

Westlake Chemical Corporation

WLK: NYSE

Analyst: Mark Papuzza

Sector: Materials

BUY

Price Target: \$67.26

Key Statistics as of 10/13/15

Market Price:	\$58.92
Industry:	Commodity Chemicals
Market Cap:	\$7.33B
52-Week Range:	\$50.01-93.52
Beta:	1.4

Thesis Points:

- Product Integration and Acquisitions
- Long-Term Growth Opportunities
- Financials – EBITDA margins, zero net debt, dividends

Company Description:

Westlake Chemical Corporation manufactures and markets basic chemicals, vinyls, polymers, and fabricated products. The company serves a range of consumer and industrial markets, including flexible and rigid packaging, automotive products, coatings, and residential and commercial construction. Westlake Chemical Corporation was founded in 1985 and is headquartered in Houston, Texas.



Thesis

Westlake Chemical Corporation is a producer of chemical and plastic products that enhance the daily lives of people around the world. With their strong history of product integration and acquisitions and future plans to continue both, combined with their long-term growth opportunities, Westlake Chemical will continue to grow their EBITDA margins and continue to create value for the company and increase the price of their stock.

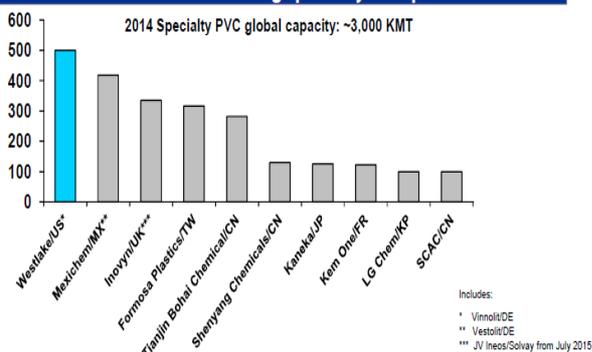
Product Integration and Acquisitions

Westlake Chemical President and CEO Albert Chao has over 40 years of global experience in the chemical industry. With the knowledge and familiarity that comes with being a part of an industry for over four decades, Chao possesses the leadership skills this company needs to continue to innovate and grow.

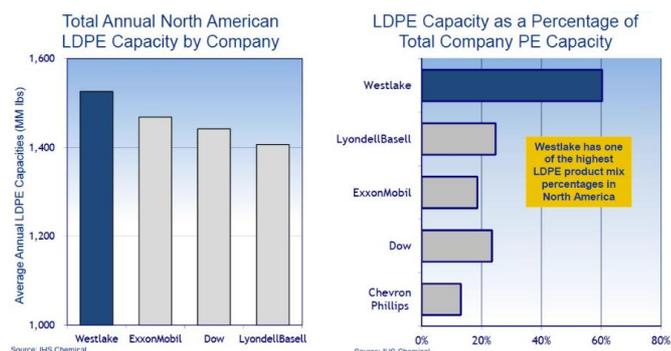
Westlake's core business consists of two product line: Olefins and Vinyls. The olefins product line includes ethylene, polyethylene, polyethylene, styrene, epolene and propylene. The vinyls product line includes caustic, VCM, PVC (Polyvinyl chloride) suspension and specialty resins, and PVC building products such as windows. Westlake continues to focus on finding opportunities that will improve and grow their product line, and have recently made an investment that has helped their PVC product line grow substantially.

In the third quarter of 2014, Westlake Chemical acquired specialty PVC producer Vinnolit. Headquartered in Germany, Vinnolit is a global leader in PVC resins and added significant products and technology to Westlake's current portfolio. It also improved distributions to emerging markets, improved margins and reduced volatility. With the acquisition of Vinnolit, not only did Westlake Chemical earn a record net income from vinyl operations in its most recent quarter, but they are now the global leader in specialty PVC.

Westlake / Vinnolit is a leading specialty PVC producer



On top of being the leading producer of this product, Westlake is also the largest producer of low density polyethylene (LDPE) in the Americas. Their focus on LDPE is to serve the growing demand for the product predominately in Asian and European markets.



The next key move in place for Westlake is the expansion of their ethylene capacity in Lake Charles, Louisiana. This expansion will cost approximately \$330 million, and increase ethylene capacity by approximately 250 million pounds annually.

As evidenced by Westlake's history of expansions, product integrations and acquisitions, the company is always assessing opportunities to see how well they fit into their business strategies. With over \$1,000,000,000 cash on hand, Westlake continues to stay prepared for a cash acquisition or an expansion for product capacity whenever a worthy opportunity presents itself.

