

## Corteva

# Positive longer-term outlook, but near-term challenges; staying Neutral

Reiterate Rating: NEUTRAL | PO: 57.00 USD | Price: 54.06 USD

## Mgmt commentary calms market concerns

While we were more positive about Corteva's 2024 outlook (prior EBITDA est. of \$3.7bn, vs the new \$3.5-3.7bn guide), we believe many investors had soured on CTVA due to concerns about the ag cycle, destocking in crop chemicals, price/mix in seeds, and the lofty 2025 EBITDA target of \$4.1-4.7bn. While the latter was lowered by \$250mn at the midpoint to \$3.9-4.4bn, the call was well received as the company addressed many of the concerns and is aggressively cutting costs. Particularly constructive comments included mid-single digit volume growth expectations in Crop Protection (CP) in 2024, and the company still expects strong demand for high-end corn hybrids pushing its Seed price/mix up by low-single digits. We are raising our multiple on 2024E EBITDA to 11x from 10.5x, thus lifting our PO to \$57 from \$52. We are constructive longer-term in Seeds (see next page), but remain Neutral due to near-term risks.

## 2024 still has headwinds

We increased our Seed EBITDA this year, driven by +2% in price/mix vs our prior -1% estimate, but have trimmed our Crop Protection earnings recovery to mid-single digits given a worse outlook for price which more than offsets better-than-expected volumes. Margin expansion is also more limited due to ~\$300mn increases in SG&A and R&D this year. Our 2024E EBITDA is trimmed to \$3,683mn, still at the top end of mgmt's guide. There are two areas of risk in our view: (1) we continue to be concerned about price/mix in Seed, owing to the acreage shift to lower-priced soybeans, and competitive pricing in soybean seeds, and (2) Mgmt noted it expects CP volume growth of MSD, which given tough comps in Q1 points to a major recovery in the remainder of the year. While we expect growth in biologics and spinosyns, we see risks to crop chemical revenue.

## 2025 targets achievable despite big step-up needed

CTVA lowered its 2025 target EBITDA to \$3.9-4.4bn from \$4.1-4.7bn. We trimmed our estimate from \$4.25bn to \$4.15bn, still within the original range. Corteva's 2025 guide represents a big step-up in profitability, but as deflation benefits kick in, CP begins to normalize, and controllable costs decline, a ~\$500mn EBITDA growth is possible. We project a ~\$450mn EBITDA growth in 2025, driven by ~\$200mn in price and volume growth (mainly in CP) and ~\$250mn in raws deflation and net cost savings.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.68	2.69	2.90	3.50	4.00
GAAP EPS	1.67	1.31	2.19	2.78	3.27
EPS Change (YoY)	24.7%	0.4%	7.8%	20.7%	14.3%
Consensus EPS (Bloomberg)			2.92	3.53	4.03
DPS	0.58	0.62	0.66	0.72	0.80
Valuation (Dec)					
P/E	20.2x	20.1x	18.6x	15.4x	13.5x
GAAP P/E	32.4x	41.3x	24.7x	19.4x	16.5x
Dividend Yield	1.1%	1.1%	1.2%	1.3%	1.5%
EV / EBITDA*	12.4x	11.9x	10.9x	9.7x	8.9x
Free Cash Flow Yield*	0.7%	3.1%	4.6%	5.7%	5.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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Timestamp: 02 February 2024 05:17AM EST

02 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	52.00	57.00
2024E Rev (m)	17,515.7	17,845.9
2025E Rev (m)	18,228.0	18,264.2
2026E Rev (m)	NA	18,795.7
2024E EPS	3.10	2.90
2025E EPS	3.85	3.50
2026E EPS	NA	4.00
2024E DPS	0.72	0.66

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### Stock Data

Price	54.06 USD
Price Objective	57.00 USD
Date Established	2-Feb-2024
Investment Opinion	B-2-7
52-Week Range	43.22 USD - 64.98 USD
Mrkt Val (mn) / Shares Out (mn)	38,058 USD / 704.0
Free Float	99.0%
Average Daily Value (mn)	191.28 USD
BofA Ticker / Exchange	CTVA / NYS
Bloomberg / Reuters	CTVA US / CTVA.N
ROE (2024E)	8.0%
Net Dbt to Eqty (Dec-2023A)	-0.6%
ESGMeter™	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](#)".

