

## Huntsman Corporation(HUN)

**\$18.83** (As of 08/03/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/05/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: A

### Summary

Huntsman's adjusted loss for the second quarter was narrower than the Zacks Consensus Estimate while sales beat. The company is committed to expand its downstream specialty and formulation businesses. It is also shifting its MDI business from components to differentiated systems that typically have higher margins and lower volatility. Acquisitions are also expected to offer significant synergies. Moreover, Huntsman is committed to reduce debt using strong cash flows. However, weak demand in automotive and construction markets amid a soft global economic backdrop is hurting the Polyurethanes unit. Margins and volumes in Advanced Materials are also expected to remain under pressure in the third quarter. The company is also seeing pressure on ethylene amines volumes and margins, which is hurting its Performance Products unit.

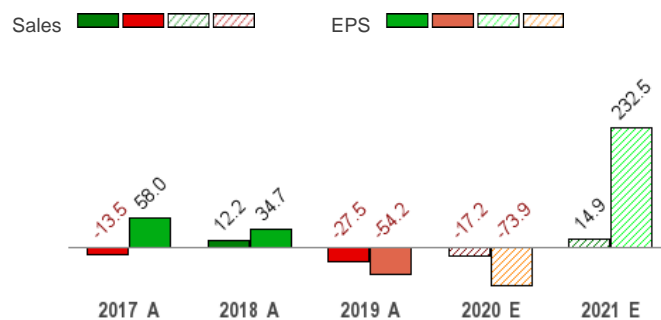
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$24.90 - \$12.23</b>
20 Day Average Volume (sh)	<b>1,878,954</b>
Market Cap	<b>\$4.2 B</b>
YTD Price Change	<b>-22.1%</b>
Beta	<b>2.06</b>
Dividend / Div Yld	<b>\$0.65 / 3.5%</b>
Industry	<b><u>Chemical - Diversified</u></b>
Zacks Industry Rank	<b>Bottom 33% (169 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>30.0%</b>
Last Sales Surprise	<b>14.5%</b>
EPS F1 Est- 4 week change	<b>26.7%</b>
Expected Report Date	<b>10/23/2020</b>
Earnings ESP	<b>5.7%</b>
P/E TTM	<b>22.2</b>
P/E F1	<b>47.1</b>
PEG F1	<b>5.5</b>
P/S TTM	<b>0.7</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,623 E	1,478 E	1,688 E	1,699 E	6,467 E
2020	1,593 A	1,247 A	1,397 E	1,516 E	5,627 E
2019	2,034 A	2,194 A	1,687 A	1,657 A	6,797 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.24 E	\$0.27 E	\$0.35 E	\$0.34 E	\$1.33 E
2020	\$0.29 A	-\$0.14 A	\$0.10 E	\$0.15 E	\$0.40 E
2019	\$0.46 A	\$0.63 A	\$0.41 A	\$0.29 A	\$1.53 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 08/03/2020. The reports text is as of 08/04/2020.

## Overview

Woodlands, TX-based Huntsman Corporation is among the world's largest manufacturers of differentiated and commodity chemical products. The company markets its products to a diverse group of industrial and consumer customers. Its products include MDI (methylene diphenyl diisocyanate), polyols, propylene oxide, amines, surfactants, maleic anhydride, epoxy-based polymer formulations, textile chemicals and dyes.

Huntsman's products are used in number of applications including aerospace, automotive, construction products, adhesives, personal care and hygiene, durable and nondurable consumer products, digital inks, electronics, medical, packaging, coatings and construction, power generation, refining and textile chemicals.

Huntsman, in Aug 2017, completed the separation of its pigments and additives division through the spinoff of its subsidiary, Venator Materials PLC. Venator's ordinary shares started trading on the NYSE under the ticker symbol "VNTR" on Aug 3, 2017.

Huntsman and Clariant, in May 2017, agreed to combine in an all-stock deal. However, the companies terminated the merger of equals deal by mutual agreement in Oct 2017 after facing pressure from activist investors.

