

Westlake Chemical(WLK)

\$61.37 (As of 08/10/20)

Price Target (6-12 Months): **\$71.00**

Long Term: 6-12 Months

Zacks Recommendation: Outperform

(Since: 07/21/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: A

Summary

Westlake Chemical's earnings and sales for the second quarter beat the respective Zacks Consensus Estimate. The company is benefiting from synergies of the Axiall acquisition and strong demand for its major products. The buyout has diversified its product portfolio and geographical operations. Further, the company is seeing favorable demand trends for polyethylene and PVC resin. Demand in the company's polyethylene business is also likely to continue, especially in food packaging. Also, rising housing starts in the United States augur well for its downstream vinyl products business and domestic demand for PVC. Investments to improve the reliability and operational efficiency of its assets will also enable it to fully leverage the improving Vinyls market fundamentals. It should also benefit from its capacity expansion projects.

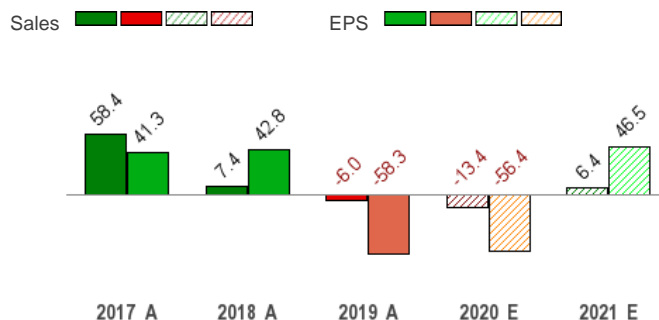
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.65 - \$28.99
20 Day Average Volume (sh)	480,468
Market Cap	\$7.8 B
YTD Price Change	-12.5%
Beta	1.69
Dividend / Div Yld	\$1.05 / 1.7%
Industry	Chemical - Plastic
Zacks Industry Rank	Bottom 15% (215 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1,200.0%
Last Sales Surprise	3.3%
EPS F1 Est- 4 week change	13.1%
Expected Report Date	11/03/2020
Earnings ESP	29.9%
P/E TTM	26.1
P/E F1	43.2
PEG F1	5.3
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,600 E	1,568 E	1,699 E	1,576 E	7,479 E
2020	1,932 A	1,709 A	1,764 E	1,714 E	7,032 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	\$0.24 E	\$0.59 E	\$0.66 E	\$0.51 E	\$2.08 E
2020	\$0.65 A	\$0.11 A	\$0.42 E	\$0.34 E	\$1.42 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 08/10/2020. The reports text is as of 08/11/2020.

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.

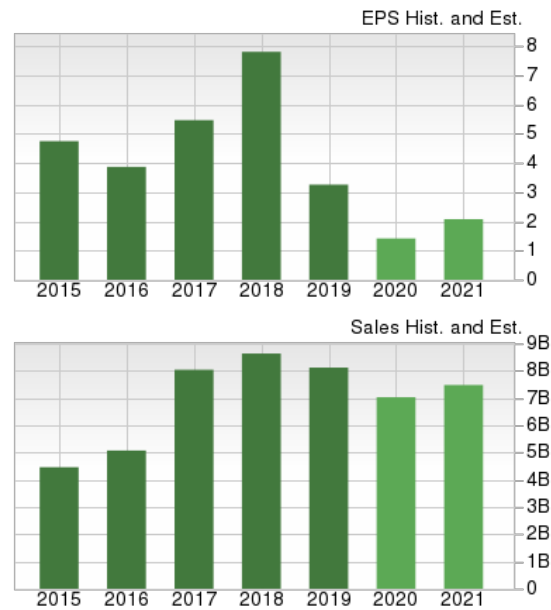
Westlake Chemical operates through two segments – Vinyls and Olefins.

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 Buy:

- ▲ 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 its major products. It is witnessing strong demand trends for polyethylene as reflected by higher sales volumes. The company expects healthy demand in its polyethylene business to continue on account of its focus in specialty applications, especially food packaging. Demand for PVC resin and construction-related downstream vinyl products is also improving with the easing of coronavirus-induced restrictions. 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.
- ▲ Westlake Chemical is taking actions to reduce its debt. At the end of the second quarter of 2020, its total long-term debt was \$3,745 million, down from \$4,432 million in the sequentially prior quarter. Moreover, its net debt fell to around \$2.6 billion at the end of the second quarter from \$2.9 billion in the prior quarter. The company also ended the second quarter with a strong cash balance of \$1,109 million. Its strong liquidity position should allow it to meet its debt obligations.

