

Huntsman Corp.

NYSE:HUN

Analyst: Remy Fields

Sector: Industrials

BUY

Price Target: \$31.56

Key Statistics as of 03/23/2015

Market Price:	\$21.62
Industry:	Chemicals
Market Cap:	\$5.27 B
52-Week Range:	\$20.36 – 29.33
Beta:	1.85

Thesis Points:

- Bearish catalysts becoming exhausted
- Lower oil prices will benefit long-term because of lower benzene raw material
- Compelling valuation

Company Description:

Huntsman Corporation, together with its subsidiaries, manufactures and sells differentiated organic and inorganic chemical products worldwide. The company operates in five segments: Polyurethanes, Performance Products, Advanced Materials, Textile Effects, and Pigments and Additives. The Polyurethanes segment offers polyurethane chemicals, including methyl diphenyl diisocyanate, propylene oxide, and many more products that are used to produce rigid and flexible foams, as well as coatings, adhesives, sealants, and elastomers. The Performance Products segment provides amines, carbonates, surfactants, benzene, other performance chemicals, and technology licenses. The Advanced Materials segment offers liquid and solid epoxy resins; specialty resin compounds; cross-linking, matting, and curing agents; and epoxy, acrylic, and polyurethane-based formulations. The Textile Effects segment provides textile chemicals and dyes. The Pigments and Additives segment offers titanium dioxide, functional additives, color pigments, timber treatment, and water treatment chemicals. The company's products are used in various applications, including adhesives, aerospace, automotive, construction products, personal care and hygiene, durable and non-durable consumer products, electronics, medical, packaging, paints and coatings, power generation, refining, synthetic fiber, textile chemicals, and dye industries. Huntsman Corporation was founded in 1970 and is based in Salt Lake City, Utah.

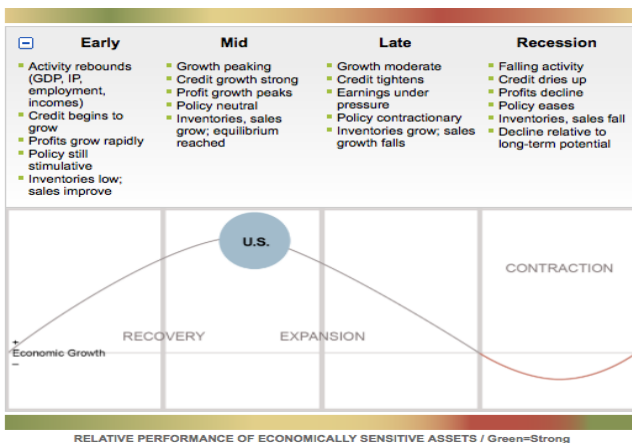


Thesis

Huntsman Corporation is a BUY because they are currently undervalued. During the drop in oil prices their stock followed the plunge due to concern about global growth in their industry. They have also had to battle other bearish catalysts, such as, negative TiO2 trends, and the diminishing price of the Euro. Although these negative catalysts are not good for the company it has given investors an opportunity to invest in a healthy company at a much better value.

Industry Overview

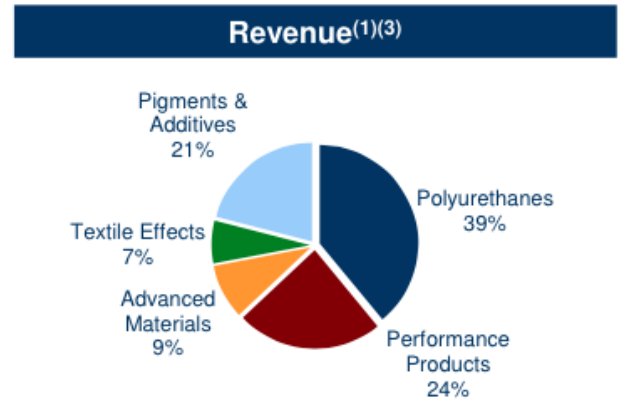
The industrial's industry is made up of airfreight services, commercial services, Aerospace & Defense, Rail Road Freights, Electrical Equipment, Construction, Airlines, and Highways/Rail Tracks. Generally speaking, this sector is made up of companies that produce goods used for construction and manufacturing. The sector tends to have a high correlation with the S&P 500 because its performance is based off the supply and demand in the construction and manufacturing of goods, which makes it a cyclical sector. If consumers are spending more, it is positive for this sector because they will be producing more goods for consumers to buy.



