Owens Corning (OC)

Updated November 26th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$211	**5 Year CAGR Estimate:**	2.5%	**Market Cap:**	$18.7 B
Fair Value Price:	$138	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	01/06/2025[1]
% Fair Value:	152%	**5 Year Valuation Multiple Estimate:**	-8.1%	**Dividend Payment Date:**	01/20/2025[2]
Dividend Yield:	1.1%	**5 Year Price Target**	$223	**Years Of Dividend Growth:**	10
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Sell

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 November 6th, 2024, the company announced results for the third quarter of 2024. Owens Corning reported Q3 non-GAAP EPS of $4.38, beating market estimates by $0.33, and revenue of $3.05 billion, which was up 23% year-over-year.

The company reported a net earnings margin of 11%, an adjusted EBIT margin of 19%, and an adjusted EBITDA margin of 25%. Diluted EPS came in at $3.65, while adjusted diluted EPS grew 5% to $4.38. Strong operational performance generated $699 million in operating cash flow and $558 million in free cash flow. Owens Corning also returned $252 million to shareholders through dividends and share repurchases, reflecting its commitment to delivering shareholder value.

CEO Brian Chambers highlighted the results as evidence of strategic investments and operational excellence, enabling sustained margin improvements and cash generation despite challenging market conditions. Segment performance showed resilience, with Roofing sales at $1.1 billion, supported by favorable pricing and shingle volume growth, while Insulation sales rose 4% to $946 million, driven by North American demand. Doors contributed $573 million in its first full quarter, though discretionary repair and remodel activity remained soft. Composites faced headwinds, with a 6% decline in sales, attributed to weaker global demand and price reductions. Looking ahead, Owens Corning anticipates continued market challenges in Q4 2024, but remains confident in achieving structural growth, projecting net sales growth of approximately 20% and EBITDA margins near 20%.

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	***$15.39***	***$24.78***
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 $15.39, and with a 10.0% annual growth through 2029, it leads to our estimated EPS of $24.78. 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.

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[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.

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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	***13.7***	***9.0***
Avg. Yld.	1.7%	1.6%	1.5%	1.1%	1.3%	1.6%	1.6%	1.2%	1.8%	1.8%	***1.1%***	***1.6%***

Shares of the building products manufacturer trades at a forward P/E of 13.7, slightly lower than the long-term average P/E of 13.7, 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 $24.78 and P/E of 9.0, our target price for the stock stands at $223 by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

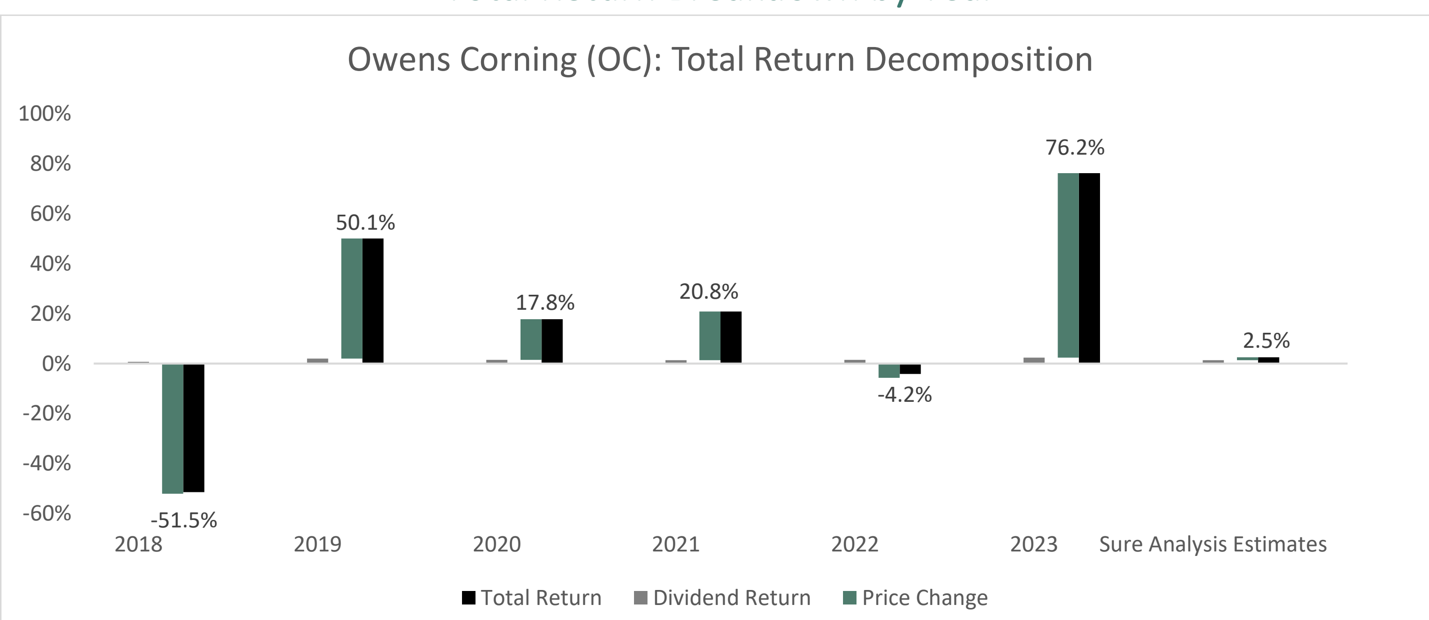
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	34%	24%	22%	32%	17%	24%	-28%	12%	12%	16%	***16%***	***14%***

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 Q3, Owens Corning repurchased 1.2 million shares for $200 million during the quarter, demonstrating its ongoing commitment to returning value to shareholders.

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. Following the strong bull run, we revise our rating to sell premised upon 2.5% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 10.0%, the 1.1% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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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.