Long-Term Growth Opportunities

Over the past year, the price of a barrel of oil has decreased by approximately half the price. The most recent price for a barrel of oil is recorded to be \$46. This significant drop in oil prices has effected many corporations, including Westlake Chemical. Westlake uses oil as an input for their products, so this decline in oil prices has resulted in lower sales prices for many of the company's top products. Despite lower sales prices, sales from the most current reported quarter increased by \$38 million over the previous quarter in the Olefins segment as a result of higher sales volumes. On top of this, the decrease in oil prices has resulted in a higher operating income for both the Olefins segment and the Vinyls segment. The Vinyls segment operating income increased by \$41 in its most recent quarter compared to its previous quarter. As a low-cost producer of olefins, vinyls and other products resultant from oil, Westlake is in a solid position for future production.

The core reason Westlake still saw strong growth in both sales and operating income in its most recent quarter despite lower oil prices is due to the demand for their products. Global demand for PVC products has returned to pre-recession levels, and this demand is expected to continue growing. As a low-cost producer of PVC, Westlake is in a great position to supply the necessary demand for this product. As the current global leader in specialty PVC, the long-term outlook in this segment looks more than promising for the company.



Based on the company's move to acquire Vinnolit as the global PVC demand continued to rise, it is evident that Westlake aims to be the global leader for each of their products. The company will continue to watch trends in

the industry, and make moves to acquire or expand whatever product line is growing globally in demand. Westlake currently has a cash balance of \$1,026,600,000. With this substantial amount of cash on hand, whenever the right opportunity presents itself Westlake is in the position to take it immediately. The company also has negative net debt, meaning they currently have more cash than debt. With oil prices so low, this could potentially be the best time for the company to take on more debt to grow. The global demand for the products they produce combined with their current financial situation creates for many long-term growth opportunities.

Financials –EBITDA margins, zero net debt, dividends

One of the most prominent categories on Westlake Chemical's balance sheet is the EBITDA margins. Westlake's EBITDA margins have consistently outgrown their revenue growth in each of the past five years, and is estimated to continue this trend in the upcoming years. This verifies that the company is creating value, and eliminating operating expenses that are eating into their bottom line. The following chart illustrates Westlake's advantage in EBITDA margins compared to their peer average, as well as their advantages in return on assets and return on capital employed compared to peer averages.



Another noticeable category that has already been mentioned is the company's net debt. With a current net debt of -\$262,500,000, the company has more cash than they do debt which should look very promising to investors.

This past August, Westlake announced a 10% increase in

its quarterly issued dividend. Including this most recent payout, Westlake has paid 44 straight dividend payments dating back to 2004 when the company went public. This provides a strong message about future expectations, and makes the stock more attractive to investors. It also demonstrates the company's solid financial fundamentals.

On top of all this, Westlake recorded a record net income of \$205 million this past quarter. The company is proving that they are moving in the right direction, and all signs show that they will continue moving in this direction.

Conclusion

I am recommending a buy on Westlake Chemical Corporation because they will continue to grow financially as a result of their continued product integration, acquisitions, and long-term growth opportunities resulting from being in an industry of growing demand. Westlake will continue to make the moves necessary to position themselves as the global leaders for their products, and in turn will increase the value of both their company and their share price.

