

Westlake Chemical(WLK)

\$54.66 (As of 06/23/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

Summary

Earnings estimates for Westlake Chemical for the second quarter have been going up over the past month. Westlake Chemical is benefiting from synergies of the Axial acquisition and strong demand for its major products. The company is seeing favorable demand trends for polyethylene and PVC resin. It should also benefit from its capacity expansion projects. However, the company faces downward pressure on pricing for its major products. Polyethylene prices are expected to remain under pressure over the near term. Softer industrial activity, slowing global growth and the impacts of coronavirus are also hurting caustic soda and PVC resin prices. Moreover, Westlake Chemical's operations are exposed to planned turnarounds and unplanned outages. Impacts of turnaround activities may pose some margin headwinds. High debt level is another concern.

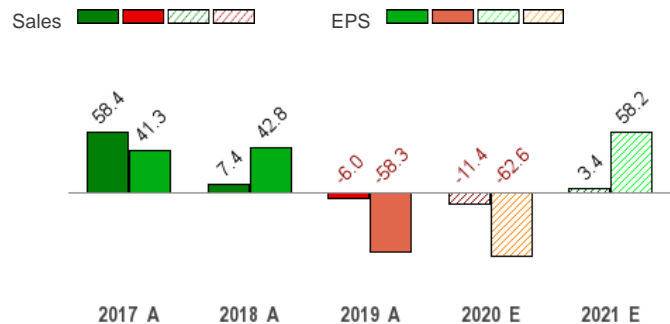
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.65 - \$28.99
20 Day Average Volume (sh)	766,870
Market Cap	\$7.0 B
YTD Price Change	-22.1%
Beta	1.69
Dividend / Div Yld	\$1.05 / 1.9%
Industry	Chemical - Plastic
Zacks Industry Rank	Bottom 37% (160 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	7.4%
Expected Report Date	08/04/2020
Earnings ESP	550.0%
P/E TTM	17.3
P/E F1	44.8
PEG F1	5.5
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,438 E
2020	1,932 A	1,740 E	1,788 E	1,764 E	7,194 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 06/23/2020. The reports text is as of 06/24/2020.

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.

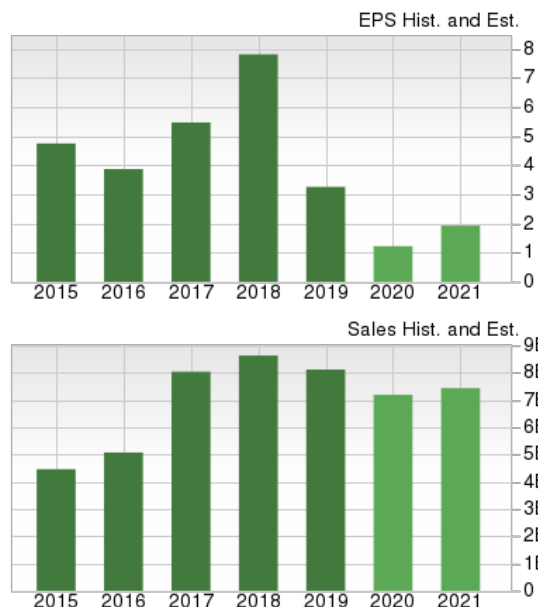
Westlake Chemical operates through two segments – Vinyls and Olefins.

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 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.

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 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.

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	May 04, 2020
Sales Surprise	-0.28%
EPS Surprise	14.04%
Quarterly EPS	0.65
Annual EPS (TTM)	3.16

Recent News

Westlake Chemical Declares Pricing of Senior Notes Due 2030 - Jun 9, 2020

Westlake Chemical has 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 22.1% in the year-to-date period and down 17.3% over the trailing 12-month period. Stocks in the Zacks Chemicals-Plastics industry and Zacks Basic Materials sector are down 26.5% and 9.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 26.2% and 8%, respectively.

The S&P 500 index is down 3.1% in the year-to-date period and up 7% in the past year.

