

## Westlake Chemical(WLK)

**\$58.25** (As of 06/05/20)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 02/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

## Summary

Earnings estimates for Westlake Chemical for the second quarter of 2020 have been going down over the past month. The company is exposed to downward pressure on pricing for its major products. Westlake Chemical is seeing weakness in both export and domestic prices. Polyethylene prices are expected to remain under pressure over the near term. Softer industrial activity, slowing global growth, and the impacts of the coronavirus outbreak in Europe and Asia are also hurting caustic soda and PVC resin prices. The coronavirus outbreak is likely to impact global industrial activities and demand, thereby hurting prices. Moreover, Westlake Chemical's operations are exposed to planned turnarounds and unplanned outages. Impacts of turnaround activities may pose some margin headwinds. Westlake Chemical's high debt level is another matter of concern.

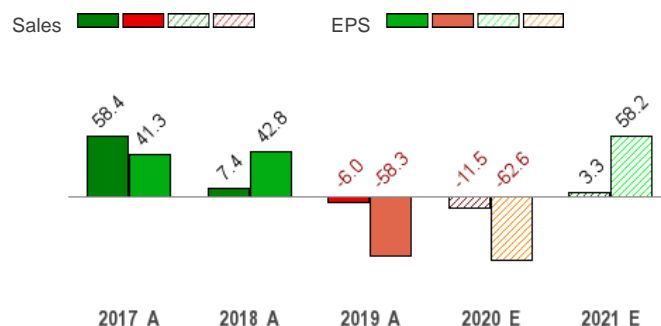
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$75.65 - \$28.99
20 Day Average Volume (sh)	709,280
Market Cap	\$7.4 B
YTD Price Change	-17.0%
Beta	1.69
Dividend / Div Yld	\$1.05 / 1.8%
Industry	<a href="#">Chemical - Plastic</a>
Zacks Industry Rank	Bottom 17% (210 out of 253)

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



Last EPS Surprise	14.0%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	-14.3%
Expected Report Date	NA
Earnings ESP	533.3%
P/E TTM	18.4
P/E F1	47.8
PEG F1	5.9
P/S TTM	0.9

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,419 E
2020	1,932 A	1,735 E	1,783 E	1,759 E	7,182 E
2019	2,025 A	2,144 A	2,066 A	1,883 A	8,118 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.93 E
2020	\$0.65 A	\$0.01 E	\$0.20 E	\$0.31 E	\$1.22 E
2019	\$0.94 A	\$0.92 A	\$1.22 A	\$0.37 A	\$3.26 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 06/05/2020. The reports text is as of 06/08/2020.

## Overview

Houston, TX-based Westlake Chemical Corporation is a vertically integrated international producer and supplier of petrochemicals, polymers and building products. The company's range of products includes ethylene, polyethylene, styrene, vinyl intermediates, polyvinyl chloride (PVC), PVC Pipe, PVC windows, fence and decking components. The company utilizes most of its internally-produced basic chemicals to make higher value-added chemicals and building products.

The company's products are used across a range of consumer and industrial markets, including flexible and rigid packaging, automotive products, coatings, water treatment, refrigerants, residential and commercial construction. The company generated revenues of \$8,118 million in 2019.

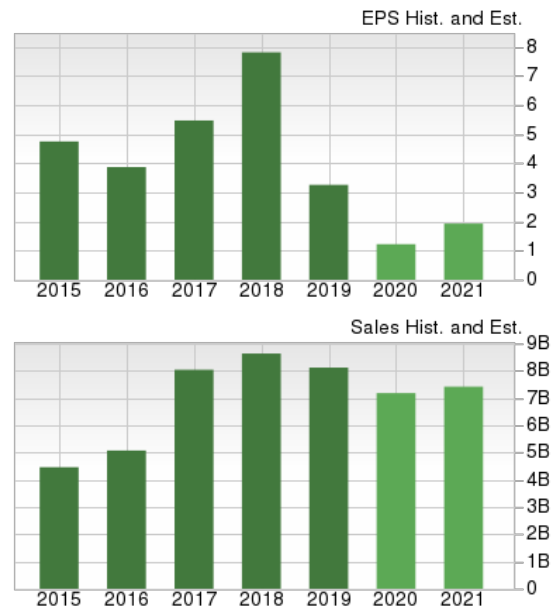
Westlake Chemical operates through two segments – Vinyls and Olefins.