# iQprofile<sup>SM</sup> Corteva

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	5.2%	6.0%	6.2%	7.3%	8.0%
Return on Equity	7.6%	7.6%	8.0%	9.4%	10.3%
Operating Margin	11.5%	12.6%	13.6%	15.7%	17.0%
Free Cash Flow	267	1,174	1,735	2,179	2,199

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.5x	0.9x	1.2x	1.2x	1.1x
Asset Replacement Ratio	0.5x	0.5x	0.5x	0.5x	0.5x
Tax Rate	20.9%	20.3%	22.0%	22.0%	22.0%
Net Debt-to-Equity Ratio	-7.4%	-0.6%	-1.9%	-4.7%	-7.3%
Interest Cover	25.3x	9.3x	9.3x	11.0x	13.4x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	17,455	17,226	17,846	18,264	18,796
% Change	11.5%	-1.3%	3.6%	2.3%	2.9%
Gross Profit	6,390	6,683	7,161	7,700	8,141
% Change	11.5%	4.6%	7.2%	7.5%	5.7%
EBITDA	3,224	3,381	3,683	4,146	4,494
% Change	25.2%	4.9%	8.9%	12.6%	8.4%
Net Interest & Other Income	744	668	540	560	590
<b>Net Income (Adjusted)</b>	<b>1,934</b>	<b>1,914</b>	<b>2,020</b>	<b>2,386</b>	<b>2,670</b>
<b>% Change</b>	<b>21.3%</b>	<b>-1.0%</b>	<b>5.6%</b>	<b>18.1%</b>	<b>11.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,158	747	1,540	1,909	2,198
Depreciation & Amortization	1,223	1,211	1,260	1,275	1,290
Change in Working Capital	(1,549)	(786)	(200)	(185)	(469)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	40	597	(235)	(170)	(150)
Capital Expenditure	(605)	(595)	(630)	(650)	(670)
<b>Free Cash Flow</b>	<b>267</b>	<b>1,174</b>	<b>1,735</b>	<b>2,179</b>	<b>2,199</b>
<b>% Change</b>	<b>-87.6%</b>	<b>339.7%</b>	<b>47.8%</b>	<b>25.6%</b>	<b>0.9%</b>
Share / Issue Repurchase	(1,000)	(756)	(1,000)	(1,000)	(1,000)
Cost of Dividends Paid	(418)	(439)	(458)	(488)	(530)
Change in Debt	306	1,151	50	50	50

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3,191	2,644	2,971	3,712	4,431
Trade Receivables	5,701	5,488	5,974	6,755	7,209
Other Current Assets	7,903	8,128	7,644	7,018	7,067
Property, Plant & Equipment	4,254	4,287	3,657	3,032	2,412
Other Non-Current Assets	21,569	22,449	22,449	22,449	22,449
<b>Total Assets</b>	<b>42,618</b>	<b>42,996</b>	<b>42,695</b>	<b>42,966</b>	<b>43,569</b>
Short-Term Debt	24	198	198	198	198
Other Current Liabilities	10,720	10,211	10,013	9,983	10,018
Long-Term Debt	1,283	2,291	2,291	2,291	2,291
Other Non-Current Liabilities	5,050	5,017	4,782	4,612	4,462
<b>Total Liabilities</b>	<b>17,077</b>	<b>17,717</b>	<b>17,284</b>	<b>17,084</b>	<b>16,969</b>
<b>Total Equity</b>	<b>25,541</b>	<b>25,279</b>	<b>25,411</b>	<b>25,882</b>	<b>26,600</b>
<b>Total Equity &amp; Liabilities</b>	<b>42,618</b>	<b>42,996</b>	<b>42,695</b>	<b>42,966</b>	<b>43,569</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Chemicals-Major

## Company Description

Corteva, the combined business of Pioneer, DuPont Crop Protection, and Dow Agrosiences, is a pure play agriculture business specializing in Crop Protection chemicals and Seeds. The company generated \$17B in sales and \$3.4B in EBITDA in 2024.

