

Celanese Corporation(CE)

\$94.65 (As of 03/03/20)

Price Target (6-12 Months): **\$110.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Earnings estimates for Celanese for the first quarter of 2020 are going down over the past month. Operational cost savings through productivity actions are likely to lend support to the company's earnings in 2020. Acquisitions are also expected to drive results in the Engineered Materials unit. The company is also poised to gain from expansion in emerging regions. However, the global economic weakness is expected to continue to affect demand. Turnarounds at the Clear Lake facility is also likely to hurt first-quarter results. Celanese is also exposed to headwinds from weak acetate tow volumes due to low utilization rates across the tow industry. Lower utilization in China is also hurting acetic acid demand. The company's high debt level is also a concern. The stock has also underperformed the industry it belongs to over the past year.

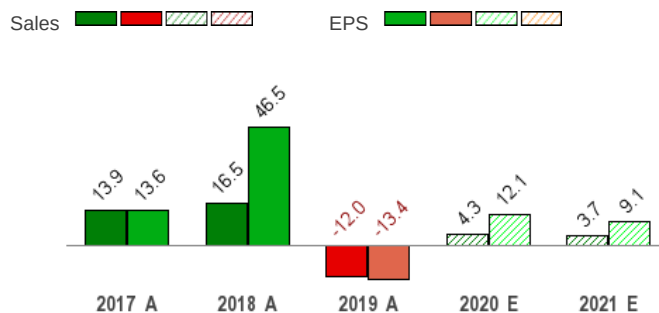
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$128.88 - \$88.07
20 Day Average Volume (sh)	1,003,734
Market Cap	\$11.3 B
YTD Price Change	-23.1%
Beta	1.31
Dividend / Div Yld	\$2.48 / 2.6%
Industry	Chemical - Specialty
Zacks Industry Rank	Bottom 19% (207 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.8%
Last Sales Surprise	-4.7%
EPS F1 Est- 4 week change	-2.9%
Expected Report Date	04/27/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,811 E
2020	1,641 E	1,603 E	1,675 E	1,554 E	6,567 E
2019	1,687 A	1,592 A	1,586 A	1,432 A	6,297 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$11.65 E
2020	\$2.49 E	\$2.54 E	\$3.01 E	\$2.60 E	\$10.68 E
2019	\$2.62 A	\$2.38 A	\$2.53 A	\$1.99 A	\$9.53 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/03/2020. The reports text is as of 03/04/2020.

Overview

Texas-based Celanese Corporation is a global hybrid chemical company. The company produces chemical substances and materials. About 95% of Celanese's products rank either first or second in their respective markets, based on market shares.

Celanese makes high performance engineered polymers that are used in a range of high-value applications. It also produces acetyl products for most major industries.

The company's vast product portfolio caters a number of end-use applications including automotive, construction, consumer and industrial adhesives, performance industrial, textiles, chemical additives, consumer and medical, energy storage, filtration, paints and coatings, paper and packaging and food and beverage. The company generated revenues of \$6,297 million in 2019.

The company's operating segments are as follows:

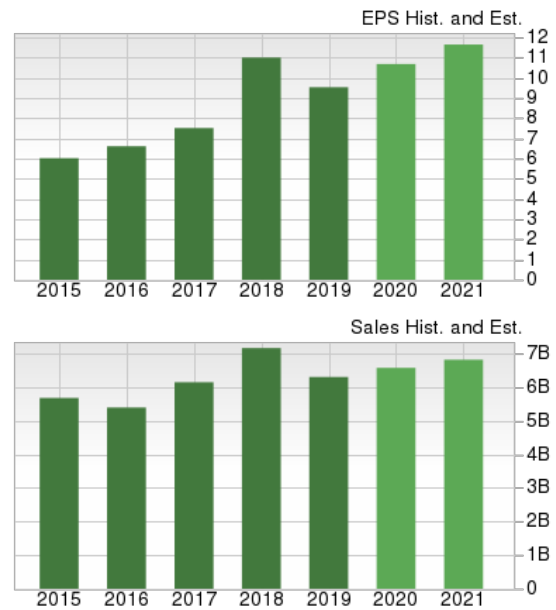
Engineered Materials/EM (37% of 2019 sales): The segment develops, produces and supplies high performance technical polymers for application in automotive and electronics products and in other consumer and industrial applications. The primary products of Advanced Engineered Materials are Polyacetal products and ultra-high molecular weight polyethylene (GUR).

