

Recommendation: Buy

DowDuPont (DWDP)

Analyst Team

Andrew Aubry

Hershy Kulkarni

Company Description

DowDuPont ("the Company") is a holding company comprised of The Dow Chemical Company and E.I. du Pont de Nemours and Company. The Company engages in agriculture, materials science, and specialty products businesses worldwide. DWDP operates in eight distinct segments: Agriculture (18% PF sales); Performance Materials & Coatings (11% PF sales); Industrial Intermediates & Infrastructure (16% PF sales); Packaging & Specialty Plastics (28% PF sales); Electronics & Imaging (6% PF sales); Nutrition & Biosciences (8% PF sales); Transportation & Advanced Polymers (7% PF sales); and, Safety & Construction (7% PF sales). The two underlying entities merged in 2017 as a means of advancing their individual restructuring efforts and did so in a tax-efficient way. The Company plans to spin off into three separate entities: an agriscience company (**Corteva**) accounting for ~\$14 B in sales, a materials science company (**Dow**) accounting for ~\$40 B in sales, and a specialty products company (**DuPont**) accounting for ~\$21 B in sales. We believe these spin-offs will generate massive value creation for what is currently a consolidated entity.

Thesis Highlights

- Spin-Off will Streamline Operating Efficiency**
 Management has thrived in the execution of the consolidation between Dow and DuPont. With the spin-offs, we expect management to better focus on their respective industry and recognize higher growth and value creation relative to operating as a unilateral company. In addition to an estimated \$3.3 billion in cost synergies and \$1 billion in growth synergies from the merger alone, it is expected that the three companies will pull the best aspects from each of its parents to form superior, substantially more efficient entities.
- Optimistic Projections on Growth in Subsidiary Product Areas**
 DWDP's portfolio of companies and vast array of product groups have extremely optimistic growth trends in the immediate and long-term future. **Corteva Agrisciences** is launching nine new products in the next two years, supplying the agricultural industry with affordable, drought-resistant seeds in an array of valuable commodities, providing extensive growth. In New **Dow**, the materials sciences wing of DWDP, megatrends in 5G, water & electricity infrastructure, and a growing EM middle class all contribute to accelerated growth trends in plastics, automobile, and personal care sectors. Also, with a global increase in homebuilding, specific product groups like Tyvek and Styrofoam have bullish outlooks. Additional growth opportunities can be classified for the spin-offs as follows: **Dow**: packaging, infrastructure, and consumer care; **DuPont**: photovoltaics and synthetic biology; **Corteva**: digital ag and next-generation biotech traits.
- Well-Diversified Revenue Drivers to Hedge Risk Areas**
 DWDP spin-off companies cover an array of products and services to dampen and hedge major risk factors from impacting profitability and growth. As the largest chemicals company in the industry with off-shoots in agriculture, materials science, and specialty products, potential for negative megatrends to destabilize company-wide growth is extremely low. Despite larger, industry-wide currents changing the growth landscape, ultimately, DWDP is in an excellent position to take advantage of long-term growth in its spin-offs. This is especially positive when considering the large R&D contributions management has committed.

Thesis Risks

- Volatility in Inputs**
 Oil, a key input for much of DWDP's product portfolio, is highly exposed to uncertainty and price swings. Additionally, DowDuPont's downstream products could experience spikes in wake of massive capacity shifts upstream (large projects open or shutdown unexpectedly). This could pose a problem for DWDP in segments with high degrees of operating leverage.
- Risk of Commodization with Specific Product Groups**
 One of New Dow's processes, the production of certain polymers like polyurethanes and polypropylene, have undergone the beginnings of commodization. With LyondellBasell breaking ground on the largest oil refinery plant in the world, we expect a large influx of these polymers into the supply, drastically reducing future economic value of these product groups.

Trading Information

Price Target:	\$81.09
Current Price:	\$64.31
Beta:	1.51
Dividend Yield:	2.27%
52-wk Range:	\$61.27-\$77.08

Company Information

Sector:	Basic Materials
Industry:	Chemicals
Sales:	\$62.5 B
Market Cap:	\$150.2 B
Enterprise Value:	\$180.6 B
Debt Rating:	BBB

Multiples

	DWDP	Ind
P/E:	13.9x	10.6x
P/FCF:	15.7x	11.0x
P/B Ratio:	1.5x	3.5x
EV/EBITDA:	8.7x	7.2x

Historical Price Performance [9/30/17 – 9/30/18]

