

## Huntsman Corporation(HUN)

**\$22.70** (As of 01/23/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/26/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: D

### Summary

Earnings estimates for Huntsman for the fourth quarter and 2019 have been stable of late. 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. The Demilec buyout is also expected to offer significant synergies. Moreover, the company is committed to reduce debt using strong cash flows. The company has also outperformed the industry in the past year. However, it is seeing weak demand in automotive and construction markets in Europe due to a difficult macroeconomic environment. Demand weakness is also expected to persist in China, partly due to trade uncertainties. The company also faces headwinds from higher raw material costs. It is also exposed to currency headwinds.

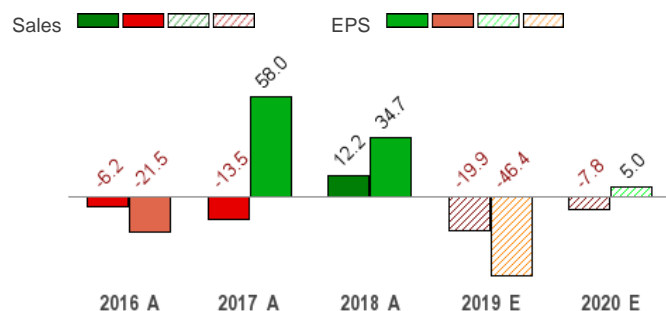
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$25.66 - \$17.33
20 Day Average Volume (sh)	1,302,148
Market Cap	\$5.2 B
YTD Price Change	-6.0%
Beta	2.31
Dividend / Div Yld	\$0.65 / 2.9%
Industry	<a href="#">Chemical - Diversified</a>
Zacks Industry Rank	Bottom 7% (237 out of 255)

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



Last EPS Surprise	-2.4%
Last Sales Surprise	-4.3%
EPS F1 Est- 4 week change	-1.9%
Expected Report Date	02/13/2020
Earnings ESP	-0.7%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,638 E	1,787 E	1,848 E	1,764 E	6,929 E
2019	2,034 A	2,194 A	1,687 A	1,585 E	7,512 E
2018	2,295 A	2,404 A	2,444 A	2,236 A	9,379 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.35 E	\$0.54 E	\$0.56 E	\$0.47 E	\$1.88 E
2019	\$0.46 A	\$0.63 A	\$0.41 A	\$0.28 E	\$1.79 E
2018	\$0.96 A	\$1.01 A	\$0.84 A	\$0.52 A	\$3.34 A

\*Quarterly figures may not add up to annual.

P/E TTM	11.2
P/E F1	12.1
PEG F1	1.4
P/S TTM	0.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/23/2020. The reports text is as of 01/24/2020.

## 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.

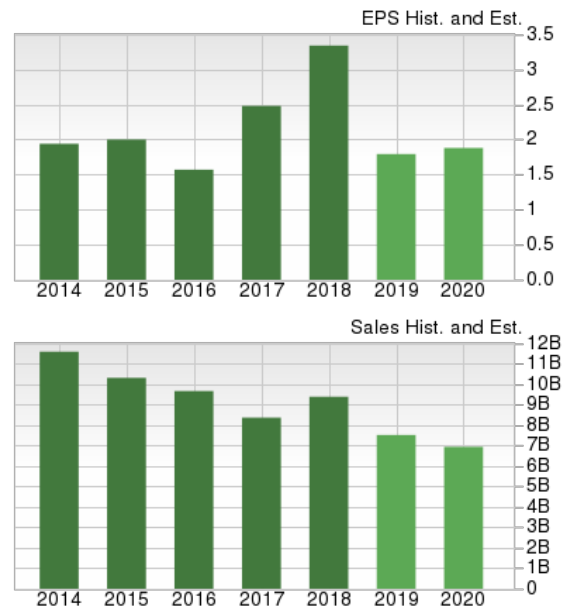
The company currently has four reportable segments – Polyurethanes, Performance Products, Advanced Materials and Textile Effects.