Acetate Tow (9%): The segment consists of Acetate Products businesses. The Acetate Products business primarily produces and supplies acetate tow and acetate flake, which are used in the production of filter products.

Acetyl Chain (54%): This segment includes the results of Celanese's Industrial Specialties and Acetyl Intermediates. The Industrial Specialties business includes the Emulsions and AT Plastics businesses. The Emulsions business produces vinyl acetate/ethylene emulsions. AT Plastics offers a complete line of low-density polyethylene and specialty ethylene vinyl acetate resins and compounds.

The Acetyl Intermediates business produces and supplies acetyl products including acetic acid, vinyl acetate monomer (VAM), acetic anhydride and acetate esters. Acetic acid is a key intermediate chemical used in the production of VAM, purified terephthalic acid and acetic anhydride.

Other chemicals produced in this segment are organic solvents and intermediates for pharmaceutical, agricultural and chemical products.



Reasons To Buy:

▲ Celanese remains focused on growth through acquisitions. The purchase of Italy-based SO.F.TER. Group has strengthened Celanese's solutions capability and project pipeline. SO.F.TER. Group's modern manufacturing facilities and product portfolio offer opportunities for additional growth, investment and synergies. Moreover, the acquisition of Nilit's nylon compounding unit is in sync with Celanese's plans to become a leading nylon compound supplier. The buyout allows Celanese to extend its global leadership position in the engineered materials business as nylon continues to be adopted in automotive, consumer and industrial applications. The buyout of Omni Plastics also reinforces Celanese's global asset base by adding compounding capacity in the Americas, which will allow the company to continue supporting a diverse and growing customer base. The recently announced acquisition of Elotex will also boost the company's position in the vinyl acetate ethylene (VAE) emulsions space.

Celanese's strategic actions including acquisitions and operational cost savings should lend support to its earnings. The company should also gain from expansion in emerging regions.

▲ Celanese is committed to execute its productivity programs that include implementation of a number of cost reduction capital projects. The company's strategic initiatives including cost savings through productivity actions and efficiency enhancement are expected to continue to support its earnings. Its margins in 2020 are expected to be driven by productivity actions, price hike actions and operational improvement. Global supply chain improvements and other productivity initiatives at the EM unit are expected to contribute to earnings growth this year. The company expects its capital projects and other initiatives to deliver net productivity of roughly \$125 million in 2020.

▲ Celanese continues to accelerate growth in emerging regions, including Asia. Its integrated chemical complex in Nanjing, China serves as a foundation for expansion in Asia, supporting the region's increasing demand. Celanese has doubled the capacity of VAE unit in Nanjing, which will meet the increased global demand for innovative specialty solutions in vinyl-based emulsions. Celanese and Pertamina are also jointly developing synthetic fuel ethanol in Indonesia by deploying Celanese's TCX ethanol process technology. Celanese has also started production at the new VAE production unit in Singapore that will support the rising demand in Southeast Asia. The company is also investing in a number of capital efficient VAE expansion and debottlenecking projects to strengthen its acetyls business.

▲ Celanese continues to generate strong cash flows and remains focused on returning value to its shareholders. The company, in April 2019, raised its quarterly cash dividend by 15% to 62 cents a share. The company's board also approved a new \$1.5 billion share repurchase program. During 2019, the company returned \$1.3 billion to shareholders through dividends and share repurchases. Moreover, the company returned \$225 million to shareholders through share repurchases in the most recent quarter. It had \$1.2 billion remaining under the current share repurchase authorization at the end of 2019.

