

Huntsman Corporation(HUN)

\$18.84 (As of 05/27/20)

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:F

Value: C

Growth: F

Momentum: F

Summary

Huntsman's adjusted earnings and sales for the first quarter 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. 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 second quarter of 2020. The company is also seeing pressure on ethylene amines margins. Its textile business also faces volume headwind in the second quarter.

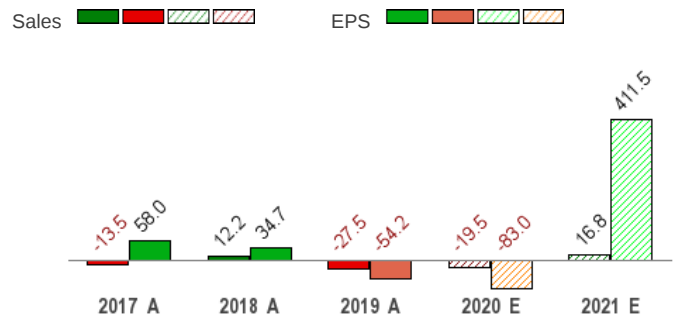
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$24.90 - \$12.23
20 Day Average Volume (sh)	1,900,280
Market Cap	\$4.2 B
YTD Price Change	-22.0%
Beta	2.07
Dividend / Div Yld	\$0.65 / 3.5%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 33% (161 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	52.6%
Last Sales Surprise	3.7%
EPS F1 Est- 4 week change	-72.4%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	11.6
P/E F1	72.5
PEG F1	8.5
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,696 E	1,752 E	1,770 E	1,788 E	6,389 E
2020	1,593 A	1,056 E	1,346 E	1,487 E	5,472 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	\$0.32 E	\$0.37 E	\$0.44 E	\$0.43 E	\$1.33 E
2020	\$0.29 A	-\$0.20 E	\$0.02 E	\$0.11 E	\$0.26 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 05/27/2020. The reports text is as of 05/28/2020.

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.

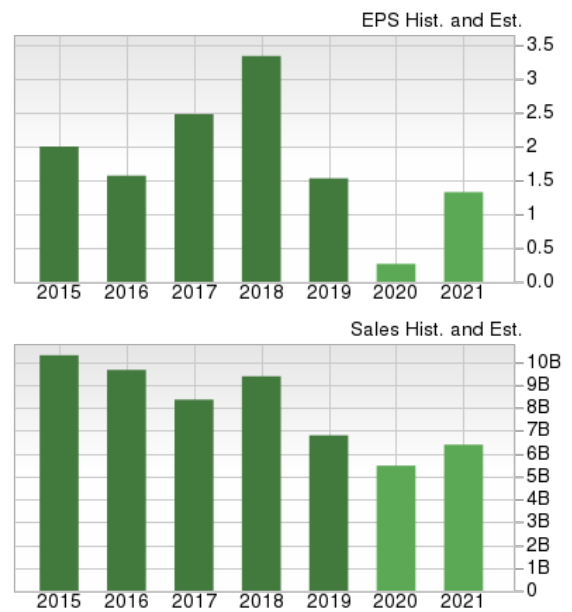
The company currently has four reportable segments – Polyurethanes, Performance Products, Advanced Materials and Textile Effects.

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 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 \$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. It also repurchased around 5.4 million shares worth roughly \$96 million in the most recent quarter.
- ▲ The company's efforts to reduce its debt levels appear encouraging. At the end of the first quarter of 2020, Huntsman's total long-term debt was \$2,414 million, down from \$2,561 million in the sequentially prior quarter. Its total debt-to-total capital stood at 43.4% as of Mar 31, 2020, lower than 49.9% as of Dec 31, 2019. The company also has a strong liquidity position (of roughly \$2.9 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. 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, hurting its Polyurethanes segment. A difficult macroeconomic environment, exacerbated by the coronavirus pandemic, is affecting customers' behavior. The company is seeing lower orders in automotive across North America and Europe. Demand also remains weak in China, hurt by the outbreak of coronavirus and economic weakness in that country. The company expects significant decline in volumes in the second quarter of 2020 due to the ongoing global economic crisis. Also, demand in component and polymeric systems is expected to remain challenging in the second 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. It expects the coronavirus to materially impact several core markets in this segment through the balance of the year. Huntsman envisions EBITDA in this unit to decline more than 45% on a year-over-year basis in the second quarter factoring in volume weakness across most of its core markets.
- ▼ The company's Performance Products unit is facing challenges from lower volumes and margins in the ethylene amines business as witnessed in the recently reported quarter. Revenues in the segment declined 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. The Performance Products unit is also exposed to lower industrial demand, especially in automotive. Huntsman expects this segment to be affected by a material slowdown in the world economy and envisions a significant decline in volumes in the second quarter.
- ▼ While the company's textile business benefited from higher specialty volumes in the last reported quarter, it faces significant volume headwind in the second quarter. The company is seeing significantly lower volumes in its core markets due to mandatory government shutdowns affecting textile mills and regions, exacerbated by significant order cancellations by retailers in the wake of a sharp decline in customer traffic. As such, the company expects second-quarter results in its Textile Effects unit to be considerably below compared with the year-ago 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 and volume headwind in textile unit.

