

Celanese Corporation(CE)

\$77.58 (As of 05/06/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

Celanese's adjusted earnings for the first quarter beat the Zacks Consensus Estimate while sales missed. Celanese is exposed to headwinds from a slowdown in demand. The global economic weakness amid the coronavirus pandemic is expected to continue to affect demand. Soft demand conditions across major markets such as automotive and electronics are likely to continue in the second quarter. Reduced consumer activities are expected to impact demand in the second quarter. Celanese is also exposed to headwinds from weak acetate tow volumes due to low utilization rates across the tow industry. Acetic acid demand in China is also likely to remain under pressure over the near term. The company's high debt level is also a matter of concern. The company has also underperformed the industry it belongs to over the past year.

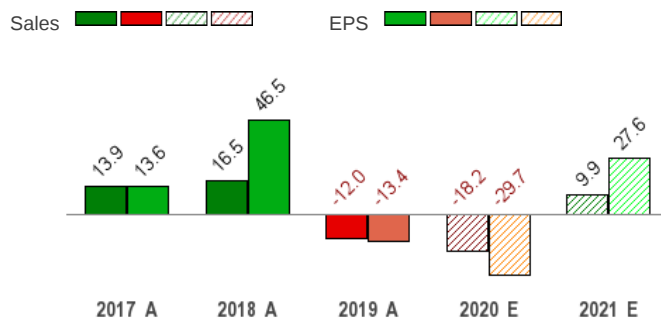
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$128.88 - \$52.70
20 Day Average Volume (sh)	901,827
Market Cap	\$9.3 B
YTD Price Change	-37.0%
Beta	1.35
Dividend / Div Yld	\$2.48 / 3.2%
Industry	Chemical - Specialty
Zacks Industry Rank	Top 47% (118 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	-3.5%
EPS F1 Est- 4 week change	-32.0%
Expected Report Date	07/27/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,595 E	1,298 E	1,471 E	1,599 E	5,658 E
2020	1,460 A	1,070 E	1,285 E	1,348 E	5,148 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	\$2.25 E	\$1.93 E	\$2.22 E	\$2.31 E	\$8.55 E
2020	\$2.29 A	\$1.13 E	\$1.57 E	\$1.67 E	\$6.70 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.

P/E TTM	8.4
P/E F1	11.6
PEG F1	1.2
P/S TTM	1.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/06/2020. The reports text is as of 05/07/2020.

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:

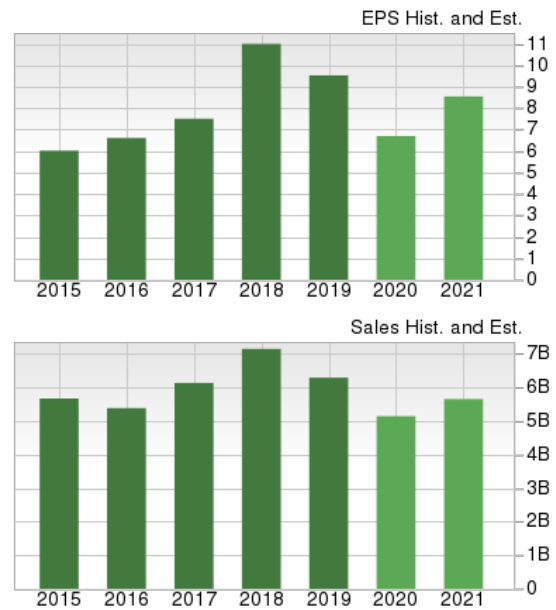
Engineered Materials/EM (37% of 2019 sales): The segment develops, produces and supplies high performance technical polymers for application in automotive and electronics products and in other consumer and industrial applications. The primary products of Advanced Engineered Materials are Polyacetal products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

- ▼ Shares of Celanese are down 26.6% over the past year, underperforming the industry's decline of 17.1%. Celanese is exposed to economic weakness globally, leading to a slowdown in demand. The company continued to witness demand slowdown in the most recent quarter due to the coronavirus pandemic. Demand weakness across certain end markets (especially automotive and consumer electronics) hurt its sales in the quarter. Soft demand conditions are likely to continue in the second quarter of 2020. The company expects reduced consumer activities, especially in the Western Hemisphere, to meaningfully impact its demand in the second quarter. It sees a 25-35% sequential decline in demand in the Engineered Materials unit in the second quarter.
- ▼ Acetyl demand in China remain affected by the country's structurally oversupplied market and the sluggish economic conditions. Adding to the problem is the coronavirus-induced slowdown. The company 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 remain under pressure over the near term due to the impact of the disruptions from the coronavirus outbreak. The company expects demand in the Acetyl Chain unit to decline 15-25% sequentially in the second quarter.
- ▼ Celanese is exposed to some challenges in its Acetate Tow unit. Low utilization rates across the tow industry are hurting volumes of acetate tow. 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's balance sheet leverage is also relatively high, limiting its financial flexibility. Its total debt was \$4,105 million at the end of first-quarter 2020, increasing from \$3,905 million in the sequentially prior quarter. Moreover, its total debt-to-total capital ratio stood at 0.60 as of Mar 31, 2020, higher than 0.58 as of Dec 31, 2019. The company's total debt is also roughly 7-times of its cash and cash equivalent of around \$570 million at the end of the first quarter. The company's cash balance is also lower than its short-term debt of \$749 million as of Mar 31, 2020. This coupled with the company's weak revenue stream (as reflected by falling revenues over the past few quarters) may affect its ability to meet its debt obligations.