Reasons To Sell:

- ▼ Shares of Celanese are down 7.9% over the past year, underperforming the industry's decline of 6%. Celanese is exposed to economic weakness globally, leading to a slowdown in demand. The company continued to witness demand slowdown in the fourth quarter of 2019. Demand weakness across end markets (especially automotive and consumer electronics) hurt its sales in the quarter. Trade uncertainties and industry destocking led to a decline in its sales in 2019. Soft demand conditions are likely to continue in the first quarter of 2020. The company does not expect any meaningful improvement in demand conditions in 2020.
- ▼ Results in the company's Acetyl Chain segment are expected to be hurt, in first-quarter 2020, by the impact of turnarounds at its Clear Lake methanol facility in Texas as well as Clear Lake and Nanjing acetic acid plants. The company expects roughly \$15-\$20 million of expenses related to turnarounds for the first quarter. Turnaround costs for full-year 2020 has been projected at \$70-\$80 million (higher than \$50 million in 2019), most of which are expected to take effect during the first half and impact earnings.
- ▼ Celanese's balance sheet leverage is also relatively high, limiting its financial flexibility. Its total debt was roughly \$3.9 billion, roughly 8-times of its against cash and cash equivalent of around \$463 million at the end of the most recent quarter. The debt-to-equity ratio of the company is 123.9%, much higher than industry's average of 75%.
- ▼ Acetyl demand in China remain affected by the country's structurally oversupplied market and the sluggish economic conditions. Adding to the problem is environmental tightening by China and the related shutdowns. The company also faced a \$300 million pricing headwind associated with acetic acid in 2019 due to roughly 40% year-over-year decline in acetic acid prices in China, partly due to sluggish demand. Acetic acid demand in China is likely to be hurt in the first quarter of 2020 by the impact of the disruptions from the coronavirus outbreak.
- ▼ Celanese is exposed to some challenges in its Acetate Tow unit. Low utilization rates across the tow industry are hurting volumes of acetate tow, as witnessed in 2019. Demand and utilization rates remain subdued across the tow industry. As such, earnings for the Acetate Tow unit are expected to remain under pressure in the quarters ahead.

Celanese is exposed to headwinds from soft demand conditions, outages at Clear Lake and weak acetate tow volumes. Its high debt level is also a matter of concern.

Last Earnings Report

Celanese's Earnings and Revenues Lag Estimates in Q4

Celanese logged earnings from continuing operations of 35 cents per share in fourth-quarter 2019, down from 73 cents in the year-ago quarter.

Barring one-time items, adjusted earnings were \$1.99 a share, down from \$2.38 in the year-ago quarter. It also lagged the Zacks Consensus Estimate of \$2.09.

Revenues of \$1,432 million fell 15.2% year over year and missed the Zacks Consensus Estimate of \$1,501.8 million. The company witnessed demand weakness during the reported quarter.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	-4.65%
EPS Surprise	-4.78%
Quarterly EPS	1.99
Annual EPS (TTM)	9.52

Segment Review

Net sales in the Engineered Materials unit were \$539 million in the quarter, down 13.3% year over year. Sales were hurt by lower volumes, prices and unfavorable currency impact. Volumes were impacted due to high seasonality in the Western Hemisphere, soft demand for products used in the manufacturing of capital goods and slower-than-expected ramp up, following the resolution of the autoworkers' strike of General Motors.

The Acetyl Chain segment posted net sales of \$771 million, down 17.7% year over year. Sales were mainly affected by normal winter seasonality as well as the impact of the outage at the Clear Lake facility in Texas.

Net sales in the Acetate Tow segment were \$148 million, down 8.1% year over year. Prices were stable year over year in the quarter.

Notably, during the reported quarter, Acetate Tow finalized the shutdown of its production facility at Ocotlan, Mexico, contributing additional savings to aid stable earnings performance in 2020.

2019 Highlights

For 2019, revenues declined 12% year over year to \$6,297 million. Adjusted earnings declined 13.4% year over year to \$9.53 per share for 2019.

Financials

Celanese ended 2019 with cash and cash equivalents of \$463 million, up 5.5% year over year. Long-term debt was up 14.8% year over year to \$3,409 million.

Celanese generated operating cash flow of \$326 million and free cash flow of \$179 million in the quarter. Capital expenditure was \$144 million for the quarter. Moreover, the company completed \$225 million in share repurchases during the reported quarter.