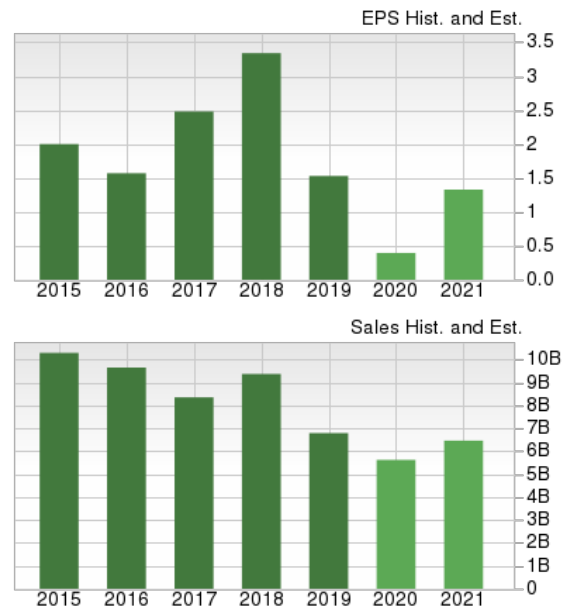
The company currently has four reportable segments – Polyurethanes, Performance Products, Advanced Materials and Textile Effects.

**Polyurethanes (57% of 2019 sales):** The division makes a vast range of polyurethane chemicals including MDI products are used to make rigid foams, coatings, adhesives, sealants and elastomers.

**Performance Products (17%):** The unit is a leading producer of amines, surfactants and maleic anhydride and caters to a vast spectrum of consumer and industrial end markets.

**Advanced Materials (15%):** The division is a leading producer of technologically advanced epoxy, acrylic and polyurethane-based polymer products for a number of industrial and consumer applications.

**Textile Effects (11%):** The unit offers a diverse portfolio of textile chemicals, dyes and digital inks in a wide range of end-markets including apparel, sportswear, institutional textiles and furnishings.



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## Reasons To Buy:

- ▲ Huntsman remains committed to grow its downstream specialty and formulation businesses and is shifting its MDI business from components to differentiated systems that typically have higher margins and lower volatility. The company is seeing healthy demand for MDI, which has been growing around 6%-7% globally a year driven by megatrends and material substitution. The core Polyurethanes segment, which accounted for more than half of Huntsman's revenues last year, is poised for strong upside on the back of the company's focus on beefing up its high-value differentiated downstream portfolio. Substitution of MDI for less effective materials will remain a key driving factor for the MDI business.
- ▲ The buyout of Demilec, a leading manufacturer and distributor of spray polyurethane foam (SPF) insulation systems in North America, is also expected to offer significant synergies. The integration of Demilec into its Polyurethanes business delivers considerably higher and stable margins along with offering significant synergies by pulling large quantities of upstream polymeric MDI into specialized spray foam systems. The integrated business is likely to have more than 25% EBITDA margins and double-digit growth. The acquisition of Icynene-Lapolla, a leading North American manufacturer and distributor of SPF, is also in line with Huntsman's strategy of expanding its downstream polyurethanes business. Moreover, the buyout of CVC Thermoset Specialties is in sync with the company's strategy of expanding its specialty Advanced Materials portfolio. The company expects to achieve total annualized targeted synergies of \$35 million for these two acquisitions by the end of 2021.
- ▲ Huntsman is focused on expanding its margins and generating strong free cash flows. The company generated free cash flow of \$389 million in 2019. It expects to generate strong free cash flow in 2020. It projects a free cash flow conversion of roughly 35% in 2020. Also, the company's board has also approved an increase in its earlier authorized share repurchase program to up to \$1 billion. The company has repurchased around 10.1 million shares worth roughly \$208 million in 2019. Huntsman had \$420 million remaining under its repurchase program at the end of the most recent quarter.
- ▲ The company's efforts to reduce its debt levels appear encouraging. At the end of the second quarter of 2020, Huntsman's long-term debt was \$1,527 million, down from \$2,414 million in the sequentially prior quarter. The company also has a strong liquidity position (of roughly \$2.6 billion), which should allow it to meet its short-term debt obligations.

Huntsman is well placed to gain from its actions to grow its downstream businesses.

Acquisitions are also expected to offer significant synergies. The company also remains committed to reduce debt using strong cash flows.

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## Reasons To Sell:

- ▼ Huntsman is exposed to demand weakness in major markets globally. It is seeing weak demand in automotive and construction, hurting its Polyurethanes segment. A difficult macroeconomic environment due to the coronavirus pandemic is affecting customers' behavior. The company is seeing weak orders in automotive and construction end markets. While it is witnessing a recovery in China, volumes remain weak in the Americas and Europe. The company expects lower overall volumes in the Polyurethanes unit in the third quarter of 2020 due to the ongoing global economic crisis. Demand in component and polymeric systems is expected to remain challenging in the third quarter.
- ▼ The Advanced Materials unit is exposed to headwind from weaker demand in industrial and aerospace markets. The company is seeing significant headwind in the aerospace business. Global aerospace build rates have come to a standstill due to the impacts of the pandemic. Huntsman expects weakness in aerospace to continue in the third quarter, partly offset by some recovery in industrial markets. It envisions lower EBITDA in this unit on a year-over-year basis in the third quarter factoring in the weakness in aerospace.
- ▼ The company's Performance Products unit is facing challenges from lower volumes as witnessed in the recently reported quarter. Volumes and margins in the ethylene amines business remain weak due to competitive pressure and a difficult economic environment. Revenues in the segment declined in the last reported quarter on reduced selling prices as well as lower sales volumes. The Performance Products unit is also exposed to lower industrial demand, especially in automotive. Softness in this segment is expected to continue in the third quarter. Huntsman expects EBITDA in this unit to decline year over year in the third quarter.