**Polyurethanes (54% of 2018 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 (25%):** 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 (12%):** 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 (9%):** 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 has outperformed the industry it belongs to in the past year. Its shares are up 4.4% against the industry's decline of 25.3%. 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.
- ▲ Huntsman is focused on expanding its margins and generating strong free cash flows. The company generated free cash flow of \$651 million in 2018. It expects to generate strong free cash flow in 2019. The company's board has also approved an increase in its earlier authorized share repurchase program to up to \$1 billion. This marks a \$550 million increase to the current \$450 million authorization. The buybacks will be supported by its free cash flow generation. The company repurchased around 10.4 million shares worth roughly \$276 million in 2018. It also bought back shares worth roughly \$81 million in the most recent quarter. Huntsman had \$528 million remaining under this authorization at the end of the quarter.

Huntsman is well placed to gain from its actions to grow its downstream businesses. The Demilec buyout is 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 in Europe, hurting its Polyurethanes segment. A difficult macroeconomic environment coupled with geopolitical issues including Brexit are affecting customers' behavior. Regulatory changes (affecting production) are also affecting automotive in Europe. The company expects headwinds to continue across these markets. Demand also remains weak in China, hurt by the U.S-China trade conflict and economic weakness in that country.
- ▼ The company's Performance Products business is facing challenges from lower margins in the ethylene amines business as witnessed in the most recent quarter. Huntsman expects continued margin pressure in the fourth quarter of 2019. The Performance Products unit is also exposed to lower industrial demand, especially in automotive. Weaker demand is expected to impact the maleic anhydride business in the fourth quarter.
- ▼ Huntsman faces headwind from higher raw material costs. Prices of the company's raw materials follow the price trends of crude oil and natural gas feedstocks. The stricter environmental policy in China has led to the tightening in the supply of certain key raw materials. The company saw an unfavorable impact from elevated raw material costs in its textile effects unit in the most recent quarter, hurting margins. Raw material costs also remain a headwind for its Advanced Materials unit. As such, higher feedstock costs are expected to put some pressure on margins.
- ▼ The company faced headwinds from unfavorable currency translation in the last reported quarter. Currency hurt its margins in the quarter. Huntsman saw currency impact on adjusted EBITDA of roughly \$8 million in the quarter mostly due to a stronger U.S. dollar vis-à-vis most international currencies. Unfavorable currency swings also hurt its average selling prices in the quarter. Currency headwind is expected to continue in the fourth quarter.

Huntsman faces headwinds from higher raw material cost and unfavorable currency swings. It is also seeing weak demand in automotive and construction markets in Europe.

## Last Earnings Report

### Huntsman Misses Earnings and Sales Estimates in Q3

Huntsman recorded profits of \$41 million or 13 cents per share in third-quarter 2019 against a net loss of \$8 million or 5 cents in the year-ago quarter.

Barring one-time items, adjusted earnings per share were 41 cents in the quarter, down from 71 cents in the year-ago quarter. The figure trailed the Zacks Consensus Estimate of 42 cents.

Revenues were \$1,687 million, down 14.3% year over year. Also, it missed the Zacks Consensus Estimate of \$1,762.6 million.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	-4.29%
EPS Surprise	-2.38%
Quarterly EPS	0.41
Annual EPS (TTM)	2.02

### Segment Highlights

**Polyurethanes:** Revenues in the segment fell 11.8% year over year to \$993 million due to lower MDI average selling prices, which were partly offset by higher MDI sales volumes.

**Performance Products:** Revenues in the unit declined 14.6% to \$281 million due to reduced average selling prices as well as lower sales volumes.

**Advanced Materials:** Revenues in the unit dropped 8.2% to \$256 million due to lower average selling prices and sales volumes.

**Textile Effects:** Revenues in the division were down 12.3% to \$179 million. The downside was caused by lower sales volumes and average selling prices. Volumes were affected by reduced demand as a result of uncertainties surrounding the U.S.-China trade conflict.

