



DowDuPont, Inc. (DWDP)

Updated May 7th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$34	5 Year CAGR Estimate:	10.7%	Volatility Percentile:	32.5%
Fair Value Price:	\$38	5 Year Growth Estimate:	5.0%	Momentum Percentile:	13.8%
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.2%	Growth Percentile:	36.2%
Dividend Yield:	3.5%	5 Year Price Target	\$48	Valuation Percentile:	70.8%
Dividend Risk Score:	D	Retirement Suitability Score:	C	Total Return Percentile:	65.0%

Overview & Current Events

DowDuPont is the product of a late-2017 merger that combined the former Dow Chemical Company and E.I. du Pont de Nemours & Company. The company is in the midst of a significant transformation wherein it is splitting the legacy business into three publicly traded companies. The three separate businesses will be called Corteva Agriscience, Dow, and DuPont, which were the agriculture business, materials science segment and specialty products division, respectively. The Dow business has been spun off as of April 1st and is trading under the ticker DOW. The Corteva spin-off is on track for June 1st. The company currently trades with a market capitalization of \$75 billion, but that will, of course, decline following the Corteva spin-off.

DowDuPont reported Q1 earnings on 5/2/19 and results were mixed. Total revenue was \$19.6 billion, down 9% year-over-year as the company struggled with lower local prices, currency headwinds, and volume declines. These factors reduced revenue by 4%, 3%, and 2%, respectively in Q1.

Volume rose 3% in Asia Pacific and 1% in EMEA, but those were more than offset by volume declines in the US and Canada of 7%, and a fractional decline in Latin America.

Local price increases in Specialty Products and Agriculture of 3% and 1%, respectively, were more than offset by a sizable 9% decline in pricing for Materials Science.

Margin compression also occurred as operating EBITDA was down 17% year-over-year to \$4 billion. The company stated the decline in profitability was due to weather-related volume declines as well as currency headwinds, which more than offset cost synergies.

DowDuPont achieved cost synergies in Q1 of \$400 million, and has achieved \$2.2 billion since the merger. It also returned \$2.4 billion to shareholders in the quarter through dividends of ~\$800 million and the balance in share repurchases.

Adjusted earnings-per-share came in at \$0.84 against \$1.12 in last year's Q1. Our initial estimate for earnings-per-share for this year following the Dow spin-off is \$2.35. The Corteva spin-off remains on track for June 1st.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.32	\$1.72	\$2.05	\$0.71	\$3.68	\$2.87	\$3.32	\$3.52	\$3.07	\$4.11	\$2.35	\$3.00
DPS	---	---	---	---	---	---	---	---	\$0.38	\$1.52	\$1.16	\$1.40
Shares	1,054	1,144	1,158	1,176	1,290	1,187	1,241	1,123	2,327	2,293	2,260	2,100

The merger that took place in 2017 has helped drive earnings growth through synergies and cost savings. However, the separation of the current business into three has created a unique situation.

We see DowDuPont producing 5% annual earnings-per-share growth combined over the next few years, although when the companies are split off, growth rates will surely differ between them. DowDuPont should achieve this growth primarily through sales increases, which we believe will be in the mid-single digits for the foreseeable future, notwithstanding Q1's lackluster performance. The company's exposure to consumer markets like mobile devices is a long-term positive. In addition, the world's growing middle class should afford plenty of growth opportunities for

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DowDuPont, even after the spinoffs are complete. The buyback should help with earnings-per-share growth as well as DowDuPont is committed to shrinking the float, buying back \$1.6 billion in Q1 alone.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	86.3	19.8	14.0	45.5	12.1	15.9	15.5	16.3	17.7	15.9	14.3	16.0
Avg. Yld.	---	---	---	---	---	---	---	---	0.7%	2.3%	3.5%	2.9%

DowDuPont shares are trading below our assessed fair value today, going for 14.3 times earnings against our fair value estimate of 16. The yield has moved up to 3.5% after a huge dividend increase in 2018 and recent weakness in the stock, so we see this yield as moving lower over the long term.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	---	---	---	---	---	---	---	---	12%	37%	49%	47%

