



Celanese Corp (CE)

Updated August 1st, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$113	5 Year CAGR Estimate:	12.9%	Market Cap:	\$13 B
Fair Value Price:	\$179	5 Year Growth Estimate:	1.0%	Ex-Dividend Date¹:	10/28/2022
% Fair Value:	63%	5 Year Valuation Multiple Estimate:	9.7%	Dividend Payment Date¹:	11/15/2022
Dividend Yield:	2.4%	5 Year Price Target:	\$188	Years Of Dividend Growth:	11
Dividend Risk Score:	C	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Celanese Corporation is a global chemical and specialty materials company who engages in the production and sale of industrial chemicals. Celanese is one of the world's largest producers of acetic acid and its downstream chemicals, as well as methanol, carbon monoxide, and ethylene. The company also produces specialty polymers used in automotive, electronics, medical and consumer end markets. The company's reporting is split into advanced engineered materials, consumer specialties, industrial specialties, and acetyl intermediates. Celanese Corp trades on the NYSE under the ticker symbol CE and has a market capitalization of \$13 billion. CE is headquartered in Dallas, Texas and has roughly 8,500 employees.

On February 18th, 2022, Celanese announced the agreement to acquire a majority of the Mobility & Materials business of DuPont for \$11.0 billion. The deal will mark Celanese as a major global specialty materials company and is anticipated to lead to a doubling of annual free cash flow generation.

Celanese reported second quarter fiscal 2022 results on July 28th. Net sales for the quarter was \$2.5 billion, a 13% increase over the prior year. The increase in sales was driven by increased pricing offset by a volume decline. As a result, CE generated adjusted earnings per share in the second quarter of \$4.99 compared to \$5.02 in 2021.

Celanese also secured roughly \$10.5 billion in permanent financing to support the acquisition of the Mobility & Materials business of DuPont. The acquisition is targeted to close in the fourth quarter of 2022.

Leadership reiterated its fiscal 2022 outlook thanks to the strong first half of the year. The company is expecting 2022 adjusted EPS to be in line with 2021 adjusted EPS, compared to its original guidance of \$15.00 per share. Adjusted EPS for the third quarter is estimated to come in at roughly \$4.25.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Adj. EPS	\$3.80	\$4.50	\$5.67	\$6.02	\$6.61	\$7.51	\$11.00	\$9.53	\$7.64	\$18.12	\$17.90	\$18.81
DPS	\$0.27	\$0.53	\$0.93	\$1.15	\$1.38	\$1.74	\$2.08	\$2.40	\$2.48	\$2.72	\$2.72	\$4.38
Shares²	159.6	156.9	152.9	146.8	140.7	135.8	128.1	119.6	114.2	114.2	110.0	95.0

Celanese's adjusted earnings per share history has trended mostly upwards in the last decade, hitting a peak in 2018 before coming back down due to the COVID pandemic, and then hitting its newest new peak in 2021 with a massive \$18.12 per share. Due to significant earnings in 2021, CE has a record of compounding adjusted EPS at a rate of 19% and 22% over the past nine and five years. We estimate that CE can continue to grow adjusted EPS by roughly 2% in the intermediate term off a strong base, and we expect the dividend will grow at 10% per year as it has been increased by double digits over the last nine years.

The company has a detailed growth program culminating in expected adjusted EPS of \$13 to \$14 in 2023, however it appears they have already overshot this guidance quite a bit. In the three-year period, the company expects to generate

¹ Estimated date

² In millions

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\$4 to \$5 billion in operating cash flow to deploy and drive growth. The company is accelerating their capital deployment cycle and allocating to their highest return opportunities. While the company previously anticipated having \$6 billion of capital to allocate to high-return mergers and acquisitions and share repurchases at the end of Q4 2021, Celanese announced the \$11 billion acquisition of DuPont's mobility and materials business in Q1 2022. This acquisition will increase the scale and improve vertical integration for Celanese Corp. However, it will also lead to increased debt, but the company anticipates rapid deleveraging within two years of the transaction close.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.1	11.0	10.3	10.6	10.3	12.7	9.7	11.5	13.3	8.6	6.3	10.0
Avg. Yld.	0.6%	1.1%	1.6%	1.8%	2.0%	1.8%	2.0%	2.2%	2.4%	1.7%	2.4%	2.3%

Celanese has traded at a narrow PE over the last nine and five years, at 10.9 and 11.2 on average over these periods. Today the company trades at a discounted PE in relation to its average, at 8.8 times adjusted EPS. We believe an expansion to the valuation is warranted given their robust growth plan and solid earnings and dividend growth. We see CE as trading at 63% of fair value with its current PE of 6.3.