Last Earnings Report

Huntsman's Earnings and Revenues Top Estimates in Q1

Huntsman recorded a profit of \$708 million or \$3.16 per share in first-quarter 2020, up from a profit of \$131 million or 51 cents in the year-ago quarter.

Barring one-time items, adjusted earnings per share were 29 cents in the quarter, down from 36 cents in the year-ago quarter. The figure topped the Zacks Consensus Estimate of 19 cents.

Revenues were \$1,593 million, down around 5% year over year. However, the top line surpassed the Zacks Consensus Estimate of \$1,536.3 million. The company saw lower sales across its business segments in the reported quarter.

Quarter Ending 03/2020

Report Date	May 01, 2020
Sales Surprise	3.69%
EPS Surprise	52.63%
Quarterly EPS	0.29
Annual EPS (TTM)	1.62

Segment Highlights

Polyurethanes: Revenues for the segment fell 4% year over year to \$888 million in the reported quarter due to lower MDI (methylene diphenyl diisocyanate) average selling prices and overall polyurethanes sales volumes.

Performance Products: Revenues for the unit declined 3% to \$292 million due to reduced average selling prices as well as lower sales volumes.

Advanced Materials: Revenues for the unit dropped 11% to \$241 million due to lower average selling prices and sales volumes.

Textile Effects: Revenues for the division were down 5% to \$180 million. The decline was due to lower average selling prices that more than offset higher sales volumes.

Financials

Huntsman had total cash of \$1,594 million at the end of the quarter, up more than three fold year over year. Long-term debt was \$2,049 million, down around 12% year over year.

Net cash used in operating activities was \$40 million for the reported quarter.

The company repurchased around 5.4 million shares worth roughly \$96 million during the quarter.

Outlook

Moving ahead, Huntsman noted that it remains focused on protecting its balance sheet amid the global economic crisis. The company has reduced unnecessary inventories and is also trimming capital spending this year by 30% or around \$90 million by delaying discretionary spending. Huntsman has also taken other actions including cost reductions and suspension of share repurchases. It will also accelerate plans to realize synergies with its recent and pending strategic acquisitions.

Recent News

Huntsman Announces Quarterly Dividend – May 5, 2020

Huntsman's board has declared a cash dividend of 16.25 cents per share on its common stock. The dividend is payable on Jun 30, 2020 to stockholders of record as of Jun 15, 2020.

Huntsman to Acquire CVC Thermoset Specialties for \$300M – Mar 16, 2020

Huntsman has announced a deal to acquire CVC Thermoset Specialties, a North American specialty chemical producer that serves the industrial composites, adhesives and coatings markets.

CVC Thermoset Specialties is part of Emerald Performance Materials LLC and has annual revenues of roughly \$115 million, with two production facilities located in Akron, OH, and Maple Shade, NJ.

Per the terms of the deal, Huntsman is expected to pay \$300 million in the all-cash transaction financed from available liquidity, subject to customary closing adjustments. The purchase price reflects an adjusted EBITDA multiple of around 10 times or between roughly 7-8 times pro forma for synergies based on 2019. Notably, the transaction is slated to close in the middle of 2020.

Per Huntsman, the CVC Thermoset Specialties acquisition adds an important complementary technology breadth to its portfolio of Advanced Materials and the latter's unique products can make systems, using Huntsman's class-leading epoxy-based material, even tougher, stronger, and more robust. The buyout will also improve Huntsman's ability to generate differentiation in customers' applications, especially through its strong formulation business. Huntsman anticipates generating substantial synergies within two years.

Valuation

Huntsman's shares are down 22% in the year-to-date period and up 3.5% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 19% and 13.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 17.3% and 5.1%, respectively.

The S&P 500 index is down 7% in the year-to-date period and up 7.3% in the past year.

The stock is currently trading at 27.12X forward 12-month earnings, which compares to 13.65X for the Zacks sub-industry, 16.3X for the Zacks sector and 21.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.12X and as low as 3.8X, with a 5-year median of 9X.