**Vinyls:** The segment's key products include PVC, chlor-alkali (chlorine and caustic soda) and chlorinated derivative products and ethylene. The company also makes building products fabricated from PVC, including siding, pipe, fittings, fence and decking products, window and door components and film and sheet products. The segment accounted for 78% of total revenues in 2019.

**Olefins:** The segment offers ethylene, polyethylene, styrene and associated co-products. The company has two ethylene plants, owned by OpCo, two polyethylene plants and one styrene monomer plant at its olefins facility at the Lake Charles site. The segment accounted for 22% of total revenues in 2019.

Westlake Chemical, in September 2016, concluded the acquisition of chemicals and building products maker, Axiall Corporation in an all-cash deal. The transaction represents an enterprise value of \$3.8 billion.

Westlake Chemical, in January 2019, also acquired global compounding solutions business, NAKAN. NAKAN's product portfolio is used in a wide-array of applications in the building & construction, automotive and medical industries. The combination is a strategic move that complements the company's existing compounding business. Through this move, Westlake Chemical's compounding business now has facilities in the United States, Italy, France, Germany, China, Mexico, Japan, Spain and Vietnam.



---

## Reasons To Sell:

▼ Westlake Chemical faced downward pressure on pricing for major products in the most recent quarter. Slower global economic growth and U.S.-China trade uncertainties weighed on both export and domestic prices. Lower polyethylene sales prices hurt margins in the Olefins segment in the quarter. Polyethylene prices are expected to remain under pressure over the near term due to excess supply resulting from new production capacity. Softer industrial activities, slowing global growth, and the impacts of the coronavirus outbreak in Europe and Asia are also hurting caustic soda and PVC resin prices. The coronavirus outbreak is likely to impact global industrial activities and demand, thereby hurting prices. As such, pricing pressure is expected to sustain in second-quarter 2020.

The company faces headwinds from lower pricing for a number of its products. Its operations are also exposed to maintenance outages. The company's high debt level is another concern.

▼ Westlake Chemical's operations are exposed to planned turnarounds and unplanned outages. Turnaround activities unfavorably impacted its olefins operating margins in fourth-quarter 2019. The company idled some of its small integrated facilities in the last reported quarter. It is planning to defer turnaround of its Petro 2 ethylene unit to the first half of 2021 and expects the outage to last for around 60 days. It expects associated maintenance costs of roughly \$100 million. This may pose some margin headwinds. Westlake Chemical envisions capital expenditures for maintenance and turnaround activities in 2020 to be modestly higher than \$500 million.

▼ Westlake Chemical's balance sheet leverage is also relatively high, limiting its financial flexibility. At the end of the first quarter of 2020, its total long-term debt was \$4,778 million, up from \$3,800 million in the prior quarter and \$2,980 million in the year-ago quarter. Moreover, its total debt-to-total capital stood at 42.6% as of Mar 31, 2020, higher than 37.2% as of Dec 31, 2019. The company's cash balance is also lower than its short-term debt of \$1,024 million as of Mar 31, 2020. This coupled with its weak revenue stream (as reflected by falling revenues over the past two quarters) may affect its ability to meet its debt obligations.

---

---

## Risks

- Westlake Chemical is well placed to benefit from acquisitions. The Axiall acquisition has diversified the company's product portfolio and geographical operations, creating a North American leader in Olefins and Vinyls. The company has realized \$275 million of cost reduction synergies and savings since the completion of the acquisition. The buyout of the global compounding solutions business, NAKAN also enabled Westlake Chemical to expand its product portfolio and global footprint that the company expects to leverage with its existing operations and drive shareholders value. The acquisition allows the company to boost its compounding business globally along with adding the vital specialty products and technology to the current portfolio.
  - The company is seeing healthy global demand for all major products in Vinyls and Olefins segments as reflected by higher sales volumes. It is witnessing favorable demand trends for all of its major products including polyethylene and PVC resin. The company saw strong increase in global demand for polyethylene in 2019. Notably, the company expects the demand in its polyethylene business to continue on account of its focus in specialty applications, especially food packaging. Rising housing starts in the United States also augur well for the company's downstream vinyl products business and domestic demand for PVC. The company's investments to improve the reliability and operational efficiency of its assets will also allow it to fully leverage the improving Vinyls market fundamentals.
  - Westlake Chemical should also benefit from its capacity expansion projects. The company completed the 750-million pound PVC expansion (in Burghausen, Germany, and Geismar, LA) in its Vinyls segment in fourth-quarter 2019. The company, in 2018, also announced a 200-million pound vinyl chloride monomer (VCM) expansion in Geismar and Gendorf, Germany. This additional production capacity will help the company to address the growing needs of its global customers.
-