Weak demand is hurting the Polyurethanes unit. Volumes in Advanced Materials also remain under pressure. Huntsman is also seeing pressure on ethylene amines margins.

## Last Earnings Report

### Huntsman's Earnings and Revenues Beat Estimates in Q2

Huntsman slipped to a loss of \$59 million or 28 cents per share in second-quarter 2020, from a profit of \$118 million or 47 cents in the year-ago quarter.

Barring one-time items, adjusted loss per share was 14 cents in the quarter. The figure was narrower than the Zacks Consensus Estimate of a loss of 20 cents.

Revenues were \$1,247 million, down around 30% year over year. However, the top line surpassed the Zacks Consensus Estimate of \$1,088.8 million. The company saw lower sales across its business segments in the reported quarter.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	14.54%
EPS Surprise	30.00%
Quarterly EPS	-0.14
Annual EPS (TTM)	0.85

### Segment Highlights

**Polyurethanes:** Revenues for the segment fell 28% year over year to \$730 million in the reported quarter due to lower MDI average selling prices and overall polyurethanes sales volumes.

**Performance Products:** Revenues for the unit declined 24% to \$228 million due to reduced average selling prices as well as lower sales volumes.

**Advanced Materials:** Revenues for the unit dropped 30% to \$192 million due to lower sales volumes. Average selling prices remain unchanged in the quarter.

**Textile Effects:** Revenues for the division tumbled 53% to \$102 million. The decline was due to reduced sales volumes and sales mix changes.

### Financials

Huntsman had total cash of \$1,254 million at the end of the quarter, up nearly three fold year over year. Long-term debt was \$1,527 million, down around 33% year over year.

Net cash provided by operating activities was \$85 million for the reported quarter.

### Outlook

Moving ahead, Huntsman said that the global effects of the coronavirus pandemic remain uncertain. The company is seeing improving trends within most of its key markets. Moreover, the integration for recent acquisitions, CVC Thermoset Specialties and Icyne-Lapolla, is ahead of plans and the company expects to achieve total annualized targeted synergies of \$35 million for these acquisitions by the end of 2021. Including these synergies related to acquisitions, Huntsman plans to achieve more than \$100 million of targeted annualized savings by the end of next year.

## Recent News

### Huntsman Expands Partnership With Azelis in Americas

Huntsman, on **Jul 24, 2020**, announced the expansion of its Pan-American business relationship with Azelis Americas CASE, LLC in the United States and Azelis Canada, Inc. in Canada.

Per the agreement, Azelis will lead the distribution arm of the Coatings, Adhesives, Sealants & Elastomers (CASE) business for Huntsman Advanced Materials in Canada and the United States. Notably, the customer offer covers all of Huntsman's CASE business and CVC Thermoset Specialties product lines purchased in April 2020.

Per Huntsman's management, the extended deal bolsters its footprint in target markets of Canada and the United States. Notably, the formal deals with Azelis are expected to be completed in the coming weeks.

Azelis is a leading distributor of specialty chemicals and food ingredients. Notably, it will be completely prepared to service its expanded territory by Oct 1, 2020.

## Valuation

Huntsman's shares are down 22% in the year-to-date period and up 1.5% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 12% and 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 1.3% and up 9.9%, respectively.

The S&P 500 index is up 1.7% in the year-to-date period and up 15.5% in the past year.

The stock is currently trading at 23.03X forward 12-month earnings, which compares to 18.58X for the Zacks sub-industry, 15.7X for the Zacks sector and 22.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.47X and as low as 3.8X, with a 5-year median of 9.3X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20 price target reflects 24.39X forward 12-month earnings per share.

