

Corning Inc.

Some end markets at recession levels, but pricing and productivity gains help margins

Reiterate Rating: BUY | PO: 39.00 USD | Price: 32.87 USD

Puts and takes on end market demand from the call

Corning reported rev/EPS of \$3.4bn/\$0.41 which was at the high end of guidance, but F2Q guidance at mid-point (\$3.5bn/\$0.46) slightly missed Street at \$3.6bn/\$0.47. Overall, customers remain cautious. In Display, GLW is optimistic that panel maker utilization is moving beyond correction levels and returns to normal levels in coming quarters. In Optical, price increases helped offset greater than normal seasonal volume decline in connectivity solutions given slower pace of several large customer projects. Environmental revs grew 9% q/q in F1Q on increased adoption of gas particulate filters. FCF in F1Q was negative given the seasonally weaker quarter, lower sales level on recession-level demand in several end markets, and China weakness. While the near-term appears weak, we reiterate Buy as, in our view, more content in end devices will allow GLW to grow revs in excess of its end markets.

1Q likely trough for revenues and margins

Gross and operating margins improved about 150bps q/q in 1Q, despite sales weakness as GLW focused on productivity enhancements and raised prices in Optical. We model revs and margins growing sequentially every quarter in F23. For F2Q, volume increase in Display offsets continued weakness in Optical, Life Sciences and Specialty Materials. In Environmental, GLW mgmt. is not projecting a recovery in the automotive market in F2Q and for the full year expects auto sales to remain below pre-pandemic levels. We expect Hemlock to continue to see strong demand for solar-grade polysilicon, as well as strong growth in automotive glass solutions.

FCF should improve from F2Q

We model FCF positive in F2Q. In terms of capital allocation, GLW mgmt. now expects F23 capex to be slightly lower than F22 vs. prior guidance of in-line y/y. We expect opportunistic buybacks. Given the weak macro, we do not expect large M&A. With respect to the Yen, GLW has most of 2023 and 2024 hedged, and expects to keep the core rate at 107 at least through the end of 2024.

Adjusting F23 estimates; PO stays at \$39

Our F23 rev/EPS ests move to \$14.3bn/\$1.98 from \$14.5bn/\$2.00. PO stays at \$39 on 16x (unch) our C24E EPS of \$2.41.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.07	2.09	1.98	2.41	2.57
GAAP EPS	2.15	1.54	1.77	2.41	2.57
EPS Change (YoY)	47.9%	1.0%	-5.3%	21.7%	6.6%
Consensus EPS (Bloomberg)			2.03	2.49	2.74
DPS	0.96	1.08	1.19	1.31	1.44
Valuation (Dec)					
P/E	15.9x	15.7x	16.6x	13.6x	12.8x
GAAP P/E	15.3x	21.3x	18.6x	13.6x	12.8x
Dividend Yield	2.9%	3.3%	3.6%	4.0%	4.4%
EV / EBITDA*	9.7x	9.7x	10.2x	9.2x	9.1x
Free Cash Flow Yield*	6.4%	3.6%	3.9%	5.0%	5.8%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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25 April 2023

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	14,466.9	14,349.7
2024E Rev (m)	15,144.5	15,121.2
2025E Rev (m)	15,855.7	15,788.6
2023E EPS	2.00	1.98
2024E EPS	2.42	2.41
2025E EPS	2.59	2.57

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Stock Data

Price	32.87 USD
Price Objective	39.00 USD
Date Established	18-Oct-2022
Investment Opinion	B-1-7
52-Week Range	28.98 USD - 37.73 USD
Mkt Val (mn) / Shares Out (mn)	27,849 USD / 847.2
Average Daily Value (mn)	144.44 USD
BofA Ticker / Exchange	GLW / NYS
Bloomberg / Reuters	GLW US / GLW.N
ROE (2023E)	14.3%
Net Dbt to Eqty (Dec-2022A)	42.7%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

