

Westlake Chemical(WLK)

\$46.63 (As of 04/29/20)

Price Target (6-12 Months): **\$40.00**

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:D

Value: C

Growth: D

Momentum: D

Summary

Earnings estimates for Westlake Chemical for the first quarter of 2020 have been going down over the past month. Westlake Chemical 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 due to excess supply resulting from new production capacity. The coronavirus outbreak is also likely to impact global industrial activities and demand over the near term, thereby hurting caustic soda and PVC resins 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.

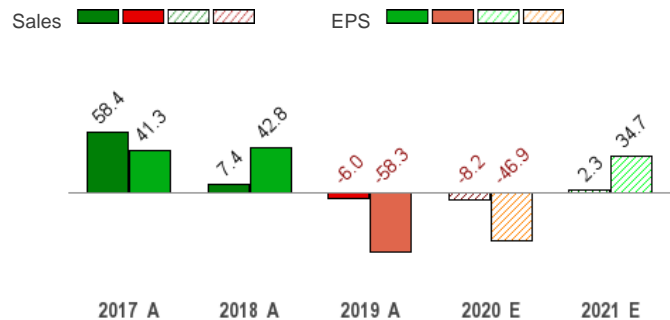
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$75.65 - \$28.99
20 Day Average Volume (sh)	668,394
Market Cap	\$6.0 B
YTD Price Change	-33.5%
Beta	1.76
Dividend / Div Yld	\$1.05 / 2.3%
Industry	Chemical - Plastic
Zacks Industry Rank	Bottom 16% (213 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-62.2%
Last Sales Surprise	-4.1%
EPS F1 Est- 4 week change	-25.0%
Expected Report Date	05/04/2020
Earnings ESP	-3.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					7,623 E
2020	1,938 E	1,808 E	1,836 E	1,784 E	7,452 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					\$2.33 E
2020	\$0.57 E	\$0.36 E	\$0.44 E	\$0.30 E	\$1.73 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 04/29/2020. The reports text is as of 04/30/2020.

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.

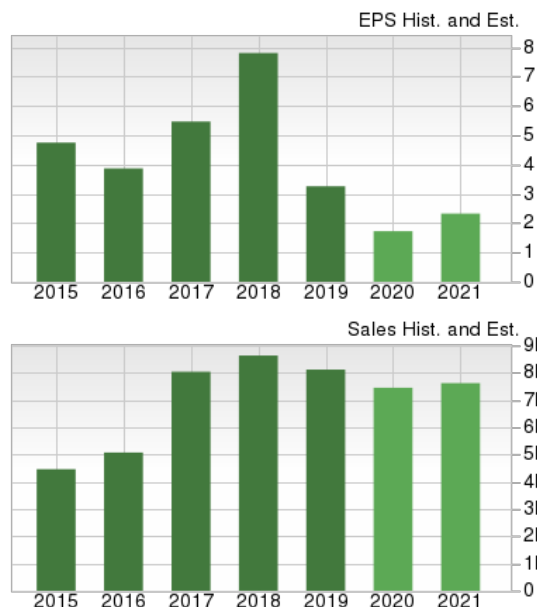
Westlake Chemical operates through two segments – Vinyls and Olefins.

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 activity and slowing global growth are also hurting caustic soda and PVC resins 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 first-quarter 2020.
- ▼ 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 is planning for a turnaround of its Petro 2 ethylene unit later this year 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. It had substantial total debt of roughly \$3.4 billion at the end of 2019, up around 29% year over year. The company's debt position has increased due to the buyout of Axiall. Total debt is also nearly 5-times of its cash and cash equivalent of around \$728 million at the end of the fourth quarter. The company's cash balance is also lower than its short-term debt of \$1,241 million as of Dec 31, 2019. This coupled with the company's weak revenue stream (as reflected by falling revenues over the past two quarters) may affect its ability to meet its debt obligations.

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.

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. 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 the most recent quarter. 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.
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Last Earnings Report

Westlake Chemical's Q4 Earnings and Sales Lag Estimates

Westlake Chemical saw lower profits in the fourth quarter of 2019, hurt by reduced global sales prices for its major products. The company posted a profit of \$72 million or 56 cents per share for the quarter, down around 41% from \$123 million or 95 cents it earned in the year-ago quarter.

Barring one-time items, adjusted earnings per share were 37 cents in the quarter. It fell well short of the Zacks Consensus Estimate of 98 cents.

Sales fell roughly 6% year over year to \$1,883 million. The figure also missed the Zacks Consensus Estimate of \$1,962.7 million.

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

Full-Year Results

Earnings for 2019 were \$3.25 per share, down from \$7.62 per share a year ago.

Revenues were \$8,118 million for the full year, down around 6% year over year.

Segment Highlights

Sales in the Olefins segment fell around 19% year over year to \$398 million in the reported quarter. Operating income in the segment tumbled roughly 46% to \$49 million. The decline was mainly due to reduced sales prices for major products resulting from higher olefins production and greater impacts from turnaround activity.

The Vinyls segment generated sales of \$1,485 million, down around 1% year over year. Operating income in the segment was \$68 million, down around 46% 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 \$728 million, down around 3% year over year. Long-term debt was \$3,445 million, up roughly 29% year over year.

