Owens Corning (OC)

Updated August 21st, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$161	**5 Year CAGR Estimate:**	8.3%	**Market Cap:**	$14.2 B
Fair Value Price:	$140	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	10/11/2024[1]
% Fair Value:	115%	**5 Year Valuation Multiple Estimate:**	-2.8%	**Dividend Payment Date:**	11/04/2024[2]
Dividend Yield:	1.5%	**5 Year Price Target**	$225	**Years Of Dividend Growth:**	10
Dividend Risk Score:	A	**Retirement Suitability Score:**	B	**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 August 6th, 2024, the company announced results for the second quarter of 2024. Owens Corning reported Q2 non-GAAP EPS of $4.64, beating market estimates by $0.29, and revenue of $2.8 billion, which was up 9% year-over-year.

Owens Corning delivered a net earnings margin of 10%, equal to adjusted EBIT and EBITDA margins of 21% and 27%, respectively. Diluted EPS was $3.24, while adjusted diluted EPS reached $4.64. The company generated $493 million in operating cash flow and $336 million in free cash flow, returning $52 million to shareholders through dividends. According to Owens Corning Chair and CEO Brian Chambers, the company's execution was solid, with excellent margins and cash flow generation—another reason it strategically acquired Masonite.

Performance across most Owens Corning businesses was generally solid; while roofing sales were slightly lower, insulation segment growth remained intact despite more weakness in European demand. The acquired Doors segment exceeded expectations and sustained a net sales of $311 million with an EBIT margin of 11%. The company's composites segment witnessed a 12% fall in sales due to lower volumes and pricing pressure from glass reinforcements. The company said it sees further robust demand in North American construction markets. Third-quarter net sales growth is projected to be in the low 20% range versus the third quarter of 2019, while an EBIT margin will be in the high teens. Owens Corning continues to focus on its long-term growth and remains committed to a balanced capital allocation strategy and investment-grade balance sheet.

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	***$15.52***	***$25.00***
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[3]	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 $15.52, and with a 10.0% annual growth through 2029, it leads to our estimated EPS of $25.00. 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] Estimated ex-dividend date.

[2] Estimated dividend payment date.

[3] 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.

Owens Corning (OC)

Updated August 21st, 2024, by Yiannis Zourmpanos

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	***10.4***	***9.0***
Avg. Yld.	1.7%	1.6%	1.5%	1.1%	1.3%	1.6%	1.6%	1.2%	1.8%	1.8%	***1.5%***	***1.6%***

Shares of the building products manufacturer trades at a forward P/E of 10.4, 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 opinion. Accordingly, with an EPS of $25.00 and P/E of 9.0, our target price for the stock stands at $225 by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

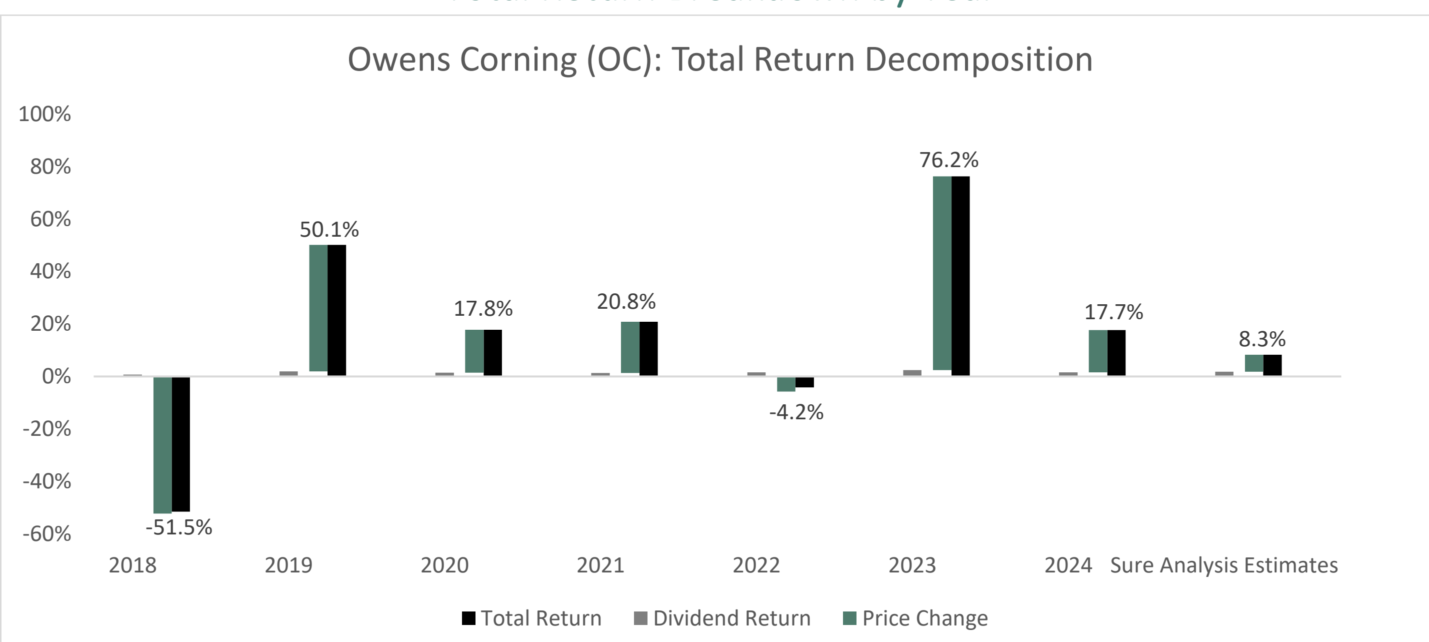
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	24%	22%	32%	17%	24%	-28%	12%	12%	16%	***15%***	***14%***

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, Owens Corning returned $52 million to shareholders through dividends while maintaining its balanced capital allocation strategy focused on shareholder returns.

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 8.3% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, the 1.5% 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.

Owens Corning (OC)

Updated August 21st, 2024, by Yiannis Zourmpanos

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.

Owens Corning (OC)

Updated August 21st, 2024, by Yiannis Zourmpanos

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.