## Investment Rationale

Corteva's seed and crop chemical businesses are beneficiaries of strong ag fundamentals, leading to strong volume gains and robust pricing. CTVA is also enjoying certain company-specific tailwinds, including significant market share gains for its Enlist soybeans, a reduction in royalty expenses, and cost-cutting opportunities. These positives are counterbalanced by concerns regarding crop chem litigation, especially for chlorpyrifos where we assume a \$2bn liability, thus we rate CTVA Neutral.

## Stock Data

Average Daily Volume 3,710,112

## Quarterly Earnings Estimates

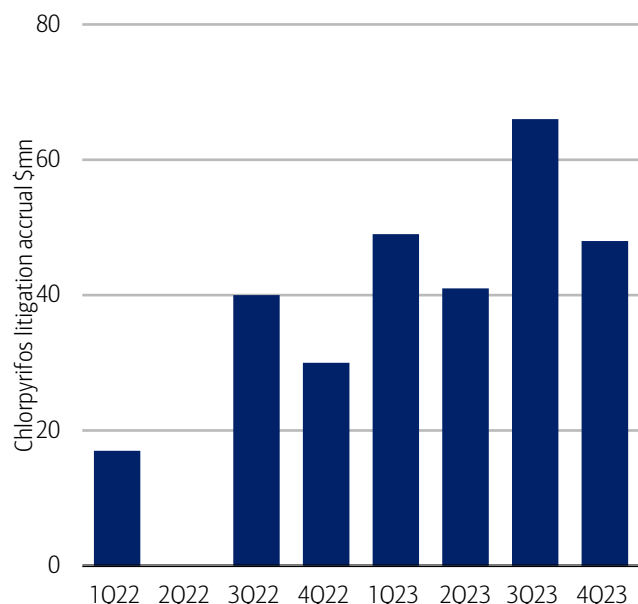
	2023	2024
Q1	1.16A	1.01E
Q2	1.60A	1.74E
Q3	-0.23A	-0.20E
Q4	0.15A	0.33E

## Longer term growth in seeds vs risks in crop chems

We continue to have a long-term constructive view about Corteva's seeds business, owing to steady pricing gains, and the potential for germplasm and branded share gains driven by genetic yield gains. Next week we expect the EU Parliament to favorably vote on a streamlined regulatory path for gene edited seeds, which could facilitate Corteva's efforts to accelerate yield gains in their global seed business from internally developed and licensed gene edited traits. Rather than the 10-15 yrs to develop and get approval for transgenic traits (GMOs), gene edited traits can be commercialized in a few years. The duopoly in the global seed industry structure has few risks in our view. We contrast this view with several risks that keep us cautious on the crop chemical outlook. Correcting for global destocking in 2023 results in LSD underlying volume growth for Corteva, and the lack of visibility into channel inventories adds uncertainties to forecasts. The fragmented crop chemical industry structure with generic suppliers represents significant pricing risk. Lastly, the potential for toxic tort litigation beyond chlorpyrifos (see Exh 1) is likely to increase in our view.

### Exhibit 1: Corteva's chlorpyrifos quarterly charges

\$291mn have been incurred so far



Source: Company reports

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### Exhibit 2: Corteva Quarterly Income Statement Summary

(\$ Millions, Except Earnings Per Share)

	2021	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
<b>Net Sales</b>													
Seed	\$8,402	\$8,979	\$2,695	\$4,264	\$878	\$1,635	\$9,472	\$2,733	\$4,388	\$929	\$1,803	\$9,853	\$9,951
Crop Protection	7,253	8,476	2,189	1,781	1,712	2,072	7,754	1,957	1,953	1,846	2,180	7,993	8,313
Consolidated Total	15,655	17,455	4,884	6,045	2,590	3,707	17,226	4,690	6,341	2,775	3,983	17,846	18,264
<b>Adjusted EBITDA</b>													
Seed	1,512	1,656	652	1,458	-138	145	2,117	695	1,501	-97	274	2,373	2,613
Crop Protection	1,202	1,684	603	320	184	267	1,374	478	402	256	319	1,455	1,683
Corporate	-138	-116	-24	-32	-28	-26	-110	-35	-37	-38	-35	-145	-150
Consolidated Total	2,576	3,224	1,231	1,746	18	386	3,381	1,138	1,866	121	559	3,683	4,146
Operating Income	1,333	2,001	944	1,440	-288	74	2,170	826	1,551	-199	246	2,423	2,871
Profit Before Tax	2,102	2,745	1,107	1,567	-133	297	2,838	966	1,681	-71	388	2,963	3,431
Adjusted Net Income	1,595	1,934	833	1,139	-161	103	1,914	709	1,218	-136	229	2,020	2,386
<b>Diluted - Adjusted EPS</b>	\$2.15	\$2.68	\$1.16	\$1.60	-\$0.23	\$0.15	\$2.69	\$1.01	\$1.74	-\$0.20	\$0.33	\$2.90	\$3.50