### Financials

Huntsman had total cash of \$418 million at the end of the quarter, down 40% year over year. Long-term debt was \$2,204 million, down 3.2% year over year.

Net cash provided by operating activities was \$257 million in the quarter compared with net cash provided by operating activities of \$248 million in the prior-year quarter. Huntsman generated free cash flow of \$197 million in the quarter compared with \$191 million in the year-ago quarter.

The company repurchased around 4.1 million shares worth roughly \$81 million in the quarter.

### Outlook

For the Polyurethanes unit, Huntsman expects consistently stable differentiated margins. It anticipates demand headwinds in major markets across the globe. Also, component MDI margins are expected to stay under pressure.

For Performance Products, the company sees growth in key specialty amines. It also expects some demand headwinds in the maleic anhydride but margins are likely to remain stable. Lower margins and volumes are expected to exert pressure on ethyleneamines.

For Advanced Materials, the company expects stable overall margins amid demand headwinds across most industrial markets.

For Textile Effects unit, Huntsman expects to witness persistent pressure from unresolved global trade issues as well as weak global demand.

For 2019, Huntsman expects to spend around \$270 million on capital expenditures and roughly \$70 million for the Chemical Intermediates Businesses as discontinued operations.

## Recent News

### Huntsman Completes Sale of Two Chemical Units to Indorama - Jan 5, 2020

Huntsman announced that it completed the divestiture of its chemical intermediates businesses, including PO/MTBE, and its surfactants businesses to Indorama Ventures. The company announced the deal in August 2019.

The transaction is valued at around \$2 billion, which comprises a cash purchase price of \$1.93 billion along with the transfer of up to \$76 million in net underfunded pension as well as other post-employment benefit liabilities. Notably, the cash purchase price includes estimated adjustments to the working capital purchase price.

The final purchase price is subject to customary post-closing adjustments. Further, net cash proceeds are expected to be just below \$1.6 billion.

Per Huntsman, the transaction significantly lowers its capital-intensive upstream asset base, strengthens its already strong balance sheet, and enables it to further invest and expand its downstream businesses. Moreover, the transaction expands the company's opportunity and flexibility for select strategic and accretive acquisitions, and ongoing opportunistic repurchases of its shares.

### Huntsman to Acquire Icynene-Lapolla for \$350 Million –Dec 5, 2019

Huntsman Corporation announced deal to buy Icynene-Lapolla from an affiliate of FFL Partners, LLC. The acquisition is expected to expand Huntsman's downstream footprint in SPF insulation.

Per the terms of the deal, the company is expected to pay \$350 million in the all-cash transaction financed from available liquidity, subject to customary closing adjustments. Based on 2019 adjusted EBITDA forecast, the purchase price suggests an adjusted EBITDA multiple of 10 times or adjusted EBITDA pro forma of 7 times for synergies. The transaction is slated to close in the first half of 2020.

Per Huntsman's management, the combination of Icynene-Lapolla (with its SPF product range and reflective roof coatings), with Demilec (acquired by Huntsman in 2018) is expected to significantly strengthen its energy-saving insulation business and provide customers with an unparalleled choice offering. The combination will also provide Huntsman with the world's largest range of spray foam technology, integration of raw materials and associates.

## Valuation

Huntsman's shares are up 4.4% over the trailing 12-month period. Over the past year, the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 25.3% and 0.6%, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 11.9X forward 12-month earnings, which compares to 12.75X for the Zacks sub-industry, 13.46X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.16X and as low as 3.8X, with a 5-year median of 8.95X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$24 price target reflects 12.57X 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	11.9	12.75	13.46	19.13
	5-Year High	15.16	15.05	21.12	19.34
	5-Year Low	3.8	8.18	9.77	15.17
	5-Year Median	8.95	12.38	13.77	17.44
EV/EBITDA TTM	Current	6.72	7.39	9.67	12.38
	5-Year High	8.82	12.41	18.17	12.86
	5-Year Low	4.79	5.08	7.34	8.48
	5-Year Median	7.09	7.25	10.56	10.69
P/B TTM	Current	1.98	1.7	2.33	4.54
	5-Year High	4.07	3.51	3.54	4.55
	5-Year Low	1.09	0.88	1.33	2.85
	5-Year Median	2.1	2.51	2.18	3.61

