

Huntsman Corporation(HUN)

\$18.62 (As of 02/26/20)

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

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:C

Value: A

Growth: D

Momentum: F

Summary

Huntsman swung to a profit in fourth-quarter 2019. Adjusted earnings and sales beat the respective Zacks Consensus Estimate. 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, Huntsman is committed to reduce debt using strong cash flows. It 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 and outbreak of coronavirus. It also faces headwinds from higher raw material costs.

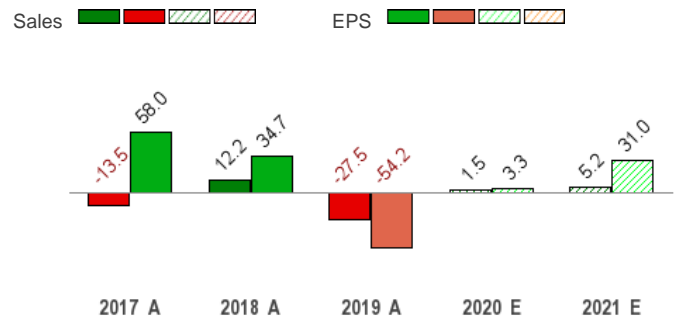
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.66 - \$17.33
20 Day Average Volume (sh)	2,156,748
Market Cap	\$4.2 B
YTD Price Change	-22.9%
Beta	2.35
Dividend / Div Yld	\$0.65 / 3.5%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 18% (208 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.6%
Last Sales Surprise	4.6%
EPS F1 Est- 4 week change	-16.0%
Expected Report Date	05/05/2020
Earnings ESP	-13.3%
P/E TTM	10.4
P/E F1	11.8
PEG F1	1.4
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,720 E	1,943 E	1,908 E	1,855 E	7,264 E
2020	1,543 E	1,827 E	1,840 E	1,804 E	6,902 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	\$0.42 E	\$0.57 E	\$0.57 E	\$0.47 E	\$2.07 E
2020	\$0.22 E	\$0.48 E	\$0.47 E	\$0.41 E	\$1.58 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 02/26/2020. The reports text is as of 02/27/2020.

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.

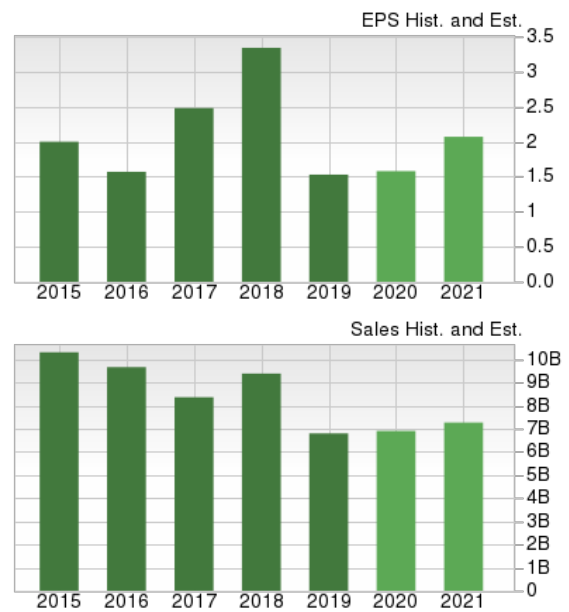
The company currently has four reportable segments – Polyurethanes, Performance Products, Advanced Materials and Textile Effects.

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.



Reasons To Buy:

- ▲ Huntsman has outperformed the industry it belongs to in the past year. Its shares are down 25.1% compared with the industry's decline of 35%. 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. In the last reported quarter, the total global differentiated systems volumes rose 7% year over year and global component MDI volumes expanded 5%. 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 \$389 million in 2019. It expects to generate strong free cash flow in 2020. It projects a free cash flow conversion between 20% and 25% 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. Moreover, from Jan 1, 2020 through Jan 31, 2020, the company repurchased an additional 336,478 shares of its common stock for around \$7 million.

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.

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, outbreak of coronavirus and economic weakness in that country. Also, the demand and margins in component and polymeric systems is likely to remain challenging in the short-term, especially in Europe and Asia. Soft market conditions in the North American unsaturated polyester resin and across most of the European markets are exerting pressure on maleic anhydride business volumes. The company expects demand headwinds in several major markets and regions for the Polyurethanes unit in 2020.
- ▼ The company's Performance Products business is facing challenges from lower margins in the ethylene amines business as witnessed in the recently reported quarter. Revenues in the segment declined 10% to \$278 million in the last reported quarter due to reduced selling prices as well as lower sales volumes. The downside was caused mainly by weaker end market demand in ethylene amines and maleic. Huntsman expects weak demand in the maleic anhydride in 2020. The Performance Products unit is also exposed to lower industrial demand, especially in automotive.
- ▼ 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 performance products unit in the recently reported quarter. 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.