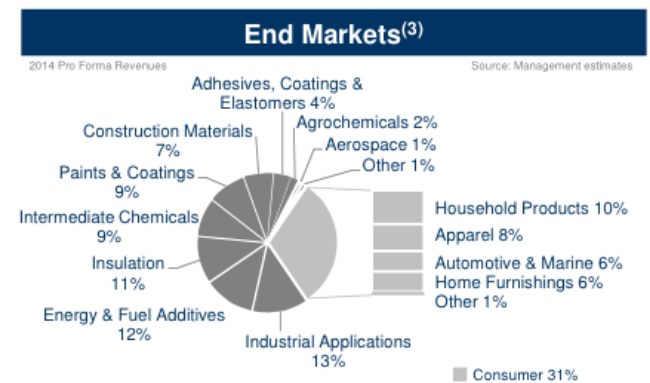
I would argue that the US's business cycle is in the mid part of the business cycle because of its growth, policies, and credit. Industrials tend to outperform the market during this period in the business cycle. Considering the above it is a good time to invest in this industry. Now the question is which company in the industry will be the best investment.

Huntsman Corporation has positioned themselves well

in the Industrials industry with a diversified portfolio of products. As a large chemical supplier to the industrials, Huntsman has positioned their products in the market so that each can bring in a significant amount of revenues. This strategic positioning leaves their highest percentage of revenues at 39% coming from their Polyurethane products. Below you can see the diversified product line.

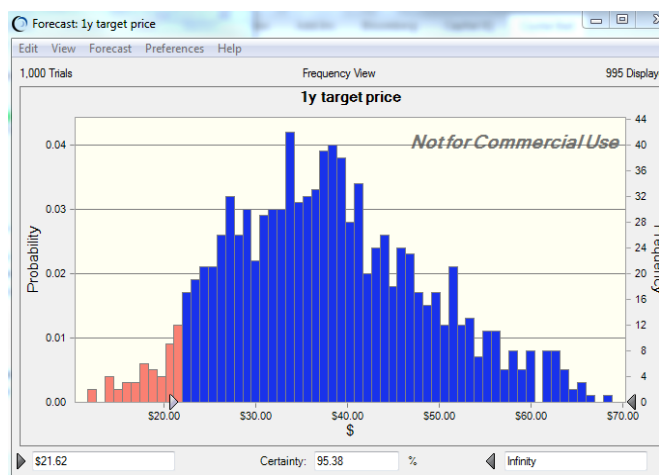


The diversified product line decreases the volatility of the company's revenue, which decreases the risk for an investor. If Polyurethanes revenues are slowing down due to something negative in that market it is not likely to be negatively affecting their performance products, or advanced materials. This is because of the different uses each of their products are used for. In addition, Huntsman Corporation sells their products to many different companies within industrials. Huntsman sells to more than just automakers, and aerospace, they are well diversified throughout the industrial sector.



Downside Risk

Before going into the thesis, I would like to address the downside risk of the company. The key risks that investors must consider are possible weaker economic trends and unexpected raw material inflation. If economic conditions were to weaken, it would decrease HUN's revenues because consumers would not be spending as much. This decrease in spending would affect automakers, airlines, and other customers of Huntsman's products. This would lead to many people in the industry to lower forecasts, including HUN. These lower revenue expectations would also hurt EBITDA margin, and all the above would cause HUN's stock price to drop. Investors must also pay attention to the price of raw materials. HUN's EBITDA margins would decrease if raw materials saw. After running a Monte Carlo simulation the chance of the stock price being lower in a year then where it is now is only 5%. If it were to be lower, there is an opportunity that it could go as low as \$17, which would be about a 20% drop in the stock price.



