

Westlake Chemical(WLK)

\$71.19 (As of 01/17/20)

Price Target (6-12 Months): **\$75.00**

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.

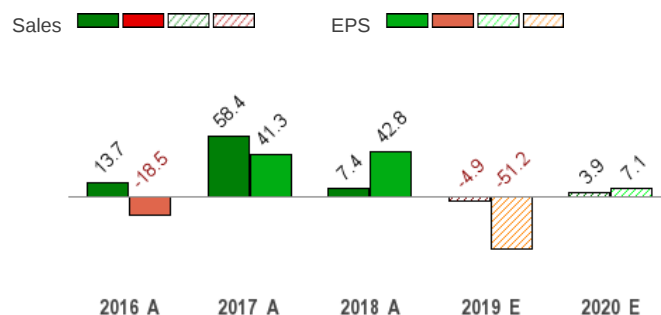
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.04 - \$55.82
20 Day Average Volume (sh)	313,875
Market Cap	\$9.1 B
YTD Price Change	1.5%
Beta	1.68
Dividend / Div Yld	\$1.05 / 1.5%
Industry	Chemical - Plastic
Zacks Industry Rank	Bottom 6% (239 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	19.6%
Last Sales Surprise	-3.1%
EPS F1 Est- 4 week change	-4.4%
Expected Report Date	02/18/2020
Earnings ESP	1.8%
P/E TTM	17.4
P/E F1	17.5
PEG F1	2.1
P/S TTM	1.1

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	\$4.08 E
2019	\$0.94 A	\$0.92 A	\$1.22 A	\$0.95 E	\$3.81 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 01/17/2020. The reports text is as of 01/20/2020.

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.

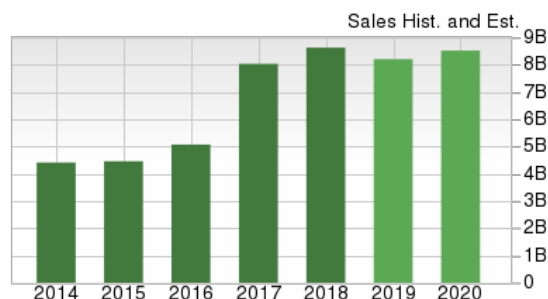
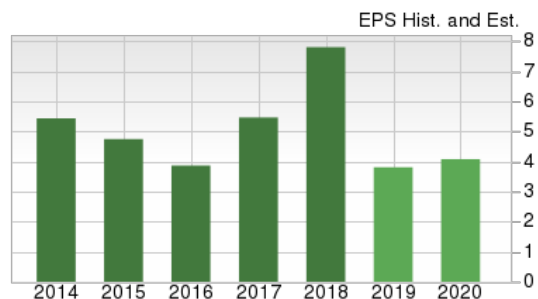
Westlake Chemical operates through two segments – Vinyls and Olefins.

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, Axial 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 8.5% over a year, outperforming the 15.3% 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 8.5% over the trailing 12-month period. Stocks in the Zacks Chemicals-Plastics industry and the Zacks Basic Materials sector are down 15.3% and up 0.7% over the past year, respectively.

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

The stock is currently trading at 17.24X forward 12-month earnings, which compares to 13.8X for the Zacks sub-industry, 13.77X for the Zacks sector and 19.2X 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 13.06X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$75 price target reflects 18.16X 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	17.24	13.8	13.77	19.2
	5-Year High	19.74	13.8	21.12	19.34
	5-Year Low	7.28	6.35	9.76	15.17
	5-Year Median	13.06	9.99	13.77	17.44
EV/EBITDA TTM	Current	7.76	6.23	9.54	12.12
	5-Year High	14.41	10.67	18.35	12.86
	5-Year Low	4.47	3.9	7.33	8.48
	5-Year Median	7	6.05	10.57	10.67
P/B TTM	Current	1.44	1.16	2.36	4.55
	5-Year High	3.19	2.56	3.54	4.55
	5-Year Low	1.15	0.95	1.34	2.85
	5-Year Median	1.99	1.84	2.18	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (239 out of 254)



Top Peers

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

Industry Comparison Industry: Chemical - Plastic				Industry Peers		
	WLK Neutral	X Industry	S&P 500	LYB Neutral	OLN Neutral	POL Neutral
VGM Score	C	-	-	A	C	A
Market Cap	9.14 B	2.08 B	24.65 B	30.67 B	2.85 B	2.82 B
# of Analysts	5	2	13	6	4	4
Dividend Yield	1.47%	0.74%	1.73%	4.57%	4.48%	2.21%
Value Score	A	-	-	A	A	B
Cash/Price	0.17	0.17	0.04	0.02	0.07	0.07
EV/EBITDA	5.45	3.88	14.11	5.92	4.69	11.57
PEG Ratio	2.14	2.35	2.08	0.97	3.74	2.00
Price/Book (P/B)	1.44	1.47	3.39	3.88	1.07	4.75
Price/Cash Flow (P/CF)	5.53	5.12	13.81	6.23	3.33	10.19
P/E (F1)	17.45	17.43	19.19	8.19	43.89	20.50
Price/Sales (P/S)	1.11	0.73	2.69	0.87	0.45	0.84
Earnings Yield	5.73%	5.31%	5.21%	12.22%	2.30%	4.89%
Debt/Equity	0.59	0.33	0.72	1.38	1.25	2.45
Cash Flow (\$/share)	12.86	3.86	6.94	14.76	5.37	3.59
Growth Score	C	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	6.61%	6.73%	10.56%	1.92%	6.25%	20.18%
Proj. EPS Growth (F1/F0)	7.12%	7.33%	7.57%	13.06%	-30.78%	8.22%
Curr. Cash Flow Growth	26.46%	2.24%	14.73%	7.46%	28.84%	2.47%
Hist. Cash Flow Growth (3-5 yrs)	16.64%	6.58%	9.00%	2.91%	25.39%	3.86%
Current Ratio	2.81	2.16	1.24	1.30	1.64	1.88
Debt/Capital	37.11%	24.64%	42.99%	58.19%	55.62%	71.01%
Net Margin	5.74%	5.45%	11.14%	9.80%	1.87%	4.03%
Return on Equity	8.52%	9.31%	17.16%	35.56%	5.92%	30.57%
Sales/Assets	0.67	0.72	0.55	1.19	0.69	1.16
Proj. Sales Growth (F1/F0)	3.87%	1.04%	4.16%	0.84%	2.80%	1.04%
Momentum Score	F	-	-	F	D	C
Daily Price Chg	-0.10%	0.29%	0.27%	0.54%	-0.83%	-0.35%
1 Week Price Chg	0.21%	0.00%	0.39%	-2.32%	-2.09%	-1.55%
4 Week Price Chg	2.61%	0.16%	2.95%	-3.49%	2.12%	1.78%
12 Week Price Chg	15.14%	12.32%	7.76%	4.12%	-3.04%	13.41%
52 Week Price Chg	-5.72%	3.22%	22.29%	7.16%	-22.59%	18.06%
20 Day Average Volume	313,875	129,650	1,536,375	1,613,961	1,818,628	565,686
(F1) EPS Est 1 week change	-1.37%	0.00%	0.00%	-1.17%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.41%	-4.38%	0.00%	-1.55%	-19.47%	0.28%
(F1) EPS Est 12 week change	-9.53%	-8.23%	-0.40%	-7.49%	-72.98%	-6.93%
(Q1) EPS Est Mthly Chg	NA%	1.50%	0.00%	0.00%	-200.00%	2.99%

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	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.

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.