Cash flow from operations was \$1,301 million for 2019, down around 8% year over year. Cash flow from operations was \$333 million for the reported quarter.

Outlook

Westlake Chemical said that it remains focused on optimizing its operations and lowering its cost position. The company believes that its advantaged position on the global cost curve coupled with a strong balance sheet have positioned it to boost long-term value for shareholders.

The company expects cash interest expense to be roughly \$140 million in 2020. Capital expenditures for the year are projected to be in the band of \$650-\$700 million.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	-4.06%
EPS Surprise	-62.24%
Quarterly EPS	0.37
Annual EPS (TTM)	3.45

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 31.2% over the trailing 12-month period. Stocks in the Zacks Chemicals-Plastics industry and the Zacks Basic Materials sector are down 36.5% and 14% over the past year, respectively.

The S&P 500 index is down 0.2% in the past year.

The stock is currently trading at 24.23X forward 12-month earnings, which compares to 17.82X for the Zacks sub-industry, 13.82X for the Zacks sector and 20.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.23X 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 \$40 price target reflects 20.78X 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	24.23	17.82	13.82	20.16
	5-Year High	24.23	17.82	21.06	20.16
	5-Year Low	7.28	6.35	9.79	15.19
	5-Year Median	13.06	9.99	13.35	17.45
EV/EBITDA TTM	Current	6.7	5.57	8.54	10.45
	5-Year High	14.41	10.82	18.31	12.87
	5-Year Low	4.25	3.78	6.5	8.27
	5-Year Median	7.04	6.14	10.54	10.78
P/B TTM	Current	0.94	0.63	1.69	3.78
	5-Year High	3.17	2.56	3.57	4.55
	5-Year Low	0.6	0.43	1.22	2.84
	5-Year Median	1.88	1.76	2.17	3.64

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (213 out of 253)



Top Peers

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

Industry Comparison Industry: Chemical - Plastic				Industry Peers		
	WLK	X Industry	S&P 500	LYB	OLN	POL
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	5	3	3
VGM Score	D	-	-	C	C	F
Market Cap	5.99 B	1.50 B	20.82 B	19.99 B	2.56 B	2.23 B
# of Analysts	6	2	14	7	6	6
Dividend Yield	2.25%	1.03%	2.07%	7.01%	4.93%	3.32%
Value Score	C	-	-	B	B	C
Cash/Price	0.14	0.45	0.06	0.06	0.10	0.66
EV/EBITDA	6.44	5.79	12.12	5.55	7.07	8.57
PEG Ratio	3.10	2.69	2.51	1.60	NA	1.80
Price/Book (P/B)	0.93	1.15	2.74	2.48	1.07	1.45
Price/Cash Flow (P/CF)	5.27	4.58	11.23	4.22	3.73	8.57
P/E (F1)	25.27	19.68	19.26	10.89	NA	17.41
Price/Sales (P/S)	0.74	0.58	2.16	0.58	0.43	0.75
Earnings Yield	3.71%	4.40%	5.03%	9.19%	-2.46%	5.74%
Debt/Equity	0.59	0.46	0.72	1.59	1.38	0.81
Cash Flow (\$/share)	8.84	2.53	7.01	14.19	4.35	2.84
Growth Score	D	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	4.21%	8.41%	10.88%	0.72%	5.06%	10.56%
Proj. EPS Growth (F1/F0)	-47.03%	-26.44%	-6.94%	-42.77%	-166.11%	-17.16%
Curr. Cash Flow Growth	-31.71%	-25.09%	5.92%	-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	2.21	2.28	1.23	1.83	1.58	2.89
Debt/Capital	37.24%	30.94%	43.90%	61.62%	58.00%	44.81%
Net Margin	5.19%	4.91%	11.15%	9.78%	-2.22%	19.58%
Return on Equity	7.08%	8.44%	16.47%	36.95%	-0.53%	16.97%
Sales/Assets	0.64	0.71	0.54	1.14	0.65	0.92
Proj. Sales Growth (F1/F0)	-8.20%	-8.20%	-1.52%	-22.93%	-4.03%	-14.35%
Momentum Score	D	-	-	D	C	F
Daily Price Chg	9.51%	5.78%	2.91%	7.65%	6.63%	9.13%
1 Week Price Chg	-0.20%	0.00%	-1.74%	-4.10%	5.04%	2.96%
4 Week Price Chg	30.80%	20.67%	21.33%	33.09%	49.26%	37.82%
12 Week Price Chg	-27.76%	-18.83%	-16.28%	-28.72%	-1.28%	-29.33%
52 Week Price Chg	-31.23%	-24.77%	-7.57%	-30.69%	-23.11%	-9.13%
20 Day Average Volume	668,394	82,696	2,658,107	2,797,565	2,110,923	978,850
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-24.99%	-21.18%	-6.32%	-22.53%	9.51%	-14.32%
(F1) EPS Est 12 week change	-57.45%	-54.77%	-12.93%	-51.42%	-262.57%	-21.10%
(Q1) EPS Est Mthly Chg	-39.32%	-35.40%	-11.84%	-24.78%	-4.17%	-31.47%

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	D
Momentum Score	D
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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