



ANALYST QUICK NOTES

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Masco Corp. (NYSE: MAS: BUY)

Target Price: \$44

Christopher Graja, CFA

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What's New?

- We've raised our target to \$44 from \$40

Beat and Raise:

- Last week, Masco reported that 1Q17 adjusted earnings rose 28% to \$0.41 per share, which topped the StreetAccount consensus of \$0.36 and our estimate of \$0.35.
- The important earnings drivers were:
 - Strong sales and margin in the North American plumbing business.
 - Disciplined cost controls.
- Management provided new guidance of \$1.90-\$2.00.
 - Previously, they were confident they could exceed \$1.80.
 - Pre-release consensus was \$1.87.

A Few Highlights:

- First-quarter operating margin widened by 60 basis points to 14.4% on an adjusted basis.
 - The StreetAccount consensus was 13.7%. Our estimate was 13.4%.
 - Adjusted operating income increased 8% to \$255 million in the quarter. This exceeded our estimate of \$242 million.
 - The adjusted gross margin was 34.3%, exceeding the StreetAccount consensus by 110 basis points.
- Adjusted operating margins in the plumbing segment increased by 200 basis points, to \$156 million, or 18.1% of sales.
 - That was better than our estimate of \$140 million and the StreetAccount consensus of \$140 million, reflecting:
 - Cost controls and
 - An ability to pass on increases in commodity prices.
- Management is seeing strong demand in the repair and remodeling market and they believe that their initiatives with Home Depot are resulting in market share gains for Behr professional paint.

- Masco sees continuing growth in the housing market driven by:
 - Favorable demographics.
 - Rising home prices.
 - The best housing turnover in a decade
 - Aging homes that are in need of updates or repairs.

Our Target:

- We raised our 2017 estimate to \$1.95 per share from \$1.81.
 - This increase reflects better-than-expected earnings in 1Q.
 - As well, management reduced its estimate of the full-year tax rate to 34% from 36%, based on a change in the treatment of stock-based compensation.
 - There is also an expectation for higher margins, particularly in the plumbing business.
 - MAS has recently traded at about 12-times trailing EBITDA, which is in below peer median of 12.5x.
 - Based on our EBITDA estimate of \$1.36 billion for the next four quarters, a multiple of 12 in one year (which is the same multiple we used in our previous note) and current levels of cash, debt and shares outstanding, the shares would be worth \$44.
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