

Westlake Chemical(WLK)

\$66.82 (As of 02/13/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/22/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: C

Momentum: F

Summary

Earnings estimates for Westlake Chemical for the fourth quarter of 2019 have been going up of late. The company is well placed to benefit from acquisition, which allows the company to boost its compounding business globally. It is also witnessing increased global demand for its major products in Vinyls and Olefins segments. Further, the company is expected to benefit from capacity expansion projects. It has also outperformed the industry it belongs to over a year. However, the company is exposed to downward pressure on pricing for its major products. It is seeing weakness in both export and domestic prices. Moreover, the company's operations are exposed to planned turnarounds and unplanned outages. Impacts of turnaround activities may pose some margin headwinds. The company's high debt level is another concern.

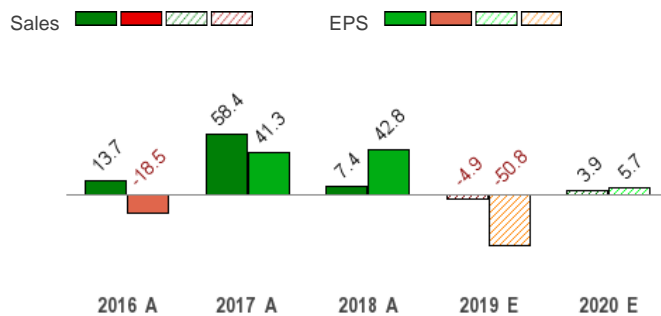
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.04 - \$55.82
20 Day Average Volume (sh)	518,295
Market Cap	\$8.6 B
YTD Price Change	-4.8%
Beta	1.70
Dividend / Div Yld	\$1.05 / 1.6%
Industry	Chemical - Plastic
Zacks Industry Rank	Bottom 5% (242 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	19.6%
Last Sales Surprise	-3.1%
EPS F1 Est- 4 week change	-1.8%
Expected Report Date	02/18/2020
Earnings ESP	0.0%
P/E TTM	16.3
P/E F1	16.5
PEG F1	2.0
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					8,530 E
2019	2,025 A	2,144 A	2,066 A	1,963 E	8,212 E
2018	2,150 A	2,235 A	2,255 A	1,995 A	8,635 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.00 E	\$1.22 E	\$1.21 E	\$0.90 E	\$4.06 E
2019	\$0.94 A	\$0.92 A	\$1.22 A	\$0.98 E	\$3.84 E
2018	\$2.24 A	\$2.45 A	\$2.35 A	\$1.02 A	\$7.81 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 02/13/2020. The reports text is as of 02/14/2020.

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 \$8,635 million in 2018.

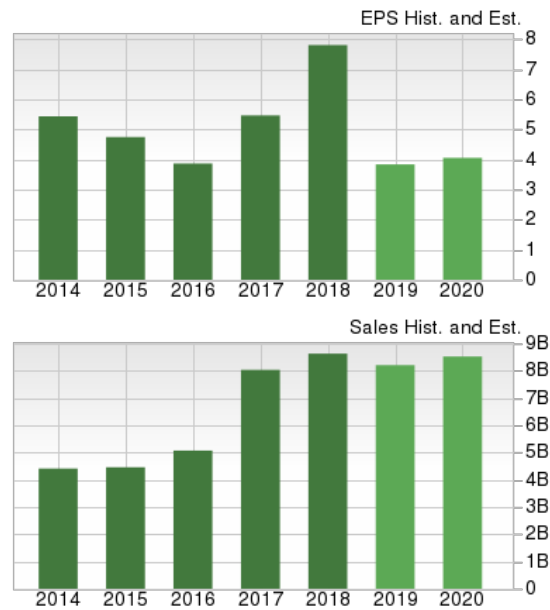
Westlake Chemical operates through two segments – Vinyls and Olefins.

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 74% of total revenues in 2018.

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 26% of total revenues in 2018.

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's shares have lost 14.1% over a year, outperforming the 22.7% decrease recorded by the industry. 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 increased 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, PVC resin and styrene. 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 is making progress on the announced expansions in its Vinyls segment. The company, in February 2018, announced 200-million pounds vinyl chloride monomer (VCM) expansion in Geismar, LA and Gendorf, Germany, and 750-million pounds PVC expansion in Burghausen, Germany, and Geismar. These expansions are a part of the company's capital expenditure program for 2019. This additional production capacity will help the company to address the growing needs of its global customers. Westlake Chemical expects these investments to contribute to its EBITDA in 2019.