Huntsman faces headwinds from higher raw material cost. It is also seeing weak demand in automotive and construction markets in Europe. Demand also remains weak in China.

Last Earnings Report

Huntsman's Earnings and Revenues Beat Estimates in Q4

Huntsman swung to a profit of \$308 million or \$1.34 per share in fourth-quarter 2019 from a loss of \$315 million or \$1.43 in the year-ago quarter.

Barring one-time items, adjusted earnings per share were 29 cents in the quarter, down from 38 cents in the year-ago quarter. The figure topped the Zacks Consensus Estimate of 28 cents.

Revenues were \$1,657 million, down around 9% year over year. However, it surpassed the Zacks Consensus Estimate of \$1,584.7 million. The company saw lower sales across its business segments in the reported quarter. It witnessed lower volumes and prices in most of its businesses.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	4.57%
EPS Surprise	3.57%
Quarterly EPS	0.29
Annual EPS (TTM)	1.79

Full-Year Results

Earnings for 2019 were \$2.44 per share, up from \$1.39 per share a year ago. Adjusted earnings per share for the year were \$1.53, down from \$2.66 a year ago.

Revenues were \$6,797 million for the full year, down around 11% year over year.

Segment Highlights

Polyurethanes: Revenues in the segment fell 3% year over year to \$980 million due to lower MDI (methylene diphenyl diisocyanate) average selling prices, which were partly offset by higher MDI sales volumes.

Performance Products: Revenues in the unit declined 10% to \$278 million due to reduced average selling prices as well as lower sales volumes.

Advanced Materials: Revenues in the unit dropped 9% to \$241 million due to lower average selling prices and sales volumes.

Textile Effects: Revenues in the division were down 7% to \$180 million. The decline was due to lower sales volumes and average selling prices. Volumes were affected by softer demand as a result of uncertainties surrounding the trade conflict.

Financials

Huntsman had total cash of \$525 million at the end of 2019, up around 54% year over year. Long-term debt was \$2,177 million, down around 2% year over year.

Net cash provided by operating activities from continuing operations was \$656 million in 2019 compared with net cash provided by operating activities of \$704 million in 2018. Huntsman generated free cash flow of \$389 million in 2019 compared with \$454 million a year ago.

The company repurchased around 10.1 million shares worth roughly \$208 million in 2019.

Outlook

Moving ahead, Huntsman noted that it will remain focused, in 2020, on investing in its downstream and specialty platforms both through acquisitions and organically. It will also remain balanced in its capital allocation including opportunistic share repurchases and maintaining a competitive dividend.

For the Polyurethanes unit, Huntsman expects demand headwinds in several major markets and regions in 2020. It also anticipates differentiated MDI margins to be stable.

For Performance Products, the company sees growth in performance amines. It also expects weak demand in the maleic anhydride with stable margins.

For Advanced Materials, the company expects stable overall margins amid weakness in industrial markets and demand headwind in aerospace.

For Textile Effects unit, Huntsman expects growth in specialty products. It also sees stable volumes and improved margins.

Recent News

Huntsman Announces Quarterly Dividend – Feb 24, 2020

Huntsman's board has declared a cash dividend of 16.25 cents per share on its common stock. The dividend is payable on Mar 31, 2020 to stockholders of record as of Mar 13, 2020.

Huntsman Completes Buyout of Icynene-Lapolla for \$350M – Feb 20, 2020

Huntsman has completed the acquisition of Icynene-Lapolla from an affiliate of FFL Partners, LLC. Notably, the deal was valued at \$350 million in an all-cash transaction financed from available liquidity, subject to customary closing adjustments. The purchase price suggests an adjusted EBITDA multiple of 10 times or adjusted EBITDA pro forma of 7 times for synergies.

Icynene-Lapolla is a leading North American manufacturer and distributor of spray polyurethane foam (SPF) for commercial and residential use. It has annual revenues of around \$230 million, with two manufacturing facilities in Houston, TX, and Mississauga, Ontario.

Per Huntsman's management, the acquisition is in sync with its strategy of expanding its downstream polyurethanes business. The acquisition will likely boost its portfolio of leading energy-saving insulation applications and technologies, and provide customers with an unparalleled product offering. Further, the acquisition is expected to generate significant synergies.

The combination of Icynene-Lapolla with Demilec (acquired by Huntsman in 2018) is expected to create the world's leading supplier of spray foam products. It is also expected to provide highly innovative energy-saving solutions for owners of residential and commercial properties.

The acquisition is also expected to provide an impetus to the globalization of the SPF technology. Notably, the combined business is now witnessing close to \$500 million in revenues. With synergies, Huntsman expects the SPF business to exceed \$100 million in EBITDA by the end of 2021.

