

Celanese Corporation(CE)

\$118.14 (As of 01/16/20)

Price Target (6-12 Months): **\$124.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Earnings estimates for Celanese for the fourth quarter of 2019 have been stable of late. Operational cost savings through productivity actions are likely to lend support to the company's earnings in 2019. Acquisitions are also expected to drive results in the Engineered Materials unit. The company is also poised to gain from expansion in emerging regions. The stock has also outperformed the industry in the past year. However, economic weakness across Europe and Asia is expected to continue to affect demand. Outage at Clear Lake is also likely to hurt fourth-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 matter of concern.

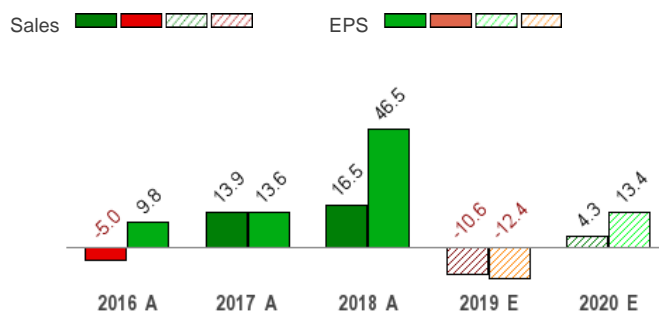
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$128.88 - \$92.25
20 Day Average Volume (sh)	682,523
Market Cap	\$14.3 B
YTD Price Change	-4.0%
Beta	1.34
Dividend / Div Yld	\$2.48 / 2.1%
Industry	Chemical - Specialty
Zacks Industry Rank	Bottom 10% (228 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.2%
Last Sales Surprise	-2.3%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	01/30/2020
Earnings ESP	-10.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,720 E	1,670 E	1,675 E	1,544 E	6,671 E
2019	1,687 A	1,592 A	1,586 A	1,502 E	6,395 E
2018	1,851 A	1,844 A	1,771 A	1,689 A	7,155 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.71 E	\$2.71 E	\$2.80 E	\$2.60 E	\$10.93 E
2019	\$2.62 A	\$2.38 A	\$2.53 A	\$2.10 E	\$9.64 E
2018	\$2.79 A	\$2.90 A	\$2.96 A	\$2.38 A	\$11.00 A

*Quarterly figures may not add up to annual.

P/E TTM	11.9
P/E F1	10.8
PEG F1	1.1
P/S TTM	2.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

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 \$7,155 million in 2018.

The company's operating segments are as follows:

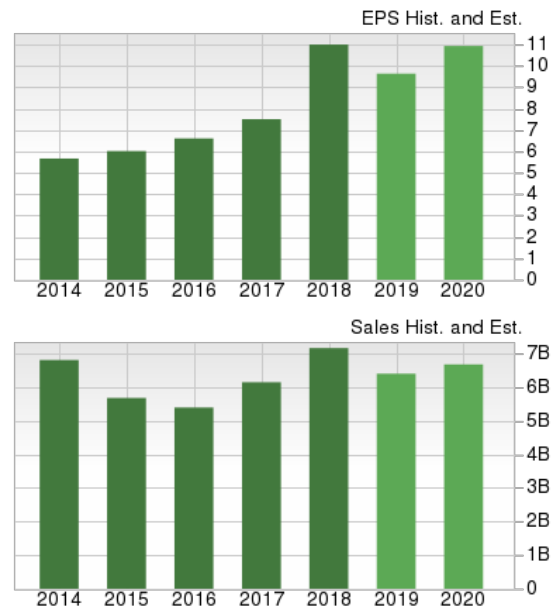
Engineered Materials/EM (35% of 2018 sales): The segment develops, produces and supplies high performance technical polymers for application in automotive and electronics products and in other consumer and industrial applications. The primary products of Advanced Engineered Materials are Polyacetal products 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 (56%): 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:

- ▲ Shares of Celanese have gained around 22.9% over the past year, outperforming the industry's rise of 12.9%. 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 recent 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.
- ▲ 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 are expected to be driven by productivity actions, price hike actions and operational improvement. The company's capital projects and other initiatives are delivering annual run rate productivity of roughly \$100 million.
- ▲ 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 its vinyl acetate ethylene (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.
- ▲ 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 2018, the company returned \$1.1 billion to shareholders through dividends and share repurchases. Moreover, the company returned \$352 million to shareholders through dividends and share repurchases in the most recent quarter. It has already returned \$1 billion to shareholders this year.

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.