The stock is currently trading at 35.01X forward 12-month earnings, which compares to 28.17X for the Zacks sub-industry, 15.88X for the Zacks sector and 22.37X 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 13.05X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$57 price target reflects 36.54X 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	35.01	28.17	15.88	22.37
	5-Year High	39.8	29.5	21.05	22.37
	5-Year Low	7.28	6.35	9.86	15.23
	5-Year Median	13.05	9.99	13.53	17.49
EV/EBITDA TTM	Current	8.1	6.57	9.12	11.56
	5-Year High	14.41	10.82	18.38	12.85
	5-Year Low	4.25	3.78	6.5	8.25
	5-Year Median	7.25	6.2	10.47	10.83
P/B TTM	Current	1.08	0.75	2.76	4.26
	5-Year High	3.02	2.5	3.38	4.56
	5-Year Low	0.6	0.49	1.23	2.83
	5-Year Median	1.8	1.74	2.2	3.67

As of 06/23/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (160 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ashland Global Holdings Inc. (ASH)	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
Olin Corporation (OLN)	Neutral	3
PolyOne Corporation (POL)	Neutral	3
ShinEtsu Chemical Co. (SHECY)	Neutral	2

Industry Comparison Industry: Chemical - Plastic				Industry Peers		
	WLK	X Industry	S&P 500	LYB	OLN	POL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	A	D	D
Market Cap	6.98 B	1.48 B	21.86 B	22.02 B	1.93 B	2.26 B
# of Analysts	5	2	14	5	4	8
Dividend Yield	1.92%	0.00%	1.92%	6.36%	6.56%	3.28%
Value Score	C	-	-	A	D	B
Cash/Price	0.22	0.23	0.07	0.08	0.10	0.57
EV/EBITDA	7.26	5.89	12.65	5.86	6.50	8.68
PEG Ratio	5.37	10.42	2.90	1.97	NA	1.88
Price/Book (P/B)	1.08	1.27	2.99	3.00	0.84	1.47
Price/Cash Flow (P/CF)	6.18	5.25	11.61	4.65	2.80	8.69
P/E (F1)	43.75	24.27	21.08	13.31	NA	18.23
Price/Sales (P/S)	0.87	0.54	2.25	0.66	0.32	0.76
Earnings Yield	2.23%	2.98%	4.42%	7.52%	-9.84%	5.51%
Debt/Equity	0.74	0.57	0.77	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%	0.18%	10.84%	-0.35%	8.24%	10.56%
Proj. EPS Growth (F1/F0)	-62.52%	-33.41%	-10.80%	-48.46%	-299.17%	-19.82%
Curr. Cash Flow Growth	-31.71%	-27.71%	5.46%	-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%	35.66%	45.14%	64.71%	60.39%	44.81%
Net Margin	6.16%	0.64%	10.53%	8.14%	-2.22%	19.58%
Return on Equity	6.41%	6.34%	16.06%	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)	-11.39%	-12.30%	-2.66%	-27.27%	-7.04%	-10.85%
Momentum Score	B	-	-	A	A	D
Daily Price Chg	-0.42%	0.00%	0.04%	-1.08%	-1.29%	-0.12%
1 Week Price Chg	3.47%	1.45%	0.92%	-0.11%	-2.05%	-4.83%
4 Week Price Chg	17.30%	4.69%	2.71%	-2.55%	8.83%	1.52%
12 Week Price Chg	43.20%	27.12%	19.78%	32.96%	4.54%	30.21%
52 Week Price Chg	-17.33%	-15.56%	-6.05%	-23.77%	-42.99%	-15.56%
20 Day Average Volume	766,870	149,722	2,819,961	2,691,600	2,821,815	871,048
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-1.00%
(F1) EPS Est 4 week change	7.38%	0.00%	0.00%	6.39%	7.36%	-3.21%
(F1) EPS Est 12 week change	-55.24%	-30.03%	-12.72%	-35.67%	-220.09%	-17.08%
(Q1) EPS Est Mthly Chg	122.22%	0.00%	0.00%	15.76%	-2.41%	-2.82%

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	C
Growth Score	F
Momentum Score	B
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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