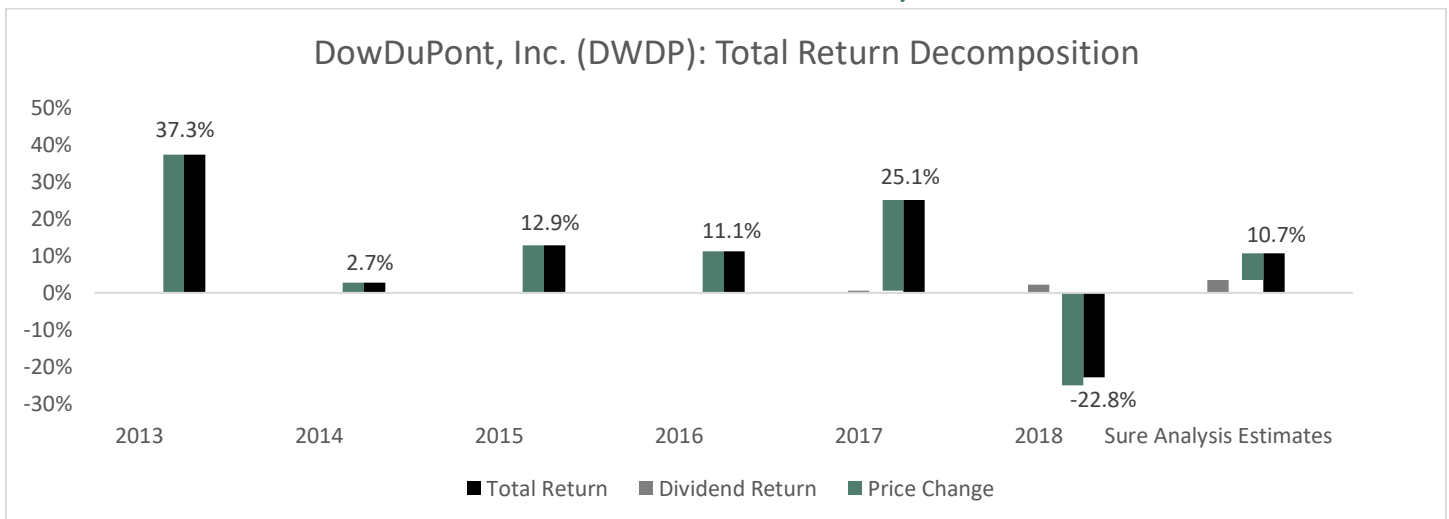
DowDuPont's dividend is about half of earnings, so we see the payout as safe today. With a murky earnings growth outlook and a focus on share repurchases, we see dividend growth as limited in the near-term. Once Corteva is spun off, investors may get some additional clarity on the dividend.

DowDuPont's competitive advantage is in its very long histories in the industries in which it operates. It has built tremendous expertise in a variety of specialty chemical businesses that have strong long-term outlooks. We think the spinoffs will be positive for shareholders of DowDuPont given the businesses will be pure-plays on their respective lines. Recessions are not kind to chemical makers and DowDuPont is no exception, as earnings were cut in half in 2009.

Final Thoughts & Recommendation

Overall, DowDuPont looks somewhat undervalued again after some recent weakness in the share price. We are forecasting 10.7% total annual returns moving forward, consisting of the current 3.5% yield, 5% earnings-per-share growth and a 2.2% tailwind from the valuation. The spinoffs of the three separate businesses should help unlock some value and we like the plan to do so. We're moving DowDuPont down to a hold from buy given the weak Q1 report as well as the lack of clarity once Corteva is spun off.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	44875	53674	59985	56786	57080	58167	48778	48158	62484	85977
Gross Profit	5727	7894	8956	8994	9486	10703	11033	10518	12070	20644
Gross Margin	12.8%	14.7%	14.9%	15.8%	16.6%	18.4%	22.6%	21.8%	19.3%	24.0%
SG&A Exp.	2487	2609	2788	2861	3024	3106	2948	2956	4021	6709
D&A Exp.	2827	2962	2883	2698	2681	2747	2521	2862	3969	N/A
Operating Profit	1349	3116	4026	3947	4254	5514	6068	5434	4926	8972
Op. Margin	3.0%	5.8%	6.7%	7.0%	7.5%	9.5%	12.4%	11.3%	7.9%	10.4%
Net Profit	648	2310	2742	1182	4787	3772	7685	4318	1460	3844
Net Margin	1.4%	4.3%	4.6%	2.1%	8.4%	6.5%	15.8%	9.0%	2.3%	4.5%
Free Cash Flow	-321	1972	1192	1461	5521	2930	3781	1609	5125	N/A
Income Tax	-97	481	817	565	1988	1426	2147	9	-476	1489

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	66018	69588	69224	69605	69501	68687	67938	79511	192B	188B
Cash & Equivalents	2846	7039	5444	4318	5940	5654	8577	6607	13438	13482
Acc. Receivable	9195	4616	4900	5074	4935	4685	4078	4666	11314	12376
Inventories	6847	7087	7577	8476	8303	8101	6871	7363	16992	16621
Goodwill & Int.	19179	18497	17991	17450	17112	16400	15771	21298	92801	89997
Total Liabilities	44894	46946	45933	47738	41577	45333	41755	52282	90237	91851
Accounts Payable	6167	4356	4778	5010	4590	4481	3577	4519	9134	9457
Long-Term Debt	22373	23827	21600	20987	17960	19674	17210	21363	34071	40464
Total Equity	16555	17839	18281	16877	22898	18423	21374	25987	100B	94571
D/E Ratio	1.09	1.09	0.97	1.01	0.67	0.88	0.68	0.82	0.34	0.43

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	1.2%	3.4%	4.0%	1.7%	6.9%	5.5%	11.2%	5.9%	1.1%	2.0%
Return on Equity	4.3%	13.4%	15.2%	6.7%	24.1%	18.3%	38.6%	18.2%	2.3%	3.9%
ROIC	1.9%	5.1%	6.0%	2.7%	10.8%	8.5%	17.8%	9.4%	1.6%	2.8%
Shares Out.	1,054	1,144	1,158	1,176	1,290	1,187	1,241	1,123	2,327	2,293
Revenue/Share	42.58	46.93	51.79	48.27	44.23	49.00	39.29	42.88	39.10	37.13
FCF/Share	-0.30	1.72	1.03	1.24	4.28	2.47	3.05	1.43	3.21	N/A

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

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