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

Risks

- 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 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 to achieve gross savings of \$200 million from its productivity actions 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 \$224 million to shareholders (including \$74 million in dividends) in the most recent quarter.
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Last Earnings Report

Celanese's Earnings Beat Estimates in Q1, Revenues Miss

Celanese logged earnings from continuing operations of \$1.88 per share in first-quarter 2020, down from \$2.64 in the year-ago quarter.

Barring one-time items, adjusted earnings were \$2.29 a share, down from \$2.62 in the year-ago quarter. However, it surpassed the Zacks Consensus Estimate of \$2.19.

Revenues of \$1,460 million fell 13.5% year over year and missed the Zacks Consensus Estimate of \$1,512.2 million. The company witnessed a demand weakness due to the impacts of the coronavirus outbreak during the reported quarter.

Quarter Ending 03/2020

Report Date	Apr 27, 2020
Sales Surprise	-3.45%
EPS Surprise	4.57%
Quarterly EPS	2.29
Annual EPS (TTM)	9.19

Segment Review

Net sales in the Engineered Materials unit were \$563 million in the quarter, down 15% year over year. The segment witnessed lower volumes in Asia due to the impacts of the coronavirus outbreak in the quarter.

The Acetyl Chain segment posted net sales of \$799 million, down 10.1% year over year. Sales were affected by a sustained decline in industry pricing due to weakness in Asia demand and underlying raw materials.

Net sales in the Acetate Tow segment were \$129 million, down 22.3% year over year.

Financials

Celanese ended the quarter with cash and cash equivalents of \$570 million, up 29.3% year over year. Long-term debt was up 14.4% year over year to \$3,356 million.

Celanese generated operating cash flow of \$259 million and free cash flow of \$135 million in the quarter. Capital expenditure was \$119 million for the quarter. Moreover, the company completed \$150 million in share repurchases during the reported quarter.

Outlook

Celanese expects to generate \$300-\$400 million of incremental cash on account of the actions that it is presently taking on productivity, working capital management and capital expenditure prioritization that enables it to offset challenges related to demand and earnings in 2020.

The company suspended its earlier announced annual adjusted earnings per share guidance for 2020 due to uncertainties regarding the duration and impact of the coronavirus pandemic.

Recent News

Celanese Closes Elotex Buyout, Boosts VAE Emulsion Business- Apr 1, 2020

Celanese completed the acquisition of Nouryon's redispersible polymer powders business under the Elotex brand. Celanese announced its plans to acquire Elotex on Jan 30. Notably, financial details of the transaction will be reported as part of the company's regular quarterly financial disclosure.

Notably, with the completion of the buyout, Celanese took the ownership of global production facilities of Nouryon for redispersible polymer powders throughout Europe and Asia. It also acquired all products under the Elotex portfolio and all customer agreements, technology and commercial facilities worldwide.

Celanese plans to incorporate Elotex's product portfolio and manufacturing facilities into its global vinyl acetate ethylene ("VAE") emulsion business to cater to the global product demand. The acquisition strengthens the company's global leadership position in the VAE emulsions space, and supports customers in construction and building materials.

Elotex is one of the world's leading producers of redispersible polymer powders for growing applications such as exterior thermal insulation composite systems (ETICS), self-leveling flooring and wall texturing smoothing/painting, cement tile adhesives and grouts, gypsum plaster and joint fillers, polymer binding systems, and cement and time-based renders. Notably, it has manufacturing facilities in Frankfurt, Geleen, Moosleerau and Shanghai.

Valuation

Celanese's shares are down 37% in the year-to-date period and 26.6% over the trailing 12-month period. Stocks in the Zacks Chemicals-Specialty industry and Zacks Basic Materials sector are down 17.9% and 21.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 17.1% and 15.3%, respectively.

The S&P 500 index is down 11.5% in the year-to-date period and 1.3% in the past year.