**Exhibit 2: Corteva Quarterly Income Statement Summary**

(\$ Millions, Except Earnings Per Share)

<b>Net Sales</b>	<b>2021</b>	<b>2022</b>	<b>1Q23</b>	<b>2Q23</b>	<b>3Q23</b>	<b>4Q23</b>	<b>2023</b>	<b>1Q24E</b>	<b>2Q24E</b>	<b>3Q24E</b>	<b>4Q24E</b>	<b>2024E</b>	<b>2025E</b>
<b>Net Sales Growth:</b>													
Seed	<b>8.3%</b>	<b>6.9%</b>	6.8%	8.0%	1.9%	-0.7%	<b>5.5%</b>	1.4%	2.9%	5.8%	10.3%	<b>4.0%</b>	<b>1.0%</b>
Crop Protection	<b>12.3%</b>	<b>16.9%</b>	5.4%	-22.7%	-10.6%	-4.9%	<b>-8.5%</b>	-10.6%	9.7%	7.8%	5.2%	<b>3.1%</b>	<b>4.0%</b>
Consolidated Total	<b>10.1%</b>	<b>11.5%</b>	6.2%	-3.3%	-6.7%	-3.1%	<b>-1.3%</b>	-4.0%	4.9%	7.1%	7.4%	<b>3.6%</b>	<b>2.3%</b>
<b>Adjusted EBITDA Margin</b>													
Seed	<b>18.0%</b>	<b>18.4%</b>	24.2%	34.2%	-15.7%	8.9%	<b>22.4%</b>	25.4%	34.2%	-10.4%	15.2%	<b>24.1%</b>	<b>26.3%</b>
Crop Protection	<b>16.6%</b>	<b>19.9%</b>	27.5%	18.0%	10.7%	12.9%	<b>17.7%</b>	24.4%	20.6%	13.9%	14.7%	<b>18.2%</b>	<b>20.2%</b>
Consolidated Total	<b>16.5%</b>	<b>18.5%</b>	25.2%	28.9%	0.7%	10.4%	<b>19.6%</b>	24.3%	29.4%	4.4%	14.0%	<b>20.6%</b>	<b>22.7%</b>

Source: Company data, BofA Global Research

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## Price objective basis & risk

### Corteva (CTVA)

Our PO of \$57 is based on 11x our 2024 EBITDA estimate and includes a roughly \$2bn adjustment for legal liabilities (\$1.5bn for a potential chlorpyrifos liability and roughly \$500mn for a potential PFAS liability). We view 11x, around the 5-year average of specialty chemical companies, as appropriate given continued strength of Ag fundamentals balanced by rising risks.

Downside risks are aggressive soybean seed pricing, higher raw material costs, weather disruption, and litigation risks.

Upside risks are price/mix gains in seeds, lower raw material costs, improving LatAm FX rates, and better than expected new product growth