Westlake Chemical is benefiting from synergies of Axiall acquisition and strong demand for its major products. It should also benefit from its capacity expansion projects.

Risks

- Westlake Chemical faces downward pressure on pricing for major products. The coronavirus pandemic and a sharp decline in oil prices weighed on its prices in the second quarter of 2020. 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. While oil prices have recovered somewhat from their lows, the coronavirus outbreak is likely to continue to impact global industrial activities and demand, thereby hurting the company's prices. As such, pricing pressure is expected to sustain in third-quarter 2020.
 - The company's Olefins segment faces headwinds from new capacity additions. New ethylene and polyethylene capacity additions across North America and Asia have led to additional supply of ethylene and polyethylene in the market. This is hurting profitability of the Olefins segment. The company expects new capacity additions in North America, Asia and the Middle East to further add to supply and weigh on margins in the Olefins unit moving ahead.
 - 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 also idled some of its small integrated facilities in first-quarter 2020. It is planning to execute the turnaround of its Petro 2 ethylene unit in the first half of 2021 and expects the outage to last for around 60 days. The company expects associated maintenance costs of roughly \$100 million. This may pose some margin headwinds.
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Last Earnings Report

Westlake Chemical's Q2 Earnings and Sales Beat Estimates

Westlake Chemical posted earnings of 11 cents per share for the second quarter of 2020, down from 92 cents per share it earned in the year-ago quarter. The Zacks Consensus Estimate for the quarter was a loss of a penny per share.

The bottom line in the reported quarter was hurt by lower demand due to the impacts of the coronavirus pandemic and a sharp decline in oil prices. Lower demand and oil prices led to reduced global sales prices for the company's major products as well as lower sales volumes for caustic soda and downstream vinyls products.

Sales fell roughly 20% year over year to \$1,709 million. The figure surpassed the Zacks Consensus Estimate of \$1,653.8 million.

Segment Highlights

Sales in the Olefins segment fell roughly 24% year over year to \$361 million in the reported quarter. Operating income in the segment declined around 70% to \$25 million. The decrease was mainly due to lower sales prices for polyethylene resulting from the pandemic and reduced oil prices, partly offset by increased polyethylene volumes and lower feedstock and fuel costs.

The Vinyls segment generated sales of \$1,348 million, down around 19% year over year. Operating income in the segment was \$20 million, down roughly 84% year over year. The decline was caused by the impacts coronavirus and lower oil prices.

Financial Position

Westlake Chemical ended the quarter with cash and cash equivalents of \$1,109 million, up nearly three fold year over year. Long-term debt was \$3,745 million, up around 40% year over year.

Cash flow from operations was \$448 million in the quarter, up 40% year over year.

Outlook

Westlake Chemical said that it is well placed to continue to serve its customers' needs while reducing operating costs, managing working capital and lowering capital expenditures. The company expects the prudent management of its business through the pandemic along with its strong business fundamentals to enable it to deliver long-term value to shareholders.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	3.34%
EPS Surprise	1,200.00%
Quarterly EPS	0.11
Annual EPS (TTM)	2.35

Recent News

Westlake Chemical Declares Pricing of Senior Notes Due 2030

Westlake Chemical, on **Jun 9, 2020**, announced the pricing of underwritten public offering of \$300 million total principal amount of senior unsecured notes due 2030. The notes will carry an interest rate of 3.375% per year and will mature on Jun 15, 2030.

The company plans to employ a portion of the net proceeds to fund the purchase of three series of tax-exempt revenue bonds. The revenue bonds are issued by the Louisiana Local Government Environmental Facilities and Community Development Authority on behalf of Westlake Chemical with a total principal amount of \$254 million. The company plans to use the remaining net proceeds for general corporate purposes.

The notes offering will be sold only pursuant to an effective shelf registration statement, which was earlier filed with the Securities and Exchange Commission.

Valuation

Westlake Chemical's shares are down 12.5% in the year-to-date period and up 1.6% over the trailing 12-month period. Stocks in the Zacks Chemicals-Plastics industry and Zacks Basic Materials sector are down 15.3% and 0.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.5% and up 10.7%, respectively.

The S&P 500 index is up 3.8% in the year-to-date period and up 16.3% in the past year.