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Westlake Chemical Corp. WLK		Analyst Mark Papazza	Current Price \$38.92	Intrinsic Value \$66.41	Target Value \$67.32	Dividend 1%	1-y Return: 15.43%	NEUTRAL				
General Info		Peer Market Cap.		Management								
Sector	Materials	The Dow Chemical Company	\$53,880.72	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014				
Industry	Chemicals	Exxon Mobil Corporation	\$330,053.56	Chao, Albert	Chief Executive Officer, President	\$5,658,046	\$5,753,565	\$6,791,588				
Last Guidance	August 4, 2015	LyondellBasell Industries N.V.	\$42,990.92	Bender, M.	Chief Financial Officer, Senior Vice	\$1,810,994	\$1,873,256	\$2,327,181				
Next earnings date	November 6, 2015			Hansen, David	Senior Vice President of Administration	\$0	\$1,281,483	\$1,428,975				
Market Data		Current Capital Structure		Part Earnings Surprise								
Enterprise value	\$7,824.26	Total debt/Common Equity (LTM)	0.42	Part Quarter	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"				
Market Capitalization	\$7,773.81	Cost of Borrowing (LTM)	4.81%	Part Quarter-1	-2.51%	-3.10%	-8.33%	1.85%				
Daily volume	0.77	Estimated Cost of new Borrowing	4.31%	Part Quarter-2	-4.60%	-2.22%	-0.72%	1.98%				
Shares outstanding	131.94	Altman's Z	5.62	Part Quarter-3	3.06%	6.95%	1.27%	1.67%				
Diluted shares outstanding	133.36	Estimated Debt Rating	A	Part Quarter-4	-5.04%	-14.52%	-14.86%	3.22%				
% shares held by institutions	29.08%	Current levered Beta	1.66	Standard error	2.1%	5.9%	5.3%	2.56%				
% shares held by insiders	0.47%	LTM WACC	9.32%	Standard Error of Revenue predict	2.1%							
Short interest	1.56%			Imputed Standard Error of Op. Cost pt	5.5%							
Days to cover short interest	2.33			Imputed Standard Error of Op. Cost pt	NM							
52-week high	\$79.25			Performance Assumptions								
52-week low	\$49.26			Items' Forecast Assumptions								
5y Beta	2.11			Other Assumptions								
6-month volatility	34.77%			Capitalization								
Divergence Assumpti		General Assumptions		Valuation								
All base year rates linearly converge towards the industry rates over an explicit period of 7 years		Money market rate (as of today)	0.27%	Base year (LTM)		Divergence period (Industry) (adjustment per yr)			Tabin's Q	80%		
		Risk-Free rate (long term estimate)	2.94%	Operating Cash/Rev.	0.00%	0.00%	0.0%	Excess cash reinvestment	Cost of capital	\$0.00		
		Annual increase (decrease) in interest rate	0.1%	NPV/Rev.	13.34%	17.96%	0.7%	Other claims on the firm's assets				
		Marginal Tax Rate	37.5%	NPPE/Rev.	61.05%	36.10%	-3.6%	Valuation Focus				
		Country Risk Premium	5.5%	Dpr/NPPE	7.49%	13.39%	0.8%	100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years				
				NO PAT MARGIN	15.51%	9.12%	-2.2%	R&D expenses are not capitalized				
				Op. Exp./Rev.	70.98%	\$2.75%	1.7%	E&P expenses are not capitalized				
				SBC/Rev.	0.21%	0.58%	0.1%	SG&A expenses are not capitalized				
				Rent Exp./Rev.	1.20%	1.45%	0.0%	Monte Carlo Simulation Assumptions				
				R&D/Rev.	0.00%	2.35%	0.3%	DCF Valuation	100%			
				E&D/Rev.	0.00%	0.00%	0.0%	Relative valuation	0%			
				SG&A/Rev.	4.88%	14.41%	1.4%	Dirtraz Valuation	0%			
				ROIC	18%	14.42%	-2.63%	Monte Carlo Simulation Results				
				EWRev.	1.97%	0.00%	-0.28%	Revenue Growth deviation	Normal (0%, 1%)			
				EWEBITA	7.99%	13.87%	0.84%	Operating expense deviation	Normal (0%, 1%)			
				Debt/Equity	42%	116%	-6.0%	Continuing Period growth	Triangular (5.335%, 5.5%, 5.665%)			
				Unlevered beta	1.31	0.85	0.00	Country risk premium	Triangular (2.91%, 3%, 3.09%)			
				Cost of Borrowing	4%	6%	0.3%	Intrinsic value(s)	\$0.13			
				Dividend/PREV	2%	2%	0.0%	1-year target price(s)	\$0.13			
				Valuation								
				Forecast Year		ROIC	WACC	Inverted Capital	Enterprise Value	Intrinsic Value and Dilution based Outstanding	Price per Share	Monte Carlo Simulation Results
				LTM	18.4%	9.3%		\$4,064.10	\$9,187.54	\$1,166.75	131.94	\$66.88
				FY2015	17.3%	9.1%		\$5,366.77	\$10,718.20	\$2,157.72	131.94	\$66.62
				FY2016	12.7%	8.9%		\$5,912.65	\$11,379.00	\$2,167.36	131.94	\$70.40
				FY2017	11.3%	8.6%		\$6,456.70	\$12,169.74	\$2,202.85	131.94	\$74.45
				FY2018	10.1%	8.4%		\$6,982.04	\$13,001.82	\$2,250.32	131.94	\$78.50
				FY2019	9.0%	8.1%		\$7,480.38	\$13,867.84	\$2,305.26	131.94	\$82.67
				FY2020	8.1%	7.8%		\$7,954.55	\$14,771.25	\$2,371.33	131.94	\$86.85
				FY2021	7.4%	7.5%		\$8,398.45	\$15,700.82	\$2,445.44	131.94	\$92.13
				FY2022	7.5%	7.5%		\$8,859.35	\$16,723.01	\$2,503.99	131.94	\$98.00
				FY2023	7.6%	7.5%		\$9,355.04	\$17,814.30	\$2,566.91	131.94	\$104.17
				FY2024	7.7%	7.5%		\$9,887.09	\$18,977.18	\$2,633.86	131.94	\$110.66
				Continuing Period	14.4%	7.5%		\$5,703.29				

The 3σ(-)-adjusted intrinsic value is \$66.41; the 3σ(+)-adjusted target price is \$67.32; and the analyst's median target price is \$63.27

Sensitivity Analysis
Revenue growth variations account for 95.9% of total Risk premium's variations account for 2.5% of total Operating expense's variations account for 1.4% of total Continuing period growth variations account for 0.2%