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.

Valuation

Huntsman's shares are down 25.1% over the trailing 12-month period. Over the past year, the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 35% and 14.3%, respectively.

The S&P 500 index is up 11.3% in the past year.

The stock is currently trading at 11.15X forward 12-month earnings, which compares to 12.07X for the Zacks sub-industry, 12.79X for the Zacks sector and 17.88X 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 8.99X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20 price target reflects 11.98X 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 F12M	Current	11.15	12.07	12.79	17.88
	5-Year High	15.16	15.18	21.15	19.34
	5-Year Low	3.8	8.25	9.82	15.18
	5-Year Median	8.99	12.33	13.63	17.47
EV/EBITDA TTM	Current	9.79	8.12	9.39	12
	5-Year High	10.56	13.25	18.15	12.87
	5-Year Low	4.96	5.59	7.41	8.48
	5-Year Median	7.28	7.53	10.59	10.77
P/B TTM	Current	1.51	1.53	2.11	4.52
	5-Year High	4.07	3.55	3.54	4.9
	5-Year Low	1.09	0.89	1.34	2.85
	5-Year Median	2.06	2.47	2.19	3.62

As of 02/26/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (208 out of 254)



Top Peers

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	HUN Neutral	X Industry	S&P 500	BASFY Underperform	EMN Underperform	LYB Underperform
VGM Score	C	-	-	C	B	B
Market Cap	4.19 B	2.62 B	22.59 B	56.43 B	8.95 B	24.81 B
# of Analysts	5	3	13	3	7	6
Dividend Yield	3.49%	1.86%	1.92%	4.16%	4.01%	5.65%
Value Score	A	-	-	A	B	B
Cash/Price	0.11	0.07	0.04	0.04	0.02	0.04
EV/EBITDA	8.07	8.07	13.29	6.35	8.27	6.39
PEG Ratio	1.37	1.42	1.93	1.43	1.12	1.11
Price/Book (P/B)	1.51	1.86	3.03	1.23	1.47	3.08
Price/Cash Flow (P/CF)	6.86	5.86	12.33	5.21	5.60	5.24
P/E (F1)	11.65	12.46	17.79	13.55	8.87	7.54
Price/Sales (P/S)	0.55	0.81	2.47	0.80	0.97	0.71
Earnings Yield	8.49%	7.39%	5.60%	7.36%	11.27%	13.25%
Debt/Equity	0.91	0.55	0.70	0.39	0.91	1.59
Cash Flow (\$/share)	2.71	3.41	7.02	2.95	11.76	14.19
Growth Score	D	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	9.15%	9.85%	10.85%	1.11%	1.77%	0.72%
Proj. EPS Growth (F1/F0)	3.27%	5.15%	6.79%	7.60%	4.07%	2.53%
Curr. Cash Flow Growth	-41.39%	-7.54%	6.53%	136.40%	-9.97%	-16.46%
Hist. Cash Flow Growth (3-5 yrs)	-7.56%	5.70%	8.38%	-0.12%	1.05%	-3.48%
Current Ratio	1.87	1.83	1.22	1.78	1.65	1.83
Debt/Capital	47.56%	37.78%	42.37%	28.03%	47.73%	61.62%
Net Margin	7.42%	5.48%	11.57%	14.64%	8.19%	9.78%
Return on Equity	14.86%	12.26%	16.80%	9.36%	16.50%	36.95%
Sales/Assets	0.90	0.85	0.54	0.69	0.57	1.14
Proj. Sales Growth (F1/F0)	-8.85%	1.43%	4.06%	4.29%	-0.96%	-1.00%
Momentum Score	F	-	-	B	B	C
Daily Price Chg	-2.36%	-0.47%	-0.98%	-0.19%	-1.14%	-1.35%
1 Week Price Chg	-0.76%	0.00%	-0.94%	-2.84%	-1.51%	0.38%
4 Week Price Chg	-12.38%	-7.76%	-6.27%	-11.32%	-7.09%	-11.28%
12 Week Price Chg	-15.33%	-12.01%	-3.33%	-18.52%	-12.28%	-18.68%
52 Week Price Chg	-25.10%	-19.44%	6.81%	-19.85%	-21.47%	-14.19%
20 Day Average Volume	2,156,748	119,819	2,109,774	408,188	1,124,714	2,232,659
(F1) EPS Est 1 week change	-5.20%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-15.96%	0.00%	-0.08%	-1.73%	-2.99%	-12.97%
(F1) EPS Est 12 week change	-17.02%	-2.15%	-0.22%	-11.11%	-5.31%	-16.79%
(Q1) EPS Est Mthly Chg	-35.65%	-5.48%	-0.61%	0.00%	-7.42%	-2.42%

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	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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