CNY: Chinese New Year

GM: Gross Margin

FCF: Free Cash Flow

iQprofileSM Corning Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	7.5%	7.3%	7.7%	9.2%	9.3%
Return on Equity	14.2%	14.7%	14.3%	16.8%	16.3%
Operating Margin	17.4%	16.8%	16.9%	18.7%	18.7%
Free Cash Flow	1,775	1,011	1,090	1,402	1,605

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.9x	1.5x	1.5x	1.5x	1.5x
Asset Replacement Ratio	1.1x	1.1x	1.1x	1.2x	1.3x
Tax Rate	20.1%	27.3%	23.6%	21.0%	21.0%
Net Debt-to-Equity Ratio	39.0%	42.7%	48.0%	40.1%	32.3%
Interest Cover	8.2x	8.5x	8.0x	9.3x	9.7x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	14,120	14,805	14,350	15,121	15,789
% Change	23.3%	4.9%	-3.1%	5.4%	4.4%
Gross Profit	5,242	5,327	5,214	5,776	6,031
% Change	27.2%	1.6%	-2.1%	10.8%	4.4%
EBITDA	3,943	3,942	3,747	4,174	4,215
% Change	21.2%	0%	-5.0%	11.4%	1.0%
Net Interest & Other Income	(178)	(202)	(272)	(280)	(280)
Net Income (Adjusted)	1,811	1,794	1,683	2,013	2,111
% Change	46.4%	-0.9%	-6.2%	19.6%	4.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,906	1,364	1,524	2,013	2,111
Depreciation & Amortization	1,481	1,452	1,326	1,346	1,263
Change in Working Capital	114	(37)	(282)	(383)	(126)
Deferred Taxation Charge	35	(46)	(38)	0	0
Other Adjustments, Net	(124)	(118)	75	0	0
Capital Expenditure	(1,637)	(1,604)	(1,515)	(1,574)	(1,644)
Free Cash Flow	1,775	1,011	1,090	1,402	1,605
% Change	121.0%	-43.0%	7.9%	28.5%	14.5%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	2,148	1,671	1,164	1,741	2,432
Trade Receivables	2,004	1,664	1,542	1,625	1,697
Other Current Assets	3,507	4,061	3,948	4,295	4,432
Property, Plant & Equipment	15,804	15,371	15,177	15,260	15,497
Other Non-Current Assets	6,681	6,675	6,715	6,591	6,467
Total Assets	30,144	29,442	28,546	29,512	30,526
Short-Term Debt	55	224	197	197	197
Other Current Liabilities	4,751	4,894	4,671	4,718	4,801
Long-Term Debt	6,989	6,687	6,654	6,654	6,654
Other Non-Current Liabilities	5,804	5,362	5,188	5,188	5,188
Total Liabilities	17,599	17,167	16,710	16,757	16,840
Total Equity	12,545	12,275	11,836	12,755	13,686
Total Equity & Liabilities	30,144	29,442	28,546	29,512	30,526

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Electrical Equipment

Company Description

Corning's Display Technologies (46% of sales) manufactures LCD glass for flat-panel displays. Telecommunications (30% of sales) produces optical fiber and cable, component hardware and equipment, and photonic components for the telecommunications, CATV and networking industry. Environmental Technologies (12% of sales) produces specialized glass, glass ceramic and polymer-based products for the automotive industry.

Investment Rationale

Our Buy rating on Corning is based on glass supply and demand remaining in balance and glass price declines remaining moderate (post COVID-19). Corning has a strong capital return program. Increased adoption of Gorilla Glass in other end markets (automobiles), growth of Fiber-to-the-Home and gas particulate filters should be catalysts for Corning. Corning continues to have majority share of the LCD glass market (more than 50%) and has a competitive cost structure.