## Last Earnings Report

### Westlake Chemical's Q1 Earnings Beat Estimates, Sales Lag

Westlake Chemical posted a profit of \$145 million or \$1.13 per share for the first quarter of 2020, up 101.4% from \$72 million or 55 cents per share earned in the year-ago quarter.

The increase was mainly attributed to the income tax benefit of \$62 million, arising from the carryback of federal net operating losses.

Barring one-time items, adjusted earnings per share were 65 cents in the quarter. The metric surpassed the Zacks Consensus Estimate of 57 cents.

Sales fell 4.6% year over year to \$1,932 million. The figure also missed the Zacks Consensus Estimate of \$1,937.5 million.

### Segment Highlights

Sales in the Olefins segment fell 7% year over year to \$427 million in the reported quarter. Operating income in the segment rose 67.6% to \$62 million. The increase was mainly due to higher polyethylene sales volumes, and lower feedstock and fuel costs, which were in part, offset by reduced polyethylene sales prices.

The Vinyls segment generated sales of \$1,505 million, down 3.9% year over year. Operating income in the segment was \$73 million, down 27.7% year over year. The decline was caused by reduced sales prices for caustic soda and PVC (polyvinyl chloride) resin.

### Financial Position

Westlake Chemical ended the quarter with cash and cash equivalents of \$1,537 million, up 245.4% year over year. Long-term debt was \$4,432 million, up 66% year over year.

Cash flow from operations was \$61 million in the quarter, down 58.5% year over year.

### Outlook

Westlake Chemical said that it remains focused on lowering its cost position and generating economic value over the business cycle. The company believes that its competitive position coupled with a strong balance sheet has positioned it to weather the current environment.

It now expects capital expenditure of \$500-\$550 million for 2020.

Quarter Ending **03/2020**

Report Date	<b>May 04, 2020</b>
Sales Surprise	<b>-0.28%</b>
EPS Surprise	<b>14.04%</b>
Quarterly EPS	<b>0.65</b>
Annual EPS (TTM)	<b>3.16</b>

---

## Recent News

### Westlake Chemical Declares Quarterly Dividend - Feb 14, 2020

Westlake Chemical's board of directors has declared a regular dividend distribution of 26.25 cents per share for the fourth quarter of 2019. The dividend was paid on Mar 10, 2020, to shareholders of record as of Feb 25, 2020. Notably, this represents the 62nd consecutive quarterly dividend declared by the company since its completion of IPO in August 2004.

---

## Valuation

Westlake Chemical's shares are down 16.9% in the year-to-date period and down 7.7% over the trailing 12-month period. Stocks in the Zacks Chemicals-Plastics industry and Zacks Basic Materials sector are down 20.1% and 5.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16.3% and 0.3%, respectively.

The S&P 500 index is down 1% in the year-to-date period and up 10.5% in the past year.

The stock is currently trading at 38.06X forward 12-month earnings, which compares to 32.79X for the Zacks sub-industry, 17.03X for the Zacks sector and 23.07X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.8X and as low as 7.28X, with a 5-year median of 13.06X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$50 price target reflects 32.67X forward 12-month earnings per share.

The table below shows summary valuation data for WLK:

Valuation Multiples - WLK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	38.06	32.79	17.03	23.07
	5-Year High	39.8	32.79	21.05	23.07
	5-Year Low	7.28	6.35	9.86	15.23
	5-Year Median	13.06	9.99	13.53	17.49
EV/EBITDA TTM	Current	8.47	6.91	9.44	11.82
	5-Year High	14.41	10.82	18.38	12.85
	5-Year Low	4.25	3.78	6.49	8.25
	5-Year Median	7.13	6.17	10.5	10.8
P/B TTM	Current	1.16	0.82	2.9	4.36
	5-Year High	3.02	2.5	3.41	4.56
	5-Year Low	0.6	0.49	1.23	2.83
	5-Year Median	1.82	1.75	2.19	3.65