## Analyst Certification

I, Steve Byrne, CFA, 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 - Chemicals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Axalta Coating Systems	AXTA	AXTA US	Steve Byrne, CFA
	Bunge Limited	BG	BG US	Salvator Tiano, CFA
	CF Industries	CF	CF US	Steve Byrne, CFA
	Dow Inc	DOW	DOW US	Steve Byrne, CFA
	Eastman Chemical Co	EMN	EMN US	Salvator Tiano, CFA
	Element Solutions Inc.	ESI	ESI US	Steve Byrne, CFA
	Green Plains	GPPE	GPPE US	Salvator Tiano, CFA
	Huntsman Corp	HUN	HUN US	Salvator Tiano, CFA
	Linde	LIN	LIN US	Steve Byrne, CFA
	Linde	LINGY	LIN GY	Steve Byrne, CFA
	Nutrien	NTR	NTR US	Steve Byrne, CFA
	Olin Corp	OLN	OLN US	Steve Byrne, CFA
	PPG Industries Inc.	PPG	PPG US	Steve Byrne, CFA
	Sigma Lithium	SGML	SGML US	Steve Byrne, CFA
	The Mosaic Company	MOS	MOS US	Steve Byrne, CFA
<b>NEUTRAL</b>				
	Air Products	APD	APD US	Steve Byrne, CFA
	Albemarle	ALB	ALB US	Steve Byrne, CFA
	Archer-Daniels-Midland Company	ADM	ADM US	Salvator Tiano, CFA
	Corteva	CTVA	CTVA US	Steve Byrne, CFA
	Ecolab Inc	ECL	ECL US	Steve Byrne, CFA
	International Flavors & Fragrances	IFF	IFF US	Salvator Tiano, CFA
	LyondellBasell Industries	LYB	LYB US	Steve Byrne, CFA
	Origin Materials	ORGN	ORGN US	Steve Byrne, CFA
<b>UNDERPERFORM</b>				
	Celanese Corporation	CE	CE US	Salvator Tiano, CFA
	DuPont	DD	DD US	Steve Byrne, CFA
	FMC Corporation	FMC	FMC US	Steve Byrne, CFA
	RPM International Inc	RPM	RPM US	Steve Byrne, CFA
	Sherwin-Williams Company	SHW	SHW US	Steve Byrne, CFA
	Westlake Chemical Partners, LP	WLKP	WLKP US	Steve Byrne, CFA
	Westlake Corp	WLK	WLK US	Steve Byrne, CFA



## iQmethod<sup>SM</sup> 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 &amp; 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

iQmethod<sup>SM</sup> 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 validations. 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.

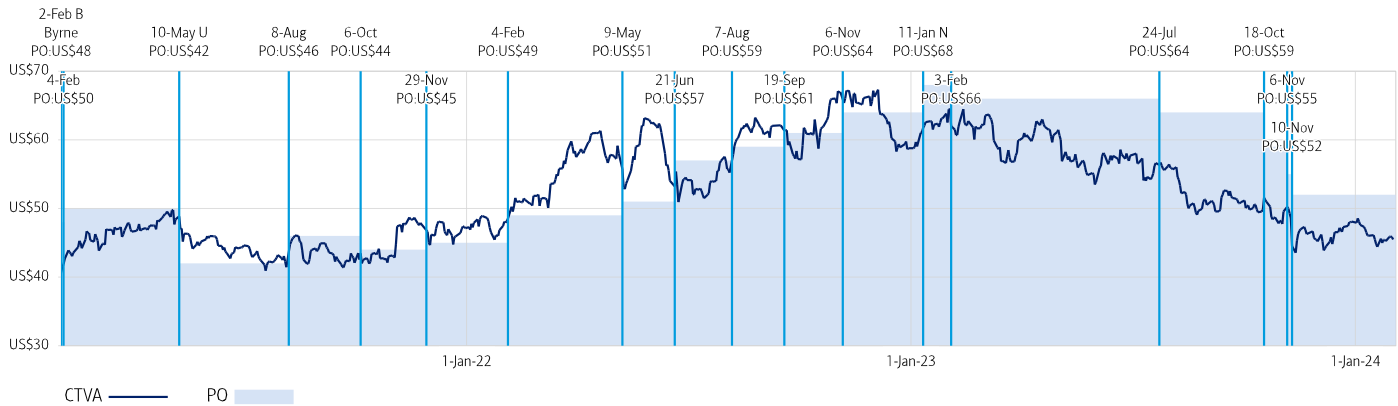
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# Disclosures

## Important Disclosures

### Corteva (CTVA) 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: Chemicals Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	66	47.83%	Buy	33	50.00%
Hold	33	23.91%	Hold	16	48.48%
Sell	39	28.26%	Sell	20	51.28%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> 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.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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