted a dividend CAGR of 8.0%, leading to a dividend of $3.53 in 2029.

[1] In millions.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.7	15.4	14.6	27.7	13.0	15.4	-17.0	9.6	6.9	9.1	***11.2***	***9.0***
Avg. Yld.	1.7%	1.6%	1.5%	1.1%	1.3%	1.6%	1.6%	1.2%	1.8%	1.8%	***1.4%***	***1.6%***

The building products manufacturer trades at a forward P/E of 11.2, slightly lower than the long-term average P/E of 11.4 but well above the five-year average P/E of 4.8. 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 in our view. Accordingly, with an EPS of $24.66 and P/E of 9.0, our target price for the stock stands at $222 by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

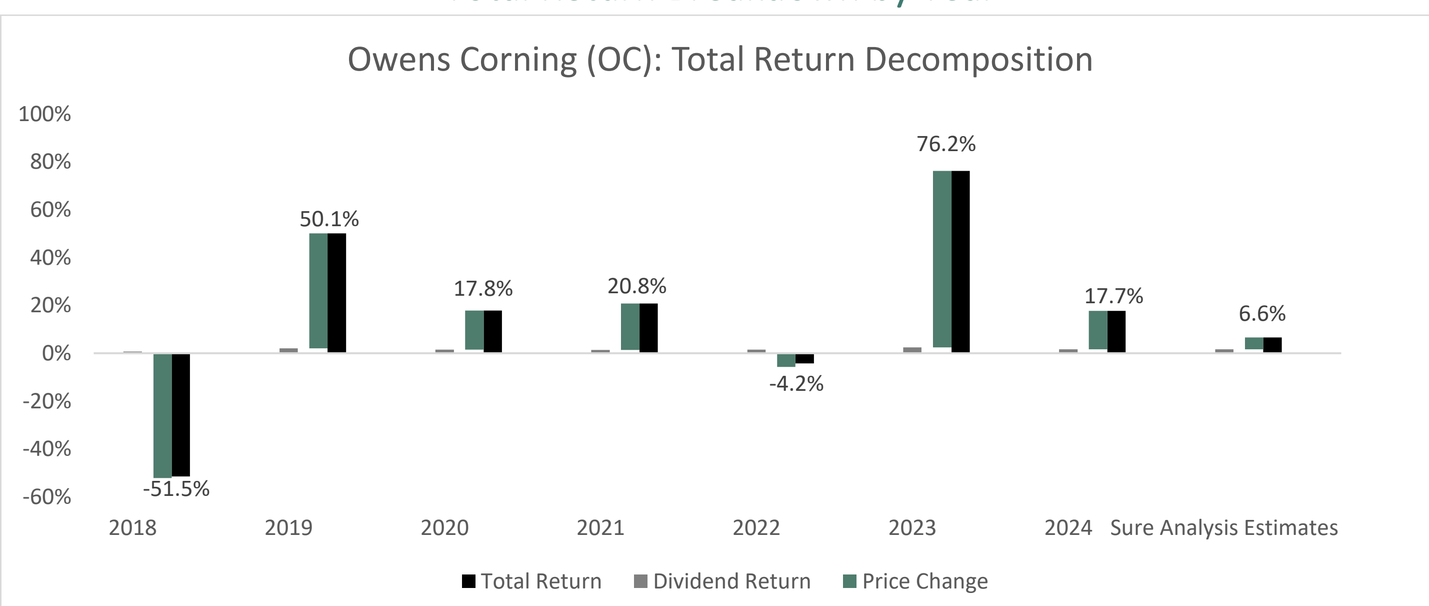
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	24%	22%	32%	17%	24%	-28%	12%	12%	16%	***16%***	***14%***

Owens Corning possesses robust liquidity, holding $1.3 billion in cash and cash equivalents as of the end of Q1. The company has paid a consistent dividend to its shareholders with a 10-year payout ratio averaging just 17%, and we expect the company to maintain its payout around these levels 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. The company aims to balance long-term shareholder value through dividends, share repurchases, strategic investments, and financial discipline. In Q1 2024, it returned $182 million to shareholders through $52 million in dividends and $130 million in share repurchases.

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 will likely remain steady in 2024. Owens Corning may experience slightly lower net sales, but the company aims for mid-teen EBIT margins, signaling stable performance amid these economic and geopolitical challenges. Hence, our hold rating is premised upon 6.6% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, the 1.4% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,260	5,350	5,677	6,384	7,057	7,160	7,055	8,498	9,761	9,677
Gross Profit	976	1,153	1,377	1,569	1,632	1,609	1,610	2,217	2,616	2,683
Gross Margin	18.6%	21.6%	24.3%	24.6%	23.1%	22.5%	22.8%	26.1%	26.8%	27.7%
SG&A Exp.	487	525	584	620	700	698	664	757	803	831
D&A Exp.	304	300	343	371	433	457	493	502	531	609
Operating Profit	392	548	697	797	807	787	806	1,438	1,584	1,623
Op. Margin	7.5%	10.2%	12.3%	12.5%	11.4%	11.0%	11.4%	16.9%	16.2%	16.8%
Net Profit	226	330	393	289	545	405	(383)	995	1,241	1,196
Net Margin	4.3%	6.2%	6.9%	4.5%	7.7%	5.7%	-5.4%	11.7%	12.7%	12.4%
Free Cash Flow	78	341	570	679	266	590	828	1,087	1,314	1,193
Income Tax	5	120	188	269	156	186	129	319	373	401

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,542	7,326	7,741	8,632	9,771	10,006	9,481	10,015	10,752	11,240
Cash & Equivalents	67	96	112	246	78	172	717	959	1,099	1,615
Accounts Receivable	674	709	678	806	794	770	919	939	961	987
Inventories	817	644	710	841	1,072	1,033	855	1,078	1,334	1,198
Goodwill & Int. Ass.	2,185	2,166	2,474	2,867	3,728	3,653	2,656	2,607	2,985	2,920
Total Liab.	3,812	3,547	3,852	4,428	5,447	5,335	5,540	5,680	6,131	6,027
Accounts Payable	542	535	615	834	851	815	875	1,095	1,345	1,216
Long-Term Debt	2,012	1,871	2,102	2,405	3,362	2,986	3,126	2,960	2,992	3,046
Total Equity	3,692	3,739	3,849	4,162	4,283	4,631	3,901	4,296	4,575	5,166
LTD/E Ratio	0.55	0.50	0.55	0.58	0.79	0.64	0.80	0.69	0.65	0.59

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.0%	4.4%	5.2%	3.5%	5.9%	4.1%	-3.9%	10.2%	12.0%	10.9%
Return on Equity	6.0%	8.9%	10.4%	7.2%	12.9%	9.1%	-9.0%	24.3%	28.0%	24.3%
ROIC	3.9%	5.8%	6.8%	4.6%	7.6%	5.3%	-5.2%	13.9%	16.6%	15.1%
Shares Out.	118.3	118.2	115.4	113.2	111.4	110.1	108.6	104.3	97.7	91.0
Revenue/Share	44.46	45.26	49.19	56.40	63.35	65.03	64.96	81.48	99.91	106.34
FCF/Share	0.66	2.88	4.94	6.00	2.39	5.36	7.62	10.42	13.45	13.11

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