As of 06/05/2020

---

## Industry Analysis Zacks Industry Rank: Bottom 17% (210 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Ashland Global Holdings Inc. (ASH)	Neutral	3
Eastman Chemical Company (EMN)	Neutral	3
Huntsman Corporation (HUN)	Neutral	3
LyondellBasell Industries N.V. (LYB)	Neutral	3
Olin Corporation (OLN)	Neutral	3
PolyOne Corporation (POL)	Neutral	4
ShinEtsu Chemical Co. (SHECY)	Neutral	3
Celanese Corporation (CE)	Underperform	5

Industry Comparison Industry: Chemical - Plastic				Industry Peers		
	WLK	X Industry	S&P 500	LYB	OLN	POL
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	4
VGM Score	F	-	-	B	F	F
Market Cap	7.44 B	1.58 B	23.09 B	24.98 B	2.29 B	2.64 B
# of Analysts	5	2	14	4	4	7
Dividend Yield	1.80%	0.55%	1.82%	5.61%	5.51%	2.81%
Value Score	D	-	-	A	D	C
Cash/Price	0.25	0.28	0.06	0.09	0.10	0.57
EV/EBITDA	7.59	6.28	13.17	6.38	6.95	10.16
PEG Ratio	5.92	11.19	3.13	2.24	NA	2.18
Price/Book (P/B)	1.16	1.39	3.15	3.40	1.00	1.71
Price/Cash Flow (P/CF)	6.59	5.33	12.43	5.28	3.34	10.15
P/E (F1)	48.23	25.27	22.80	15.13	NA	21.17
Price/Sales (P/S)	0.93	0.61	2.52	0.75	0.38	0.89
Earnings Yield	2.09%	2.97%	4.19%	6.61%	-8.53%	4.71%
Debt/Equity	0.74	0.53	0.76	1.82	1.52	0.81
Cash Flow (\$/share)	8.84	2.53	7.01	14.19	4.35	2.84
Growth Score	F	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	1.53%	1.53%	10.87%	-0.35%	8.24%	10.56%
Proj. EPS Growth (F1/F0)	-62.52%	-33.41%	-10.79%	-48.57%	-307.08%	-19.36%
Curr. Cash Flow Growth	-31.71%	-27.71%	5.48%	-16.46%	-22.35%	-23.71%
Hist. Cash Flow Growth (3-5 yrs)	3.87%	2.79%	8.55%	-3.48%	22.28%	38.26%
Current Ratio	3.68	2.55	1.29	1.76	1.11	2.89
Debt/Capital	42.60%	33.62%	44.75%	64.71%	60.39%	44.81%
Net Margin	6.16%	3.10%	10.59%	8.14%	-2.22%	19.58%
Return on Equity	6.41%	8.26%	16.26%	36.08%	-0.55%	16.97%
Sales/Assets	0.61	0.70	0.55	1.09	0.65	0.92
Proj. Sales Growth (F1/F0)	-11.53%	-13.97%	-2.61%	-27.73%	-7.01%	-14.74%
Momentum Score	D	-	-	A	D	D
Daily Price Chg	4.77%	1.34%	2.89%	1.24%	2.98%	4.45%
1 Week Price Chg	8.38%	3.66%	4.60%	5.53%	8.28%	2.82%
4 Week Price Chg	40.19%	27.19%	15.60%	39.35%	28.02%	33.07%
12 Week Price Chg	82.37%	46.18%	29.34%	62.51%	53.11%	67.15%
52 Week Price Chg	-7.82%	-7.82%	2.76%	-6.83%	-34.43%	8.91%
20 Day Average Volume	709,280	126,793	2,537,324	2,313,350	2,519,372	729,156
(F1) EPS Est 1 week change	7.38%	0.00%	0.00%	0.00%	3.68%	0.00%
(F1) EPS Est 4 week change	-14.31%	-8.48%	-0.08%	0.00%	3.68%	-2.65%
(F1) EPS Est 12 week change	-57.05%	-45.77%	-16.19%	-52.94%	-356.80%	-23.86%
(Q1) EPS Est Mthly Chg	-150.00%	-76.91%	0.00%	4.18%	-4.14%	-3.82%

---

## 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	D
Growth Score	F
Momentum Score	D
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.

---

### Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.