Outlook

Celanese does not expect any meaningful improvement in demand conditions on a year-over-year basis in 2020. Moreover, the company expects to reach 2020 adjusted earnings target of \$11 per share, driven by factors within its control.

Recent News

Celanese Inks Deal to Buy Elotex, Boosts Acetyls Business - Jan 30, 2020

Celanese has signed a deal to acquire Nouryon's redispersible polymer powders business, which is offered under the Elotex brand.

Notably, Celanese agreed to purchase all of global production facilities of Nouryon for redispersible polymer powders throughout Europe and Asia. It will also acquire all products under the Elotex portfolio, and customer agreements, technology and commercial facilities worldwide.

Per management, the acquisition will offer Celanese direct access to a comparatively fast-growing applications and customer base, which in turn will complement its emulsion business. Notably, this deal will strengthen the company's global leadership position in the VAE emulsions space, and support customers in construction and building materials.

The buyout also marks a vital step in the company's acetyl core derivatization strategy. Notably, it offers additional flexibility and downstream growth optionality through derivatization, both of which are critical for unlocking value under its unique global acetyl chain business model.

Celanese plans to incorporate Elotex's redispersible polymer powder product portfolio and manufacturing facilities into its global acetyl chain in order to cater to the global product demand.

The transaction is slated to be completed in the second quarter of 2020, subject to customary closing conditions, regulatory approvals and completion of the works council process. Notably, Celanese and Elotex are expected to continue to function as independent businesses until the transaction is completed.

The company also announced its plans to expand emulsion polymers derivatives business to strengthen its global acetyl chain. The investments announced by Celanese include implementation of a number of capital efficient VAE expansion and debottlenecking projects through 2023. These include significant expansions of the company's Nanjing, China, and Geleen, Netherlands, VAE emulsions production sites.

Celanese's Ethylene-based VAM Awarded Green Technology Tag - Jan 13, 2020

Celanese announced that its ethylene-based VAM technology has been awarded the "Green Technology" designation by China Petroleum and Chemical Industry Federation.

Notably, the designation was awarded to the company's ethylene-based VAM technology due to its low carbon emissions, low content of heavy components, low energy consumption and high product quality.

Per Management, it will continue to adhere to its business standards of sustainable product development. It will also work with local governments and associations, and participate actively in related activities to contribute further to China's green development.

Notably, ethylene-based VAM is used in the production of different types of polymer emulsions, which are base resins for water-based paints, paper coatings, adhesives and textile finishes.

Celanese to Raise Acetyl Intermediates Product Price - Dec 19, 2019

Celanese is raising the list and off-list selling prices of acetyl intermediates products. The price hike is applicable for bulk shipment orders and will be effective as of Jan 1, 2020, or as contracts permit.

Prices of acetic acid will likely increase by RMB 2800/MT in China and it will rise by \$450/MT in Asia outside China.

Valuation

Celanese's shares are down 7.9% over the trailing 12-month period. Stocks in the Zacks Chemicals-Specialty industry and the Zacks Basic Materials sector are down 6% and 17% over the past year, respectively.

The S&P 500 index is up 9.6% in the past year.

The stock is currently trading at 8.72X forward 12-month earnings, which compares to 18.15X for the Zacks sub-industry, 11.96X for the Zacks sector and 17.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.54X and as low as 7.49X, with a 5-year median of 10.83X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$110 price target reflects 10.14X forward 12-month earnings per share.

The table below shows summary valuation data for CE:

Valuation Multiples - CE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	8.72	18.15	11.96	17.66
	5-Year High	14.54	19.53	21.15	19.34
	5-Year Low	7.49	14.75	9.82	15.18
	5-Year Median	10.83	17.84	13.57	17.46
EV/EBITDA TTM	Current	10.62	20.45	9	10.93
	5-Year High	14.29	25.21	17.75	12.88
	5-Year Low	7.55	16.83	7.45	8.49
	5-Year Median	9.38	22.32	10.88	10.79
P/B TTM	Current	3.91	5.42	1.53	4.14
	5-Year High	5.08	9.36	3.54	4.54
	5-Year Low	2.4	5.21	1.34	2.85
	5-Year Median	3.86	7.48	2.17	3.62