Bearish Catalysts are becoming exhausted

Huntsman Corporation is undervalued because of the bearish catalysts it has faced over the past five months. The short interest reached about 15% at one point, which shows that the buy-side was worried about this company's ability to operate. The sell-side research has recently turned positive on the outlook of the stock. It is possible that the buy-side analysts will slowly follow the views of the sell-side researchers.

Furthermore, investors have been worried about the impact that the diminishing Euro will have on HUN's revenues. Investors have overestimated the damage the diminishing Euro will have on HUN's sales. Although Europe is 30% of revenues HUN has recently provided the public with a currency impact appraisal, which suggests EBITDA will come in 40 million below expectations. Although this is not good for the company it had already been priced in too heavily, which brought their stock down lower than it should be. Moreover, HUN has announced that they will be raising prices in Europe to lessen the damage done by the diminishing Euro. HUN has confidently said they are willing to walk away from business if customers are not willing to pay the price. HUN is in a good position to do this because their customers need their product to keep their own products efficient.

Lower Oil Prices

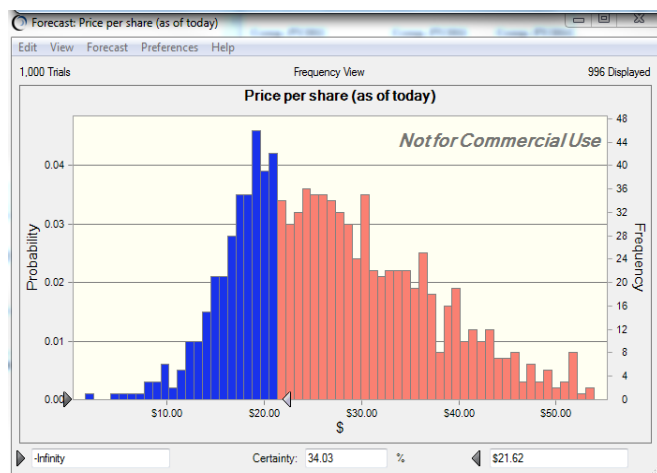
Although HUN's stock price has followed the price of oil on its downward spiral, they are likely to actually benefit due to the lower prices. HUN buys oil derivatives across its portfolio, such as, benzene, butane, propylene, and other oiled based petrochemicals. A key benefit that HUN will realize is the decreased price in benzene, which has been catching up to the decline in crude pricing. It has fell as much as \$2 per gallon, which would be a huge savings for HUN considering they purchase 200 million gallons of benzene a year. It will take some time for HUN to realize these savings because of the lag between seeing spot changes, raw material purchases, consumption, the conversion of benzene to the MDI products, sale of the products, and then the sales influx to the income statement. HUN should begin realizing this by the end of Q1 or early Q2.

Compelling Valuation

Investors are not using a fair multiple for valuing HUN at this point. Many investors are low balling their multiple because of the limited amount of FCF Huntsman Corporation creates. The poor FCF performance has been because of HUN's reoccurring restructuring initiatives. They have been beneficial for EBITDA, but to increase their EBITDA they have spent over 330 million for restructuring. These restructuring costs, which have led to poor CF is the reason for the poor multiples HUN has been given. As FCF improves

the stock is likely to receive a better multiple, which will increase the stock price. It is also important to consider that when looking at their multiples they seem to be trading in the realm of commodities, when they deserve to be trading at multiples of their specialty peers. They should be trading with their specialty peers because 75% of their EBITDA is from their specialty businesses, which are performing well and should be trading closer to peers' multiples.

downside of the stock is at 20%, while the upside is around 50%. The risk/reward of this stock is intriguing based off the valuation.



The simulation above shows that there is a 65% chance that HUN's stock price is underpriced. Based off my estimates the fair value of this stock is \$24.53 (estimates can be seen on the last page).