The stock is currently trading at 10.56X forward 12-month earnings, which compares to 20.3X for the Zacks sub-industry, 14.55X for the Zacks sector and 20.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.54X and as low as 5.39X, with a 5-year median of 10.76X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$66 price target reflects 8.98X 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	10.56	20.3	14.55	20.62
	5-Year High	14.54	20.3	21.06	20.62
	5-Year Low	5.39	14.41	9.79	15.19
	5-Year Median	10.76	17.86	13.46	17.44
EV/EBITDA TTM	Current	8.98	19.52	8.51	10.51
	5-Year High	14.29	25.53	17.84	12.86
	5-Year Low	7.03	14.71	6.53	8.28
	5-Year Median	9.55	22.39	10.84	10.78
P/B TTM	Current	3.27	5.84	1.67	3.8
	5-Year High	5.08	9.47	3.57	4.55
	5-Year Low	2.4	4.22	1.22	2.84
	5-Year Median	3.87	7.49	2.17	3.64

As of 05/06/2020

Industry Analysis Zacks Industry Rank: Top 47% (118 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Asahi Kasei Corp (AHKSY)	Neutral	4
Air Products and Chemicals Inc (APD)	Neutral	3
Ashland Global Holdings Inc (ASH)	Neutral	3
BASF SE (BASFY)	Neutral	3
Eastman Chemical Company (EMN)	Neutral	3
Koninklijke DSM NV (RDSMY)	Neutral	3
Huntsman Corporation (HUN)	Underperform	3
LyondellBasell Industries NV (LYB)	Underperform	5

Industry Comparison Industry: Chemical - Specialty				Industry Peers		
	CE	X Industry	S&P 500	APD	BASFY	EMN
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	C	-	-	D	C	D
Market Cap	9.28 B	1.04 B	19.11 B	49.33 B	44.23 B	8.09 B
# of Analysts	9	2	14	7	3	8
Dividend Yield	3.20%	0.55%	2.2%	2.40%	5.31%	4.43%
Value Score	C	-	-	D	B	C
Cash/Price	0.06	0.06	0.06	0.05	0.07	0.03
EV/EBITDA	8.36	8.35	11.69	14.35	6.32	7.80
PEG Ratio	1.19	2.50	2.48	2.79	12.42	2.34
Price/Book (P/B)	3.27	1.32	2.58	4.21	0.93	1.34
Price/Cash Flow (P/CF)	6.00	6.71	10.40	16.96	5.05	5.06
P/E (F1)	11.87	13.71	18.81	26.34	16.65	10.08
Price/Sales (P/S)	1.53	1.22	1.97	5.49	0.64	0.89
Earnings Yield	8.64%	6.91%	4.99%	3.80%	5.98%	9.93%
Debt/Equity	1.25	0.70	0.75	0.28	0.35	0.93
Cash Flow (\$/share)	12.92	2.29	7.01	13.17	2.38	11.76
Growth Score	B	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	14.98%	6.10%	10.87%	4.81%	-1.82%	1.66%
Proj. EPS Growth (F1/F0)	-29.68%	-12.76%	-9.86%	3.29%	-35.42%	-17.16%
Curr. Cash Flow Growth	-15.99%	4.65%	5.88%	10.98%	-19.09%	-9.97%
Hist. Cash Flow Growth (3-5 yrs)	5.47%	6.38%	8.55%	5.70%	-3.10%	1.05%
Current Ratio	1.48	2.00	1.25	2.59	1.87	1.86
Debt/Capital	55.46%	41.39%	44.23%	21.68%	26.17%	48.19%
Net Margin	12.08%	6.11%	10.87%	21.66%	13.70%	8.85%
Return on Equity	37.21%	10.53%	16.36%	16.36%	8.06%	16.88%
Sales/Assets	0.64	0.70	0.55	0.46	0.69	0.57
Proj. Sales Growth (F1/F0)	-18.25%	-0.49%	-2.18%	-0.64%	-9.48%	-12.76%
Momentum Score	F	-	-	D	D	F
Daily Price Chg	-0.55%	-0.89%	-1.27%	-0.41%	-2.90%	-0.96%
1 Week Price Chg	0.66%	2.28%	0.53%	2.52%	3.84%	4.80%
4 Week Price Chg	-5.37%	4.84%	0.68%	3.53%	-4.37%	5.29%
12 Week Price Chg	-30.37%	-25.75%	-22.30%	-12.09%	-30.65%	-21.34%
52 Week Price Chg	-26.64%	-28.30%	-11.55%	8.80%	-35.92%	-22.07%
20 Day Average Volume	901,827	163,662	2,470,143	1,130,495	331,778	1,427,353
(F1) EPS Est 1 week change	-2.99%	0.00%	0.00%	0.00%	-9.21%	-6.32%
(F1) EPS Est 4 week change	-31.99%	-9.91%	-6.52%	-8.49%	-9.21%	-11.75%
(F1) EPS Est 12 week change	-37.53%	-27.70%	-14.84%	-10.68%	-36.18%	-20.40%
(Q1) EPS Est Mthly Chg	-49.73%	-18.28%	-12.48%	-19.62%	-58.82%	-30.81%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	B
Momentum Score	F
VGM Score	C

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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