Safety, Quality, Competitive Advantage, & Recession Resiliency

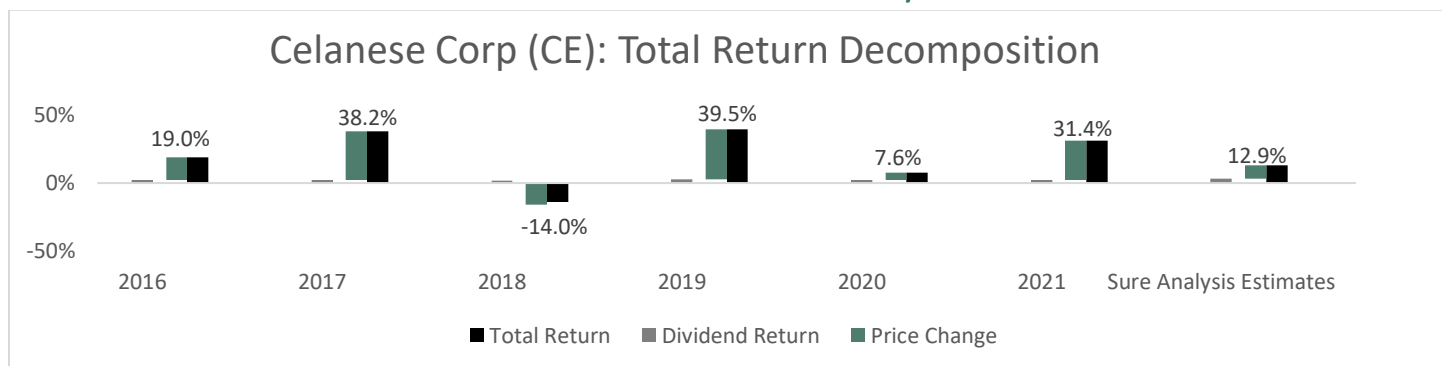
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	7%	12%	16%	19%	21%	23%	19%	25%	32%	15%	15%	23%

Celanese's dividend appears to be quite safe given it's estimated payout ratio of 16% in 2022 and it's average payout ratio which has remained below 30% over the last decade. This dividend has grown for eleven consecutive years, and we expect it will continue. Celanese Corporation did not face great hardships during the great financial crisis as many other companies did; from 2007 onwards, earnings per share actually grew. At the time, the company paid a small dividend of \$0.16 annually from 2006 to 2009, which was only a small fraction of earnings and the payout ratio remained solid. The company believes their competitive advantages to include their global assets and resources, marketplace presence, broad materials portfolio and differentiated capabilities.

Final Thoughts & Recommendation

Celanese has announced a transformative acquisition valued at \$11 billion, which will see the company's debt load increase, but should drive significant free cash flow expansion. Our estimated earnings growth will support strong dividend growth as the payout ratio still has space to expand. We believe the company is trading at 63% fair value, and thus there is runway for growth in the valuation multiple. We believe CE can generate 12.9% in total annual returns based on 1.0% earnings growth, a 2.4% dividend yield, and a potential 9.7% valuation tailwind. CE earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	6,418	6,510	6,802	5,674	5,389	6,140	7,155	6,297	5,655	8,537
Gross Profit	1,181	1,365	1,616	1,318	1,405	1,511	1,972	1,606	1,293	2,682
Gross Margin	18.4%	21.0%	23.8%	23.2%	26.1%	24.6%	27.6%	25.5%	22.9%	31.4%
D&A Exp.	320	319	298	363	295	310	349	356	356	
Operating Profit	196	937	752	682	940	922	1,330	1,032	715	1,938
Operating Margin	3.1%	14.4%	11.1%	12.0%	17.4%	15.0%	18.6%	16.4%	12.6%	22.7%
Net Profit	372	1,101	624	304	900	843	1,207	852	1,985	1,890
Net Margin	5.8%	16.9%	9.2%	5.4%	16.7%	13.7%	16.9%	13.5%	35.1%	22.1%
Free Cash Flow	312	385	284	342	647	536	1,221	1,084	979	
Income Tax	-55	508	314	201	122	213	292	124	247	330

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	9,000	9,018	8,796	8,586	8,357	9,538	9,313	9,476	10,909	11,975
Cash & Equivalents	959	984	780	967	638	576	439	463	955	536
Accounts Receivable	827	867	801	706	801	986	1,017	850	792	1,161
Inventories	711	804	782	682	720	900	1,046	1,038	978	1,524
Goodwill & Int. Ass.	942	940	881	830	990	1,304	1,367	1,386	1,485	2,147
Total Liabilities	7,270	6,319	5,718	5,757	5,336	6,239	5,934	6,578	7,014	7,438
Accounts Payable	649	799	757	587	625	807	819	780	797	1,160
Long-Term Debt	3,098	3,064	2,723	2,981	3,008	3,641	3,531	3,905	3,723	3,967
Shareholder's Equity	1,730	2,699	2,818	2,378	2,588	2,887	2,984	2,507	3,526	4,189
LTD/E Ratio	1.79	1.14	0.97	1.25	1.16	1.26	1.18	1.56	1.06	0.95

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	4.2%	12.2%	7.0%	3.5%	10.6%	9.4%	12.8%	9.1%	19.5%	16.5%
Return on Equity	24.2%	49.7%	22.6%	11.7%	36.2%	30.8%	41.1%	31.0%	65.8%	49.0%
ROIC	8.1%	20.8%	10.8%	5.2%	15.2%	13.0%	17.4%	12.4%	27.5%	23.4%
Shares Out.	159.6	156.9	152.9	146.8	140.7	135.8	128.1	119.6	114.2	114.2
Revenue/Share	40.16	40.86	43.56	37.26	37.00	44.39	52.84	50.52	47.73	76.16
FCF/Share	1.95	2.42	1.82	2.25	4.44	3.88	9.02	8.70	8.26	

Note: All figures in millions of Dollars unless per share or indicated otherwise.

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