As of 03/03/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (207 out of 255)



Top Peers

Asahi Kasei Corp. (AHKSY)	Neutral
Air Products and Chemicals, Inc. (APD)	Neutral
Ashland Global Holdings Inc. (ASH)	Neutral
Huntsman Corporation (HUN)	Neutral
BASF SE (BASFY)	Underperform
Eastman Chemical Company (EMN)	Underperform
LyondellBasell Industries N.V. (LYB)	Underperform
Koninklijke DSM NV (RDSMY)	Underperform

Industry Comparison Industry: Chemical - Specialty				Industry Peers		
	CE Neutral	X Industry	S&P 500	APD Neutral	BASFY Underperform	EMN Underperform
VGM Score	B	-	-	D	D	B
Market Cap	11.32 B	1.10 B	21.37 B	50.17 B	54.08 B	8.29 B
# of Analysts	6	2	13	7	3	7
Dividend Yield	2.62%	0.50%	2.04%	2.04%	4.34%	4.33%
Value Score	B	-	-	D	B	B
Cash/Price	0.04	0.05	0.05	0.05	0.05	0.02
EV/EBITDA	9.87	9.01	12.65	14.54	6.15	7.91
PEG Ratio	0.87	1.70	1.87	2.00	2.74	1.05
Price/Book (P/B)	3.90	1.63	2.96	4.21	1.18	1.37
Price/Cash Flow (P/CF)	7.32	8.86	11.68	17.26	5.00	5.18
P/E (F1)	8.75	12.59	16.98	23.91	14.48	8.25
Price/Sales (P/S)	1.80	1.29	2.44	5.61	0.79	0.89
Earnings Yield	11.28%	7.54%	5.87%	4.18%	6.93%	12.12%
Debt/Equity	1.24	0.68	0.70	0.27	0.39	0.93
Cash Flow (\$/share)	12.92	2.37	7.01	13.17	2.95	11.76
Growth Score	B	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	15.52%	5.47%	10.85%	4.57%	0.04%	1.77%
Proj. EPS Growth (F1/F0)	12.09%	8.68%	6.36%	15.83%	-9.22%	3.59%
Curr. Cash Flow Growth	-15.99%	3.43%	6.07%	10.98%	136.40%	-9.97%
Hist. Cash Flow Growth (3-5 yrs)	5.47%	5.39%	8.52%	5.70%	-0.12%	1.05%
Current Ratio	1.58	2.12	1.23	2.59	1.78	1.86
Debt/Capital	55.33%	40.59%	42.57%	21.49%	28.03%	48.19%
Net Margin	13.53%	5.58%	11.57%	21.10%	14.63%	8.19%
Return on Equity	37.36%	11.53%	16.66%	16.20%	9.13%	16.47%
Sales/Assets	0.66	0.70	0.54	0.46	0.68	0.57
Proj. Sales Growth (F1/F0)	4.29%	1.24%	4.01%	3.72%	6.36%	-0.96%
Momentum Score	F	-	-	D	D	C
Daily Price Chg	-1.78%	0.00%	-2.60%	-1.43%	-1.87%	-3.15%
1 Week Price Chg	-13.19%	-11.32%	-12.06%	-13.87%	-10.66%	-16.43%
4 Week Price Chg	-11.81%	-8.83%	-10.01%	-7.98%	-14.07%	-16.60%
12 Week Price Chg	-21.75%	-11.06%	-7.46%	-0.93%	-21.03%	-20.07%
52 Week Price Chg	-7.86%	-16.74%	2.54%	26.87%	-23.77%	-26.15%
20 Day Average Volume	1,003,734	101,535	2,406,738	1,151,680	466,680	1,238,931
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.15%	-10.29%	-0.46%
(F1) EPS Est 4 week change	-2.89%	-0.65%	-0.06%	0.17%	-11.85%	-0.97%
(F1) EPS Est 12 week change	-3.29%	-7.26%	-0.39%	0.33%	-20.26%	-5.75%
(Q1) EPS Est Mthly Chg	-8.15%	-1.63%	-0.45%	-0.05%	-12.82%	-3.66%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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