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.

Reasons To Sell:

- ▼ Westlake Chemical faced downward pressure on pricing for major products in the most recent quarter. Slower global economic growth and a slowdown in industrial activities across Europe and Asia due to the U.S.-China trade tensions 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 new production capacity entering markets and ongoing trade uncertainties. Softer industrial activity and slowing global growth are also hurting caustic soda and PVC resins prices. Pricing pressure is expected to sustain in fourth-quarter 2019.
- ▼ Westlake Chemical's operations are exposed to planned turnarounds and unplanned outages. Turnaround activities unfavorably impacted its olefins operating margins for the most part of 2018. The company expects its turnaround activity in 2019 to be similar to 2018. Impacts from turnaround activity are expected to continue through second-half 2019, albeit to a lesser extent than the first half. This may pose some margin headwinds. Westlake Chemical envisions capital expenditures for maintenance and turnaround activities in 2019 to be in sync with 2018 as it works on the expansion and debottleneck opportunities in the vinyl segment.
- ▼ The company's high balance sheet leverage is also a matter of concern. It had substantial total debt of roughly \$3.4 billion at the end of the most recent quarter, up around 28% year over year. The company's debt position has increased due to the buyout of Axiall.

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.

Last Earnings Report

Westlake Chemical's Q3 Earnings Top Estimates, Sales Lag

Westlake Chemical saw lower profits in the third quarter of 2019, hurt by reduced sales prices for its major products. The company posted a profit of \$158 million or \$1.22 per share for the quarter, down around 49% from \$308 million or \$2.35 it earned in the year-ago quarter. However, earnings topped the Zacks Consensus Estimate of \$1.02.

Sales fell roughly 8% year over year to \$2,066 million. The figure also missed the Zacks Consensus Estimate of \$2,131.4 million.

Lower global sales prices for key products due to trade uncertainties and a slower global economic growth were, in part, masked by reduced ethane feedstock and fuel costs.

Segment Highlights

Sales in the Olefins segment fell 17% year over year to \$448 million in the quarter. Operating income in the segment tumbled roughly 43% to \$92 million. The decline was mainly due to reduced sales prices for major products resulting from higher olefins production.

The Vinyls segment generated sales of \$1,618 million, down around 6% year over year. Operating income in the segment was \$153 million, down around 39% year over year. The decline was caused by reduced sales prices for caustic soda and PVC resin.

Financial Position

Westlake Chemical ended the quarter with cash and cash equivalents of \$1,437 million, up around 82% year over year. Long-term debt was \$3,424 million, up 28% year over year.

Cash flow from operations was \$968 million for the first nine months of 2019, down around 16% year over year. Cash flow from operations was \$501 million for the reported quarter.

Outlook

Westlake Chemical noted that it is facing challenges from a difficult pricing environment due to slower global growth as a result of trade tensions. Amid this backdrop, the company remains focused on controlling costs and investing in a number of initiatives globally which it expects to boost long-term value for shareholders.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	-3.07%
EPS Surprise	19.61%
Quarterly EPS	1.22
Annual EPS (TTM)	4.10

Recent News

Westlake Chemical Declares Quarterly Dividend - Nov 15, 2019

Westlake Chemical's board of directors has declared a regular dividend distribution of 26.25 cents per share for the third quarter of 2019. The revised dividend was paid on Dec 10, 2019, to shareholders of record as of Nov 26, 2019. Notably, this represents the 61 consecutive quarterly dividend declared by the company since its completion of IPO in August 2004.

Valuation

Westlake Chemical's shares are down 14.1% over the trailing 12-month period. Stocks in the Zacks Chemicals-Plastics industry and the Zacks Basic Materials sector are down 22.7% and 4.1% over the past year, respectively.

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

The stock is currently trading at 16.27X forward 12-month earnings, which compares to 12.97X for the Zacks sub-industry, 13.19X for the Zacks sector and 19.41X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.74X and as low as 7.28X, with a 5-year median of 13.11X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$71 price target reflects 17.27X 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	16.27	12.97	13.19	19.41
	5-Year High	19.74	13.54	21.14	19.41
	5-Year Low	7.28	6.35	9.77	15.18
	5-Year Median	13.11	9.99	13.62	17.47
EV/EBITDA TTM	Current	7.08	5.92	9.23	11.36
	5-Year High	14.41	10.67	18.36	12.85
	5-Year Low	4.47	3.9	7.34	8.47
	5-Year Median	7.03	6.09	10.6	10.7
P/B TTM	Current	1.35	1.16	2.27	4.36
	5-Year High	3.19	2.56	3.54	4.42
	5-Year Low	1.15	0.95	1.34	2.85
	5-Year Median	1.97	1.84	2.19	3.62