The stock is currently trading at 36.07X forward 12-month earnings, which compares to 34.95X for the Zacks sub-industry, 15.2X for the Zacks sector and 22.75X 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 13.13X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$71 price target reflects 41.76X 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 F 12M	Current	36.07	34.95	15.2	22.75
	5-Year High	39.8	40.67	21.05	22.75
	5-Year Low	7.28	5.61	9.86	15.25
	5-Year Median	13.13	8.96	13.53	17.58
EV/EBITDA TTM	Current	9.82	7.86	10.94	12.62
	5-Year High	14.41	10.4	18.08	12.84
	5-Year Low	4.25	3.13	6.55	8.24
	5-Year Median	7.6	5.98	10.77	10.9
P/B TTM	Current	1.22	0.81	2.43	4.67
	5-Year High	3.02	2.24	3.07	4.67
	5-Year Low	0.6	0.43	1.23	2.83
	5-Year Median	1.76	1.48	2.2	3.74

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ashland Global Holdings Inc. (ASH)	Outperform	1
PolyOne Corporation (AVNT)	Neutral	3
Celanese Corporation (CE)	Neutral	3
Eastman Chemical Company (EMN)	Neutral	3
Huntsman Corporation (HUN)	Neutral	3
LyondellBasell Industries N.V. (LYB)	Neutral	3
ShinEtsu Chemical Co. (SHECY)	Neutral	3
Olin Corporation (OLN)	Underperform	5

Industry Comparison Industry: Chemical - Plastic				Industry Peers		
	WLK	X Industry	S&P 500	AVNT	LYB	OLN
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	D	-	-	C	B	C
Market Cap	7.84 B	1.00 B	23.56 B	2.44 B	23.43 B	1.78 B
# of Analysts	5	1	14	7	7	4
Dividend Yield	1.71%	0.00%	1.71%	3.04%	5.98%	7.09%
Value Score	C	-	-	A	A	B
Cash/Price	0.21	0.24	0.07	0.84	0.15	0.14
EV/EBITDA	7.40	6.05	13.39	9.16	6.12	6.99
PEG Ratio	5.44	18.36	2.92	2.72	2.23	NA
Price/Book (P/B)	1.22	1.28	3.18	1.57	3.18	0.81
Price/Cash Flow (P/CF)	6.94	5.24	12.69	9.37	4.95	2.59
P/E (F1)	44.32	29.14	22.16	19.20	15.05	NA
Price/Sales (P/S)	1.03	0.65	2.55	0.91	0.78	0.32
Earnings Yield	2.31%	0.94%	4.33%	5.22%	6.64%	-12.22%
Debt/Equity	0.64	0.44	0.77	1.22	2.01	1.86
Cash Flow (\$/share)	8.84	2.29	6.94	2.84	14.19	4.35
Growth Score	F	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	-2.25%	-8.17%	10.41%	3.98%	-2.41%	11.74%
Proj. EPS Growth (F1/F0)	-56.56%	-49.11%	-6.51%	-17.92%	-51.53%	-329.17%
Curr. Cash Flow Growth	-31.71%	-33.97%	5.26%	-23.71%	-16.46%	-22.35%
Hist. Cash Flow Growth (3-5 yrs)	3.87%	1.71%	8.55%	38.26%	-3.48%	22.28%
Current Ratio	2.85	2.11	1.34	4.14	2.36	1.75
Debt/Capital	39.01%	33.28%	44.59%	54.91%	66.96%	65.05%
Net Margin	5.14%	0.04%	10.13%	21.01%	6.79%	-4.14%
Return on Equity	4.74%	2.83%	14.59%	10.78%	29.99%	-4.60%
Sales/Assets	0.56	0.69	0.51	0.75	0.97	0.62
Proj. Sales Growth (F1/F0)	-13.38%	-13.77%	-1.54%	-4.77%	-23.16%	-9.67%
Momentum Score	A	-	-	C	F	C
Daily Price Chg	6.21%	0.14%	0.91%	2.98%	5.25%	2.64%
1 Week Price Chg	6.02%	4.04%	2.30%	8.24%	6.67%	-2.14%
4 Week Price Chg	17.70%	5.94%	8.54%	5.25%	7.42%	1.44%
12 Week Price Chg	39.79%	23.23%	13.68%	13.41%	18.23%	-5.29%
52 Week Price Chg	1.67%	-1.91%	3.71%	-13.81%	-3.76%	-33.12%
20 Day Average Volume	480,468	88,885	2,015,804	542,369	1,792,792	2,087,153
(F1) EPS Est 1 week change	10.11%	0.00%	0.00%	0.00%	-0.46%	-15.74%
(F1) EPS Est 4 week change	13.10%	2.32%	1.67%	0.61%	-1.59%	-15.94%
(F1) EPS Est 12 week change	24.43%	5.11%	2.27%	-0.92%	0.06%	-6.59%
(Q1) EPS Est Mthly Chg	66.35%	150.00%	0.67%	-3.08%	-4.17%	-78.57%

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	A
VGM Score	D

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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