The table below shows summary valuation data for HUN:

Valuation Multiples - HUN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	23.03	18.58	15.7	22.62
	5-Year High	27.47	18.58	21.05	22.62
	5-Year Low	3.8	8.97	9.86	15.25
	5-Year Median	9.3	13.11	13.51	17.55
EV/EBITDA TTM	Current	11.03	7.77	10.05	12.67
	5-Year High	11.47	13.12	17.94	12.85
	5-Year Low	4.96	5.24	6.55	8.24
	5-Year Median	7.19	7.46	10.72	10.88
P/B TTM	Current	1.25	1.72	2.73	4.47
	5-Year High	4.07	2.82	3.07	4.56
	5-Year Low	0.84	0.87	1.23	2.83
	5-Year Median	1.98	1.74	2.2	3.72

As of 08/03/2020

## Industry Analysis Zacks Industry Rank: Bottom 33% (169 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
Ashland Global Holdings Inc. (ASH)	Outperform	1
Akzo Nobel NV (AKZOY)	Neutral	3
Air Products and Chemicals, Inc. (APD)	Neutral	3
BASF SE (BASFY)	Neutral	3
The Chemours Company (CC)	Neutral	3
Eastman Chemical Company (EMN)	Neutral	3
LyondellBasell Industries N.V. (LYB)	Neutral	3
Olin Corporation (OLN)	Neutral	4

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	HUN	X Industry	S&P 500	BASFY	EMN	LYB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	D	A
Market Cap	4.15 B	2.40 B	22.67 B	51.91 B	10.22 B	20.74 B
# of Analysts	8	3	13.5	3	9	6
Dividend Yield	3.45%	1.90%	1.77%	4.72%	3.51%	6.76%
Value Score	A	-	-	A	C	A
Cash/Price	0.31	0.12	0.07	0.06	0.07	0.15
EV/EBITDA	6.26	8.08	13.08	7.16	8.63	5.65
PEG Ratio	5.56	3.23	2.94	NA	3.21	1.98
Price/Book (P/B)	1.25	1.79	3.10	1.09	1.65	2.81
Price/Cash Flow (P/CF)	6.94	6.61	12.34	5.93	6.39	4.38
P/E (F1)	47.25	19.06	21.71	21.52	12.76	13.37
Price/Sales (P/S)	0.67	0.81	2.46	0.79	1.17	0.69
Earnings Yield	2.12%	4.91%	4.38%	4.67%	7.84%	7.48%
Debt/Equity	0.58	0.60	0.75	0.35	0.87	2.01
Cash Flow (\$/share)	2.71	3.41	6.94	2.38	11.76	14.19
Growth Score	D	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	-0.57%	9.75%	10.46%	-4.75%	1.66%	-2.41%
Proj. EPS Growth (F1/F0)	-74.18%	-25.58%	-7.08%	-41.37%	-17.39%	-51.70%
Curr. Cash Flow Growth	-41.39%	-9.82%	5.47%	-19.09%	-9.97%	-16.46%
Hist. Cash Flow Growth (3-5 yrs)	-7.56%	6.32%	8.55%	-3.10%	1.05%	-3.48%
Current Ratio	1.53	1.87	1.32	1.87	1.66	2.36
Debt/Capital	36.72%	37.80%	44.21%	26.17%	46.58%	66.96%
Net Margin	15.78%	4.43%	10.25%	1.81%	6.64%	6.79%
Return on Equity	6.41%	11.05%	14.72%	6.73%	14.02%	29.99%
Sales/Assets	0.75	0.75	0.52	0.67	0.54	0.97
Proj. Sales Growth (F1/F0)	-25.68%	-7.59%	-1.79%	-3.73%	-12.76%	-23.54%
Momentum Score	A	-	-	D	D	C
Daily Price Chg	1.78%	1.25%	0.27%	3.06%	0.72%	-0.62%
1 Week Price Chg	-4.24%	-2.62%	0.14%	-9.74%	-2.62%	-8.73%
4 Week Price Chg	3.80%	2.60%	2.96%	-1.60%	4.45%	-8.97%
12 Week Price Chg	19.03%	17.03%	10.90%	15.25%	21.77%	10.83%
52 Week Price Chg	1.51%	-6.45%	2.35%	-10.57%	10.64%	-18.58%
20 Day Average Volume	1,878,954	86,542	2,043,624	195,993	941,188	1,789,364
(F1) EPS Est 1 week change	26.83%	0.00%	0.00%	6.49%	0.00%	0.00%
(F1) EPS Est 4 week change	26.74%	0.00%	0.82%	-4.37%	-0.90%	-2.50%
(F1) EPS Est 12 week change	38.25%	-0.29%	0.59%	-9.22%	-0.28%	-0.29%
(Q1) EPS Est Mthly Chg	130.77%	0.00%	0.25%	-13.33%	-1.10%	0.21%

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## 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.

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### 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	A
Growth Score	D
Momentum Score	A
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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