Stock Data

Average Daily Volume 4,394,420

Quarterly Earnings Estimates

	2022	2023
Q1	0.54A	0.41A
Q2	0.57A	0.48E
Q3	0.51A	0.55E
Q4	0.47A	0.55E

Model

Figure 1: GLW Income Statement

We model F23 rev/EPS of \$14.4bn/\$1.98

(\$ in millions except EPS)

	2022				2023E								
	1Q22A	2Q22A	3Q22A	4Q22A	1Q23A	2Q23E	3Q23E	4Q23E	2021	2022	2023E	2024E	2025E
Sales	3,744	3,762	3,666	3,633	3,367	3,525	3,730	3,728	14,120	14,805	14,350	15,121	15,789
Cost of sales	2,374	2,352	2,341	2,411	2,181	2,256	2,350	2,349	8,878	9,478	9,135	9,345	9,757
Gross profit	1,370	1,410	1,325	1,222	1,186	1,269	1,380	1,379	5,242	5,327	5,214	5,776	6,031
SG&A	461	460	428	451	411	430	455	455	1,792	1,800	1,751	1,815	1,895
R&D	250	244	279	264	252	254	269	268	988	1,037	1,043	1,134	1,184
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	659	706	618	507	523	585	656	656	2,462	2,490	2,421	2,828	2,952
Equity in earnings of affiliated companies	-	3	3	11	12	3	3	3	38	17	21	12	12
Interest income	3	3	3	6	7	3	3	3	11	15	16	12	12
Interest expense	-71	-72	-73	-76	-76	-76	-76	-76	-300	-292	-304	-304	-304
Other Net	3	6	14	35	-5	-	-	-	73	58	-5	-	-
Pretax income	594	646	565	483	461	515	586	586	2,284	2,288	2,149	2,548	2,672
Taxes	129	157	127	81	111	108	123	123	473	494	465	535	561
Tax rate	22%	24%	22%	17%	24%	21%	21%	21%	21%	22%	22%	21%	21%
Net income	465	489	438	402	350	407	463	463	1,811	1,794	1,683	2,013	2,111
Preferred payments	-	-	-	-	-	-	-	-	24	-	-	-	-
Net income (after preferred payments)	465	489	438	402	350	407	463	463	1,787	1,794	1,683	2,013	2,111
Dil EPS	\$0.54	\$0.57	\$0.51	\$0.47	\$0.41	\$0.48	\$0.55	\$0.55	\$2.07	\$2.09	\$1.98	\$2.41	\$2.57
Average shares (mn diluted)	859	856	855	856	859	854	849	844	874	857	852	837	822
Net income (GAAP)	581	563	208	-36	176	407	463	463	1,882	1,316	1,509	2,013	2,111
GAAP EPS	\$0.68	\$0.66	\$0.24	(\$0.04)	\$0.20	\$0.48	\$0.55	\$0.55	\$2.15	\$1.54	\$1.77	\$2.41	\$2.57
Dividend	\$0.27	\$0.27	\$0.27	\$0.27	\$0.30	\$0.30	\$0.30	\$0.30	\$0.96	\$1.08	\$1.19	\$1.31	\$1.44