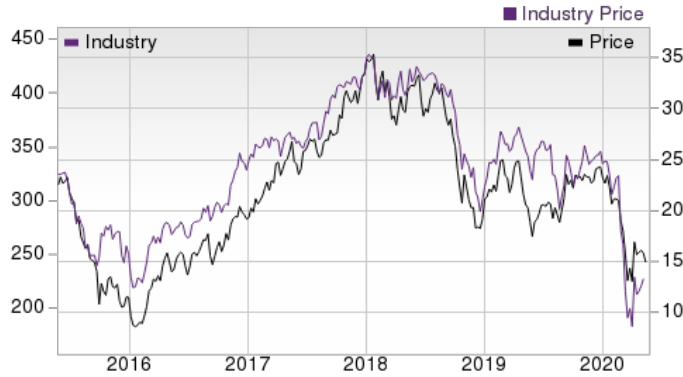
Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20 price target reflects 28.99X forward 12-month earnings per share.

The table below shows summary valuation data for HUN:

Valuation Multiples - HUN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	27.12	13.65	16.3	21.75
	5-Year High	27.12	15.18	21.06	21.75
	5-Year Low	3.8	8.25	9.79	15.23
	5-Year Median	9	12.27	13.49	17.49
EV/EBITDA TTM	Current	6.65	7.37	8.76	11.07
	5-Year High	10.82	13.36	18.31	12.86
	5-Year Low	4.96	5.37	6.48	8.26
	5-Year Median	7.2	7.57	10.5	10.8
P/B TTM	Current	1.23	1.59	2.63	4.09
	5-Year High	4.07	3.55	3.43	4.56
	5-Year Low	0.84	0.89	1.22	2.83
	5-Year Median	2.02	1.79	2.18	3.65

As of 05/27/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (161 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Akzo Nobel NV (AKZOY)	Neutral	3
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
LyondellBasell Industries N.V. (LYB)	Neutral	3
Olin Corporation (OLN)	Neutral	3
The Chemours Company (CC)	Underperform	5

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	F	-	-	C	C	B
Market Cap	4.15 B	2.32 B	21.39 B	50.37 B	9.48 B	22.46 B
# of Analysts	7	3	14	3	8	4
Dividend Yield	3.45%	2.22%	1.97%	4.66%	3.78%	6.24%
Value Score	C	-	-	A	B	B
Cash/Price	0.42	0.12	0.06	0.07	0.08	0.09
EV/EBITDA	6.44	6.96	12.63	6.99	8.20	5.94
PEG Ratio	8.35	2.99	2.91	14.21	2.74	2.15
Price/Book (P/B)	1.23	1.71	2.99	1.06	1.53	3.06
Price/Cash Flow (P/CF)	6.94	5.93	11.80	5.75	5.93	4.74
P/E (F1)	70.96	19.80	21.42	19.04	11.81	14.51
Price/Sales (P/S)	0.58	0.71	2.29	0.73	1.04	0.67
Earnings Yield	1.38%	4.62%	4.44%	5.25%	8.47%	6.89%
Debt/Equity	0.71	0.55	0.76	0.35	0.87	1.82
Cash Flow (\$/share)	2.71	3.41	6.96	2.38	11.76	14.19
Growth Score	F	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	5.99%	9.92%	10.87%	-1.82%	1.66%	-0.35%
Proj. EPS Growth (F1/F0)	-82.73%	-27.74%	-10.41%	-35.71%	-17.16%	-51.79%
Curr. Cash Flow Growth	-41.39%	-7.54%	5.46%	-19.09%	-9.97%	-16.46%
Hist. Cash Flow Growth (3-5 yrs)	-7.56%	6.01%	8.55%	-3.10%	1.05%	-3.48%
Current Ratio	2.13	1.87	1.29	1.87	1.66	1.76
Debt/Capital	41.64%	37.09%	44.54%	26.17%	46.58%	64.71%
Net Margin	16.10%	4.87%	10.59%	13.70%	8.85%	8.14%
Return on Equity	12.72%	12.74%	16.29%	8.06%	16.76%	36.08%
Sales/Assets	0.85	0.79	0.55	0.69	0.56	1.09
Proj. Sales Growth (F1/F0)	-27.74%	-7.90%	-2.34%	-9.48%	-12.76%	-27.73%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	2.39%	2.03%	2.29%	5.62%	1.62%	-0.61%
1 Week Price Chg	17.26%	5.49%	4.99%	6.72%	9.15%	12.72%
4 Week Price Chg	7.84%	3.78%	2.47%	2.01%	9.89%	12.31%
12 Week Price Chg	0.80%	-5.18%	-6.13%	-9.92%	10.87%	-10.53%
52 Week Price Chg	3.52%	-14.00%	0.67%	-17.41%	3.09%	-13.46%
20 Day Average Volume	1,900,280	111,242	2,423,651	295,120	1,347,184	2,376,333
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-72.39%	-3.55%	-2.07%	-9.62%	-6.32%	-15.77%
(F1) EPS Est 12 week change	-83.27%	-33.51%	-16.07%	-36.47%	-20.40%	-52.98%
(Q1) EPS Est Mthly Chg	-200.97%	-53.89%	-3.59%	-58.82%	-20.11%	-57.81%

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	F
Momentum Score	F
VGM Score	F

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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