Forecasts

In conclusion, the Huntsman Corporation is a BUY because they are currently undervalued. Their 2015 EV/EBITDA is in line with commodities, while they should be priced at a higher multiple with their specialty peers. This multiple has been brought down because of the poor performance of cash flows, which has been weak due to restructuring. This is soon to end and with the cash flows beginning to rise the multiple will follow. HUN's has had many bearish catalysts that are becoming exhausted, such as, the diminishing Euro, concerns of global growth, and negative TiO2 trends. HUN's has the ability to see a big turnaround this year after being down 4.7% last year. HUN's is also down 27% from their high in the past year. This has occurred because of the drop in oil prices and the other bearish catalysts mentioned earlier on. The turnaround will be possible because HUN's will be saving money because the decreasing price of oil has brought down the price of benzene, which is a product that Huntsman Corporation buys in bulk. Finally, based off a simulation the

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Huntsman Corporation HUN		Analyst Remy Fields	Current Price \$21.62	Intrinsic Value \$24.53	Target Value \$31.56	Divident Yield 2%	Target Return 48.34%	BULLISH	
General Info		Peers		Market Cap.		Management			
Sector	Materials	Eastman Chemical Co.	\$10,344.34	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014	
Industry	Chemicals	Celanese Corporation	\$8,643.23	Huntsman, Jon	Founder and Executive Chairma	\$ 11,402,399.00	\$ 9,230,913.00	\$ -	
Last Guidance	Feb-18-2015	E. I. du Pont de Nemours and Company	\$67,380.91	Huntsman, Peter	Chief Executive Officer, Presiden	\$ 13,795,100.00	\$ 10,560,155.00	\$ -	
Next earnings date	NM	Ashland Inc.	\$8,857.61	Esplin, J.	Chief Financial Officer and Execu	\$ 2,761,253.00	\$ 2,335,922.00	\$ -	
Market Data		The Dow Chemical Company	\$54,677.93	Hankins, Anthony	Chief Executive Officer of Asia P	\$ 2,999,557.00	\$ 3,359,536.00	\$ -	
Enterprise value	\$9,821.82	Axiall Corporation	\$3,061.77	Turner, Simon	Division President of Pigments &	\$ 4,756,940.00	\$ 1,742,712.00	\$ -	
Market Capitalization	\$5,302.82	PolyOne Corporation	\$3,393.82	Wright, Randy	Principal Accounting Officer, Vie	\$ -	\$ -	\$ -	
Daily volume	0.58	Westlake Chemical Corp.	\$8,942.67	Historical Performance					
Shares outstanding	245.05	Trinseo SA	\$959.79	HUN		Peers	Industry	All U.S. firms	
Diluted shares outstanding	246.00	FMC Corp.	\$7,986.25	Growth	3.7%	2.1%	5.6%	6.0%	
% shares held by institutions	89.59%	Current Capital Structure			Retention Ratio	37.1%	34.7%	38.3%	61.6%
% shares held by insiders	4.14%	Total debt/market cap	53.00%	ROIC	20.3%	14.0%	18.9%	11.8%	
Short interest	5.05%	Cost of Borrowing	4.85%	EBITA Margin	6.4%	10.6%	11.6%	13.7%	
Days to cover short interest	3.46	Interest Coverage	406.83%	Revenues/Invested capital	151.0%	89.9%	164.8%	202.3%	