Payout	50%	47%	53%	57%	73%	62%	54%	54%	46%	52%	60%	54%	56%
As % of Revenue													
Cost of Sales	63.4%	62.5%	63.9%	66.4%	64.8%	64.0%	63.0%	63.0%	62.9%	64.0%	63.7%	61.8%	61.8%
Gross Profit	36.6%	37.5%	36.1%	33.6%	35.2%	36.0%	37.0%	37.0%	37.1%	36.0%	36.3%	38.2%	38.2%
SG&A	12.3%	12.2%	11.7%	12.4%	12.2%	12.2%	12.2%	12.2%	12.7%	12.2%	12.2%	12.0%	12.0%
R&D	6.7%	6.5%	7.6%	7.3%	7.5%	7.2%	7.2%	7.2%	7.0%	7.0%	7.3%	7.5%	7.5%
Amort GW	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income	17.6%	18.8%	16.9%	14.0%	15.5%	16.6%	17.6%	17.6%	17.4%	16.8%	16.9%	18.7%	18.7%
Equity in earnings of affiliated companies	0.0%	0.6%	0.7%	2.7%	3.4%	0.7%	0.6%	0.6%	2.1%	0.9%	1.2%	0.6%	0.6%
Int Income	0.1%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Int Exp.	1.9%	1.9%	2.0%	2.1%	2.3%	2.2%	2.0%	2.0%	2.1%	2.0%	2.1%	2.0%	1.9%
Other Income	0.1%	0.2%	0.4%	1.0%	-0.1%	0.0%	0.0%	0.0%	0.5%	0.4%	0.0%	0.0%	0.0%
Pretax Eams	15.9%	17.2%	15.4%	13.3%	13.7%	14.6%	15.7%	15.7%	16.2%	15.5%	15.0%	16.8%	16.9%
Net Income	12.4%	13.0%	11.9%	11.1%	10.4%	11.5%	12.4%	12.4%	12.8%	12.1%	11.7%	13.3%	13.4%
Year-Over-Year Growth													
Sales	15%	7%	1%	-2%	-10%	-6%	2%	3%	23%	5%	-3%	5%	4%
Cost of Sales	13%	8%	4%	2%	-8%	-4%	0%	-3%	21%	7%	-4%	2%	4%
Gross Profit	17%	6%	-5%	-10%	-13%	-10%	4%	13%	27%	2%	-2%	11%	4%
SG&A	19%	2%	-11%	-4%	-11%	-7%	6%	1%	21%	0%	-3%	4%	4%
R&D	14%	3%	11%	-6%	1%	4%	-4%	2%	9%	5%	1%	9%	4%
Operating Income	18%	10%	-6%	-16%	-21%	-17%	6%	29%	42%	1%	-3%	17%	4%
Equity in earnings of affiliated companies	-100%	-63%	-82%	120%	NM	0%	0%	-73%	-56%	-55%	24%	-43%	0%
Int Income	0%	50%	0%	100%	133%	0%	0%	-50%	-27%	36%	7%	-25%	0%
Int Exp.	-8%	-8%	1%	4%	7%	6%	4%	0%	9%	-3%	4%	0%	0%
Other Income	-82%	-40%	27%	0%	-267%	-100%	-100%	-100%	564%	-21%	-109%	-100%	NM
Pretax Eams	16%	11%	-9%	-16%	-22%	-20%	4%	21%	46%	0%	-6%	19%	5%
Net Income	16%	7%	-10%	-14%	-25%	-17%	6%	15%	46%	-1%	-6%	20%	5%
Dil EPS	21%	8%	-9%	-13%	-25%	-17%	7%	17%	48%	1%	-6%	22%	7%
Avg Shares-Fully Diluted	-4%	-1%	-1%	-1%	0%	0%	-1%	-1%	-1%	-2%	-1%	-2%	-2%