Reasons To Sell:

- ▼ Celanese is exposed to economic weakness across Europe and Asia, leading to a slowdown in demand. The company is witnessing demand slowdown and this sluggishness is likely to continue in the fourth quarter. Demand weakness across end markets (especially automotive and electronics) and industry destocking hurt sales in the EM unit in the most recent quarter. An improvement in demand conditions is not expected in the fourth quarter. Considering the challenges, the company has lowered its earnings guidance for 2019. It expects adjusted earnings per share for 2019 to be \$9.60-\$9.80 (down from roughly \$10.50), reflecting a moderation from \$11.00 recorded in 2018.
- ▼ Results in the company's Acetyl Chain segment are expected to be hurt, in fourth-quarter 2019, by the impact of unplanned outage at its Clear Lake facility in Texas. On Sep 21, 2019, a localized fire broke out in the carbon monoxide production unit of the facility. The disruption affected the company's production rates. The company's revised earnings guidance also incorporates the impact of the Clear Lake incident.
- ▼ 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 roughly \$3.7 billion, roughly 7-times of its against cash and cash equivalent of around \$497 million at the end of the most recent quarter.
- ▼ 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. Lower utilization rates in China is hurting acetic acid demand.

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

Last Earnings Report

Celanese's Earnings Top, Sales Trail Estimates in Q3

Celanese logged earnings from continuing operations of \$2.17 per share in third-quarter 2019, down from \$3.00 in the year-ago quarter.

Barring one-time items, adjusted earnings were \$2.53 a share, down from \$2.96 in the year-ago quarter. It, however, topped the Zacks Consensus Estimate of \$2.50.

Revenues of \$1,586 million fell roughly 10% year over year and lagged the Zacks Consensus Estimate of \$1,624 million. The company witnessed continued demand weakness during the reported quarter.

Quarter Ending **09/2019**

Report Date	Oct 21, 2019
Sales Surprise	-2.34%
EPS Surprise	1.20%
Quarterly EPS	2.53
Annual EPS (TTM)	9.91

Segment Review

Net sales in the Engineered Materials unit were \$591 million in the quarter, down 8% year over year. Sales were hurt by lower volumes, prices and unfavorable currency impact. Volumes were impacted by soft global demand. The company commercialized 1,315 projects during the quarter. It is on track to commercialize more than 4,000 projects in 2019.

The Acetyl Chain segment posted net sales of \$867 million, down around 14% year over year. Sales were affected by reduced pricing as well as unfavorable currency impact that more than offset higher volumes.

Net sales in Acetate Tow segment were \$158 million, flat year over year. Volumes and prices were stable year over year in the quarter.

Financials

Celanese ended the quarter with cash and cash equivalents of \$497 million, down around 29% year over year. Long-term debt was up roughly 5% year over year to \$3,359 million.

Celanese generated operating cash flow of \$397 million and free cash flow of \$315 million during the quarter. Capital expenditure was \$82 million for the quarter. Moreover, the company returned \$352 million to shareholders through dividends and share repurchases during the reported quarter.

Outlook

Celanese lowered its adjusted earnings per share guidance for 2019, factoring in its expectations that market conditions are not likely to improve this year. The company now sees adjusted earnings in the band of \$9.60-\$9.80 per share, compared with its prior view of roughly \$10.50. The company expects demand weakness to continue through 2019.

The revised earnings guidance also incorporates the fourth-quarter impact of earlier announced unplanned outage at the company's Clear Lake facility in Texas.

The company also noted that it will remain focused on executing its productivity programs, enhancing business model and investing in high-return projects which it expects to deliver double-digit growth in adjusted earnings per share in 2020.

Celanese expects to deliver 2020 adjusted earnings in the band of \$11-\$12 per share factoring in an uncertain demand outlook. The company expects to achieve the top end of this range if demand conditions improves next year.

Recent News

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

Celanese announced that its ethylene-based Vinyl Acetate Monomer (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.

Celanese Inks Strategic Cooperation Deal With Oriental Yuhong - Nov 7, 2019

Celanese has announced that it has inked a comprehensive strategic cooperation and development agreement with Beijing Oriental Yuhong Waterproof Technology Co., Ltd. The deal is aimed at expanding cooperation in terms of expansion in emerging markets, product R&D as well as the advancement of industry, safety and sustainability.

One of the major aspects of the agreement is exchange of information and practices in usage of emulsions for waterproofing applications. Moreover, the companies are likely to assess where Celanese can develop new product applications for usage in Oriental Yuhong's waterproofing unit.

The companies are likely to share product development information as well as discuss plant productivity and sustainability. These activities will enable the companies to identify opportunities for improving production, boosting cost savings and achieving operational sustainability. They are also expected to evaluate and identify new supply arrangements in the Asia-Pacific region.

Notably, the companies have been commercially working together for more than a decade in the area of emulsions as well as vinyl acetate chemistry. The latest strategic agreement will help advance sustainable development of the waterproofing and emulsions industry with chemistry solutions. Specific terms of the deal were not disclosed by the companies.

Celanese Restarts Operations at Clear Lake Methanol Unit - Sep 30, 2019

Celanese announced that is progressing with the restart of on-site production units at its Clear Lake facility in Pasadena, TX.

Per the company, operations at the Fairway Methanol unit has restarted and approaching full operating rates. Moreover, the acetic acid and vinyl acetate monomer units are scheduled for restart in October. The company expects all production units at Clear Lake to return to full capacity within the fourth quarter. However, shipping operations and associated terminals of the facility are operating without disruption.