52 week high	\$29.33	Altman Z	1.94	Excess Cash/Revenue	4.9%	9.5%	12.8%	18.5%	
52-week low	\$20.36	Debt Rating	CCC	Unlevered Beta	1.10	1.50	1.21	0.95	
5y Beta	2.40	Levered Beta	2.56	TEV/REV	0.8x	1.2x	1.2x	2.4x	
6-month volatility	37.29%	WACC (based on market value weights)	9.85%	TEV/EBITDA	8.2x	8.9x	8.6x	11.3x	
Past Earning Surprises		Revenue		EBITDA		Norm. EPS		TEV/EBITDA	
Last Quarter	-0.5%	-3.9%		-10.8%		13.2%		14.2x	
Last Quarter-1	-0.8%	-1.7%		22.9%		12.5x		15.4x	
Last Quarter-2	2.7%	5.6%		7.5%		21.9x		26.8x	
Last Quarter-3	-2.1%	8.0%		29.7%		51.8x		61.3x	
Last Quarter-4	0.1%	6.5%							
Proforma Assumptions		Period		Rev. Growth	Adj. Op. Cost/Rev	Forecasted Profitability			
Operating, Cash/Cash	25.0%	LTM	5%	88%		Revenue	NOPLAT	Invested capital	UFCF
Unlevered Beta	1.50	LTM+1Y	104%	88%		\$11,578.00	\$390.59	\$8,730.55	\$390.59
Rev/Invested Capital	90.0%	LTM+2Y	3%	88%		\$23,608.92	\$1,132.61	\$11,321.56	-\$1,458.40
Continuing Period Revenue Growth	2.0%	LTM+3Y	3%	88%		\$24,314.05	\$1,306.66	\$11,051.96	\$1,576.25
Long Term ROIC	14.9%	LTM+4Y	3%	88%		\$24,982.52	\$1,422.91	\$11,242.00	\$1,232.88
Invested Capital Growth	Equals to Maintenance	LTM+5Y	2%	87%		\$25,767.00	\$1,519.57	\$11,554.06	\$1,207.50
Justified TEV/REV	0.8x	LTM+6Y	2%	87%		\$26,343.38	\$1,596.72	\$11,849.77	\$1,301.00
Justified TEV/EBITDA	8.9x	LTM+7Y	2%	87%		\$26,896.27	\$1,625.14	\$12,498.06	\$976.85
Justified TEV/EBITDA	14.2x	LTM+8Y	2%	87%		\$27,453.72	\$1,655.38	\$12,880.16	\$1,273.28
Justified TEV/UFCF	22.0x	LTM+9Y	2%	87%		\$28,016.66	\$1,682.01	\$13,266.59	\$1,295.59
				Valuation		\$28,585.81	\$1,703.28	\$13,631.15	\$1,338.72
		ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	4.5%	9.8%	-\$469.03	\$12,340.06	\$5,206.00	\$1,274.00	\$5,860.06	\$25.49	
LTM+1Y	13.0%	10.0%	\$337.72	\$15,928.63	\$6,171.41	\$2,237.92	\$7,519.30	\$32.31	
LTM+2Y	11.5%	10.2%	\$152.93	\$16,565.64	\$6,171.41	\$1,248.46	\$9,145.77	\$37.79	
LTM+3Y	12.9%	10.3%	\$292.64	\$16,451.25	\$6,171.41	\$636.27	\$9,643.57	\$40.13	
LTM+4Y	13.5%	10.4%	\$360.55	\$16,739.23	\$6,171.41	\$98.86	\$10,468.96	\$43.63	
LTM+5Y	13.8%	10.5%	\$393.58	\$17,103.22	\$6,171.41	-\$498.94	\$11,430.75	\$47.54	
LTM+6Y	13.7%	10.6%	\$387.05	\$17,640.13	\$6,171.41	-\$771.90	\$12,240.61	\$50.94	
LTM+7Y	13.2%	10.7%	\$325.69	\$18,143.31	\$6,171.41	-\$1,330.85	\$13,302.74	\$55.26	
LTM+8Y	13.1%	10.7%	\$307.72	\$18,615.83	\$6,171.41	-\$1,908.17	\$14,352.58	\$59.62	
LTM+9Y	12.8%	10.8%	\$273.47	\$19,120.71	\$6,171.41	-\$2,529.63	\$15,478.92	\$63.17	
		Monte Carlo Simulation Assumptions				Monte Carlo Simulation Results			
		Base	Stdev	Min	Max	Distribution			
Revenue Variation	0	10%	N/A	N/A	Normal	Mean est.	\$25.49	\$32.31	
Op. Costs Variation	0	10%	N/A	N/A	Normal	σ(e)	\$0.32	\$0.25	
Market Risk Premium	6%	N/A	5%	7%	Triangular	3 σ(e) adjusted price	\$24.53	\$31.56	
Long term Growth	2%	N/A	2%	7%	Triangular	Current Price	\$21.62		
Terminal Value	0	0.1	N/A	N/A	Normal	Analysts' median est.		\$28.58	