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Corning Inc. (GLW)

Our price objective for Corning is \$39 and is based on 16x our 2024E EPS. This multiple compares to historical range of 10x-24x, with median 15x. We believe our choice of multiple at the high end is justified given the cyclical strength in Display, Environmental and Specialty segments coupled with a recovery in the Optical segment that will see multiyear growth from 5G. We also remain positive based on use of Gorilla Glass in new end markets (including automotive), and a strong capital return program.

Upside risks to our price objective are better adoption of Gorilla Glass, better-than-expected TV unit and area growth, upside from recovery in the heavy truck business, and upside from stronger telecom demand.

Downside risks to our price objective are an unexpected slowdown in TV sales, glass supply/demand becoming unbalanced due to more-than-expected supply coming online, Corning's customers cutting utilization rates more than expected, thereby reducing demand for LCD glass substrates, and higher-than-expected capex investments.

Analyst Certification

I, Wamsi Mohan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amphenol	APH	APH US	Wamsi Mohan
	Concentrix Corporation	CNXC	CNXC US	Ruplu Bhattacharya
	Corning Inc.	GLW	GLW US	Wamsi Mohan
	Dell Technologies Inc.	DELL	DELL US	Wamsi Mohan
	DigitalOcean	DOCN	DOCN US	Wamsi Mohan
	Flex Ltd.	FLEX	FLEX US	Ruplu Bhattacharya
	International Business Machines Corp.	IBM	IBM US	Wamsi Mohan
	Jabil Inc.	JBL	JBL US	Ruplu Bhattacharya
	Roku, Inc.	ROKU	ROKU US	Ruplu Bhattacharya
	Seagate Technology	STX	STX US	Wamsi Mohan
	Sensata Technologies Holdings Plc	ST	ST US	Wamsi Mohan
	TD Synnex Corp	SNX	SNX US	Ruplu Bhattacharya
	TE Connectivity Ltd.	TEL	TEL US	Wamsi Mohan
	Teradata Corporation	TDC	TDC US	Wamsi Mohan
	Vizio	VZIO	VZIO US	Wamsi Mohan
	Western Digital Corporation	WDC	WDC US	Wamsi Mohan
NEUTRAL				
	Apple Inc.	AAPL	AAPL US	Wamsi Mohan
	Arrow Electronics Inc.	ARW	ARW US	Ruplu Bhattacharya
	Avnet Inc.	AVT	AVT US	Ruplu Bhattacharya
	CDW Corp	CDW	CDW US	Ruplu Bhattacharya
	Hewlett-Packard Enterprise	HPE	HPE US	Wamsi Mohan
	Nutanix Inc	NTNX	NTNX US	Wamsi Mohan
	Pure Storage	PSTG	PSTG US	Wamsi Mohan
UNDERPERFORM				
	HP Inc.	HPQ	HPQ US	Wamsi Mohan
	NetApp Inc.	NTAP	NTAP US	Wamsi Mohan
	Vishay Intertechnology, Inc.	VSH	VSH US	Ruplu Bhattacharya
RVW				
	Latch Inc.	LTCH	LTCH US	Wamsi Mohan

US - IT Hardware and Technology Supply Chain Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

IQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of **IQmethod** are: A consistently structured, detailed, and transparent methodology; Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

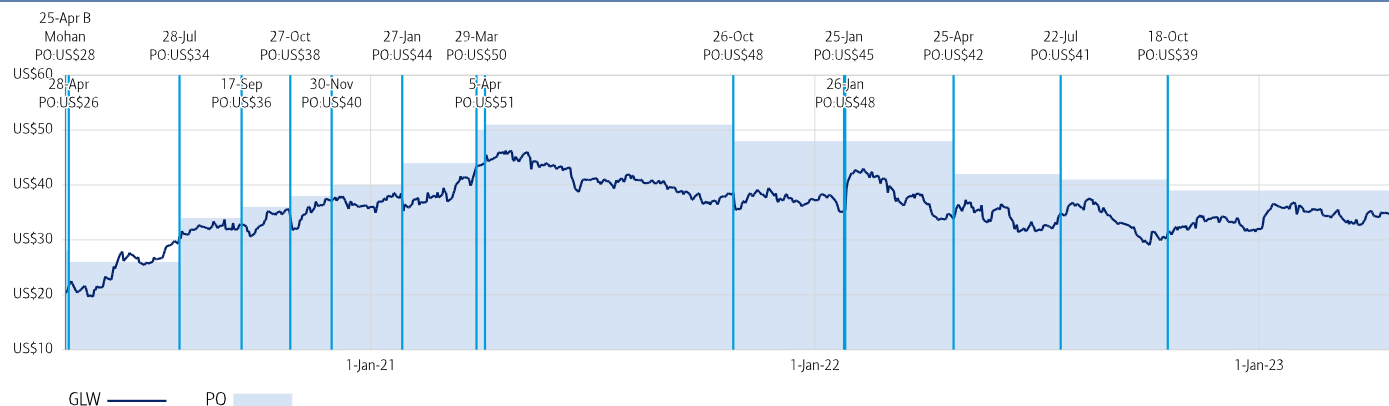
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Disclosures

Important Disclosures

Corning (GLW) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Electrical Equipment Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	17	58.62%	Buy	11	64.71%
Hold	2	6.90%	Hold	1	50.00%
Sell	10	34.48%	Sell	3	30.00%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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