Valuation

Celanese's shares are up 22.9% over the trailing 12-month period. Stocks in the Zacks Chemicals-Specialty industry and the Zacks Basic Materials sector are up 12.9% and 0.8% over the past year, respectively.

The S&P 500 index is up 23.9% in the past year.

The stock is currently trading at 10.72X forward 12-month earnings, which compares to 19.31X for the Zacks sub-industry, 13.64X for the Zacks sector and 18.97X 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 \$124 price target reflects 11.25X forward 12-month earnings per share.

The table below shows summary valuation data for CE:

Valuation Multiples - CE					
		Stock	Sub-Industry	Sector	\$&P 500
P/E F12M	Current	10.72	19.31	13.64	18.97
	5-Year High	14.54	19.45	21.12	19.34
	5-Year Low	7.49	14.75	9.76	15.17
	5-Year Median	10.83	17.81	13.77	17.44
EV/EBITDA TTM	Current	10.16	21.66	9.54	12.12
	5-Year High	14.29	25.21	18.35	12.86
	5-Year Low	7.55	16.83	7.33	8.48
	5-Year Median	9.37	22.29	10.57	10.67
P/B TTM	Current	4.55	7.03	2.34	4.5
	5-Year High	4.92	9.36	3.54	4.5
	5-Year Low	2.4	5.85	1.34	2.85
	5-Year Median	3.81	7.54	2.18	3.61

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (228 out of 254)



Top Peers

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

Industry Comparison Industry: Chemical - Specialty				Industry Peers		
	CE Neutral	X Industry	S&P 500	APD Outperform	BASFY Neutral	EMN Neutral
VGM Score	B	-	-	D	C	C
Market Cap	14.28 B	1.21 B	24.61 B	51.98 B	65.76 B	10.46 B
# of Analysts	9	2	13	7	3	8
Dividend Yield	2.10%	0.17%	1.74%	1.97%	3.57%	3.43%
Value Score	B	-	-	D	A	A
Cash/Price	0.04	0.04	0.04	0.05	0.04	0.02
EV/EBITDA	8.72	10.68	14.24	15.04	7.18	7.36
PEG Ratio	1.08	1.63	2.07	2.02	1.63	1.39
Price/Book (P/B)	4.57	1.84	3.38	4.56	1.43	1.72
Price/Cash Flow (P/CF)	8.23	9.96	13.75	17.90	6.08	6.05
P/E (F1)	10.80	14.98	19.09	24.90	15.52	9.95
Price/Sales (P/S)	2.18	1.50	2.68	5.83	0.94	1.11
Earnings Yield	9.25%	6.41%	5.24%	4.02%	6.42%	10.05%
Debt/Equity	1.13	0.69	0.72	0.28	0.39	0.91
Cash Flow (\$/share)	14.36	2.27	6.94	13.17	2.95	12.71
Growth Score	B	-	-	B	F	D
Hist. EPS Growth (3-5 yrs)	15.96%	6.74%	10.56%	4.43%	1.11%	2.30%
Proj. EPS Growth (F1/F0)	13.40%	10.62%	7.57%	15.31%	9.14%	9.55%
Curr. Cash Flow Growth	36.42%	10.55%	14.73%	10.98%	136.40%	4.53%
Hist. Cash Flow Growth (3-5 yrs)	12.16%	5.39%	9.00%	5.70%	-0.12%	4.27%
Current Ratio	1.85	2.25	1.24	2.54	1.78	1.65
Debt/Capital	53.01%	41.42%	42.99%	22.08%	28.03%	47.73%
Net Margin	13.85%	5.89%	11.14%	19.73%	14.64%	8.12%
Return on Equity	38.21%	13.20%	17.16%	15.88%	9.36%	16.58%
Sales/Assets	0.69	0.71	0.55	0.46	0.69	0.58
Proj. Sales Growth (F1/F0)	4.31%	2.33%	4.16%	5.79%	4.29%	1.63%
Momentum Score	F	-	-	F	D	D
Daily Price Chg	-0.05%	0.53%	0.89%	0.13%	0.28%	0.96%
1 Week Price Chg	-2.31%	-0.65%	0.39%	2.65%	-2.09%	-1.53%
4 Week Price Chg	-3.54%	0.00%	2.65%	1.16%	-3.92%	-3.73%
12 Week Price Chg	-4.36%	6.80%	7.55%	11.49%	-7.87%	2.51%
52 Week Price Chg	22.86%	-1.00%	22.12%	51.15%	-1.65%	-2.77%
20 Day Average Volume	682,523	112,123	1,536,375	893,097	206,525	861,999
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-3.89%	0.00%
(F1) EPS Est 4 week change	-1.03%	0.00%	0.00%	-0.12%	-6.49%	-0.55%
(F1) EPS Est 12 week change	-2.82%	-4.71%	-0.40%	1.21%	-4.68%	-10.77%
(Q1) EPS Est Mthly Chg	-2.99%	0.00%	0.00%	-0.87%	NA	0.00%

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	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.

Disclosures

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