As of 02/13/2020

Industry Analysis Zacks Industry Rank: Bottom 5% (242 out of 255)



Top Peers

Ashland Global Holdings Inc. (ASH)	Neutral
Celanese Corporation (CE)	Neutral
Huntsman Corporation (HUN)	Neutral
PolyOne Corporation (POL)	Neutral
Shin-Etsu Chemical Co. (SHECY)	Neutral
Eastman Chemical Company (EMN)	Underperform
LyondellBasell Industries N.V. (LYB)	Underperform
Olin Corporation (OLN)	Underperform

Industry Comparison Industry: Chemical - Plastic				Industry Peers		
	WLK Neutral	X Industry	S&P 500	LYB Underperform	OLN Underperform	POL Neutral
VGM Score	C	-	-	B	D	A
Market Cap	8.58 B	1.80 B	24.56 B	27.84 B	2.80 B	2.45 B
# of Analysts	4	2	13	6	5	6
Dividend Yield	1.57%	0.79%	1.78%	5.03%	4.56%	2.55%
Value Score	A	-	-	B	C	B
Cash/Price	0.18	0.20	0.04	0.04	0.09	0.35
EV/EBITDA	5.18	3.53	14.00	5.72	7.37	11.07
PEG Ratio	1.98	2.08	2.10	1.02	NA	2.08
Price/Book (P/B)	1.35	1.39	3.31	3.45	1.16	2.33
Price/Cash Flow (P/CF)	5.19	4.88	13.68	5.61	4.03	11.19
P/E (F1)	16.16	16.47	19.23	8.34	NA	17.44
Price/Sales (P/S)	1.04	0.68	2.69	0.80	0.46	0.77
Earnings Yield	6.08%	5.91%	5.20%	11.99%	-1.54%	5.75%
Debt/Equity	0.59	0.33	0.71	1.59	1.38	1.19
Cash Flow (\$/share)	12.86	3.86	6.92	14.88	4.35	2.84
Growth Score	C	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	6.61%	6.61%	10.85%	0.72%	5.06%	15.74%
Proj. EPS Growth (F1/F0)	5.68%	5.14%	7.17%	4.09%	-145.33%	7.99%
Curr. Cash Flow Growth	26.46%	-0.07%	8.56%	-12.40%	-22.35%	-23.71%
Hist. Cash Flow Growth (3-5 yrs)	16.64%	12.97%	8.36%	-2.56%	22.28%	38.26%
Current Ratio	2.81	2.17	1.23	1.83	1.58	2.17
Debt/Capital	37.11%	24.64%	42.91%	61.62%	58.00%	54.36%
Net Margin	5.74%	5.74%	11.81%	9.78%	-0.18%	18.58%
Return on Equity	8.52%	9.31%	16.86%	36.95%	3.67%	24.03%
Sales/Assets	0.67	0.72	0.54	1.14	0.66	1.05
Proj. Sales Growth (F1/F0)	3.87%	-1.69%	3.85%	-0.34%	-1.17%	-5.64%
Momentum Score	F	-	-	B	F	B
Daily Price Chg	-0.15%	-0.50%	0.00%	-2.48%	1.04%	-0.50%
1 Week Price Chg	3.55%	-0.81%	2.47%	5.45%	7.94%	-3.13%
4 Week Price Chg	-6.23%	-6.94%	0.56%	-8.76%	-2.50%	-13.39%
12 Week Price Chg	-1.98%	-3.17%	6.96%	-10.55%	4.09%	0.60%
52 Week Price Chg	-14.11%	-1.53%	16.68%	-3.28%	-31.20%	-0.53%
20 Day Average Volume	518,295	72,141	2,020,569	2,565,389	3,609,949	1,500,982
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.18%	-46.24%	0.00%
(F1) EPS Est 4 week change	-1.82%	0.00%	-0.05%	-10.91%	-166.89%	2.60%
(F1) EPS Est 12 week change	-8.81%	-4.72%	-0.17%	-16.22%	-130.56%	2.46%
(Q1) EPS Est Mthly Chg	0.00%	-2.99%	-0.24%	0.08%	-323.33%	-5.98%

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	C
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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