As of 01/23/2020

## Industry Analysis Zacks Industry Rank: Bottom 7% (237 out of 255)



## Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	HUN Neutral	X Industry	S&P 500	BASFY Neutral	EMN Neutral	LYB Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>D</b>	<b>B</b>	<b>A</b>
Market Cap	5.21 B	2.85 B	24.46 B	64.59 B	10.07 B	28.75 B
# of Analysts	3	3	13	3	8	6
Dividend Yield	2.86%	1.79%	1.75%	3.64%	3.56%	4.87%
<b>Value Score</b>	<b>A</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Cash/Price	0.08	0.06	0.04	0.04	0.02	0.02
EV/EBITDA	5.25	6.36	14.11	7.08	7.18	5.64
PEG Ratio	1.40	1.60	2.04	1.60	1.43	0.91
Price/Book (P/B)	1.97	2.09	3.40	1.40	1.65	3.64
Price/Cash Flow (P/CF)	4.70	6.48	13.66	5.97	5.83	5.84
P/E (F1)	11.89	14.27	19.10	15.24	9.64	7.67
Price/Sales (P/S)	0.64	0.89	2.67	0.92	1.07	0.81
Earnings Yield	8.28%	6.84%	5.23%	6.54%	10.37%	13.03%
Debt/Equity	0.97	0.56	0.72	0.39	0.91	1.38
Cash Flow (\$/share)	4.83	3.41	6.94	2.95	12.71	14.76
<b>Growth Score</b>	<b>B</b>	-	-	<b>F</b>	<b>D</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	11.72%	10.15%	10.60%	1.11%	2.30%	1.92%
Proj. EPS Growth (F1/F0)	4.83%	7.23%	7.59%	9.14%	9.09%	13.06%
Curr. Cash Flow Growth	24.70%	3.75%	13.90%	136.40%	4.53%	7.46%
Hist. Cash Flow Growth (3-5 yrs)	6.55%	6.70%	9.00%	-0.12%	4.27%	2.91%
Current Ratio	1.96	1.81	1.22	1.78	1.65	1.30
Debt/Capital	49.18%	38.75%	42.99%	28.03%	47.73%	58.19%
Net Margin	-0.99%	5.57%	11.35%	14.64%	8.12%	9.80%
Return on Equity	17.06%	11.94%	17.10%	9.36%	16.58%	35.56%
Sales/Assets	0.98	0.85	0.55	0.69	0.58	1.19
Proj. Sales Growth (F1/F0)	-7.76%	2.13%	4.03%	4.29%	1.63%	0.84%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>F</b>	<b>C</b>	<b>B</b>
Daily Price Chg	1.43%	-0.12%	0.26%	-0.90%	0.71%	-0.46%
1 Week Price Chg	3.36%	0.69%	2.29%	-2.14%	3.56%	2.87%
4 Week Price Chg	-7.46%	-5.19%	2.24%	-6.59%	-6.09%	-8.81%
12 Week Price Chg	2.58%	0.91%	7.79%	-7.47%	-2.60%	-3.86%
52 Week Price Chg	10.14%	-2.62%	21.61%	-2.41%	-5.12%	2.72%
20 Day Average Volume	1,302,148	107,001	1,536,379	207,349	902,890	1,877,514
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.65%	0.00%
(F1) EPS Est 4 week change	-1.88%	-0.21%	0.00%	-6.49%	-1.19%	-0.99%
(F1) EPS Est 12 week change	-3.49%	-3.38%	-0.23%	-7.49%	-10.04%	-7.49%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	0.00%	0.00%

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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	B
Momentum Score	D
VGM Score	A

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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