Celanese Corp (CE)

Updated May 30th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$108	**5 Year CAGR Estimate:**	10.2%	**Market Cap:**	$12 B
Fair Value Price:	$102	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date[1]:**	07/21/2023
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.1%	**Dividend Payment Date[1]:**	08/08/2023
Dividend Yield:	2.6%	**5 Year Price Target:**	$157	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**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 $12 billion. CE is headquartered in Dallas, Texas and has roughly 13,000 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. The acquisition was completed on November 1st, 2022.

On October 19th, 2022, Celanese declared a $0.70 quarterly dividend, which was a 3% increase.

On February 23rd, 2023, Celanese announced it is forming a Food Ingredients joint venture with Mitsui. Celanese will contribute its Food Ingredients business to form a standalone Food Ingredients JV, of which Celanese will own 30% and Mitsui will own 70%. The transaction is expected to close in H2, and Celanese will use the cash proceeds to deleverage.

Celanese reported first quarter fiscal 2023 results on May 9th, 2023. Net sales for the quarter was $2.9 billion, a 12% increase over the prior year. Celanese generated adjusted earnings per share in the first quarter of $2.01 compared to $5.54 in Q1 2022.

Leadership provided second quarter 2023 guidance and expects adjusted EPS for the quarter to come in at $2.50.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Adj. EPS	$4.50	$5.67	$6.02	$6.61	$7.51	$11.00	$9.53	$7.64	$18.12	$15.88	***$11.31***	***$17.40***
DPS	$0.53	$0.93	$1.15	$1.38	$1.74	$2.08	$2.40	$2.48	$2.72	$2.74	***$2.80***	***$4.51***
Shares[2]	156.9	152.9	146.8	140.7	135.8	128.1	119.6	114.2	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. While 2022 results came short of 2021, adjusted earnings were still excellent. Celanese has a record of compounding adjusted EPS at a rate of 15% and 16% over the past nine and five years. We estimate that Celanese can continue to grow adjusted EPS by roughly 9% in the intermediate term, 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 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

[1] Estimated date

[2] In millions

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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. For example, it will utilize the cash proceeds from its anticipated Food Ingredients JV to deleverage.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	11.0	10.3	10.6	10.3	12.7	9.7	11.5	13.3	8.6	7.9	***9.5***	***9.0***
Avg. Yld.	1.1%	1.6%	1.8%	2.0%	1.8%	2.0%	2.2%	2.4%	1.7%	2.1%	***2.6%***	***2.9%***

Celanese has traded at a narrow PE over the last nine and five years, at 10.6 and 10.2 on average over these periods. Today the company trades at a discounted PE in relation to its average, at 9.5 times adjusted EPS. Still, we believe the valuation will contract from here, despite their robust growth plan and solid earnings and dividend growth. We see CE as trading at 106% of fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

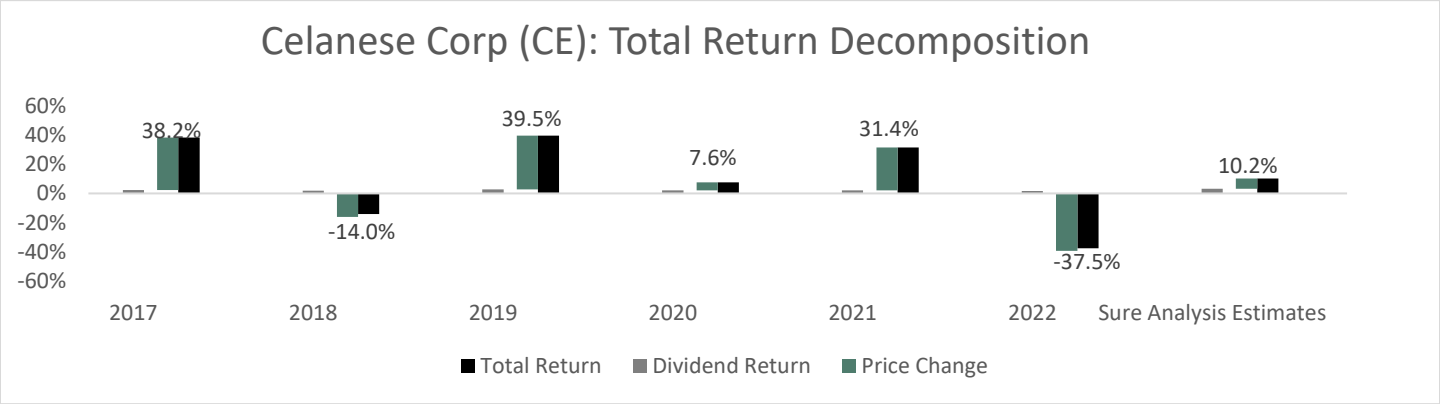
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	12%	16%	19%	21%	23%	19%	25%	32%	15%	17%	***25%***	***26%***

Celanese's dividend appears to be quite safe given its estimated payout ratio of 25% in 2023 and it's average payout ratio which has remained below 30% over the last decade. This dividend has grown for twelve consecutive years, and we expect this to 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 include their global assets and resources, marketplace presence, broad materials portfolio and differentiated capabilities. Notably, Celanese's long-term debt rose to $13.4 billion as of the end of first quarter 2023, compared to $3.2 billion at the end of first quarter 2022.

Final Thoughts & Recommendation

Celanese completed a transformative acquisition valued at $11 billion, which has seen 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 Celanese is trading at 106% fair value, and we believe it can generate 10.2% in total annual returns based on 9.0% earnings growth and a 2.6% dividend yield, offset by a potential -1.1% valuation headwind. Celanese earns a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	6,510	6,802	5,674	5,389	6,140	7,155	6,297	5,655	8,537	9673
Gross Profit	1,365	1,616	1,318	1,405	1,511	1,972	1,606	1,293	2,682	2380
Gross Margin	21.0%	23.8%	23.2%	26.1%	24.6%	27.6%	25.5%	22.9%	31.4%	24.6%
D&A Exp.	319	298	363	295	310	349	356	356		824
Operating Profit	937	752	682	940	922	1,330	1,032	715	1,938	478
Operating Margin	14.4%	11.1%	12.0%	17.4%	15.0%	18.6%	16.4%	12.6%	22.7%	1382
Net Profit	1,101	624	304	900	843	1,207	852	1,985	1,890	14.3%
Net Margin	16.9%	9.2%	5.4%	16.7%	13.7%	16.9%	13.5%	35.1%	22.1%	1894
Free Cash Flow	385	284	342	647	536	1,221	1,084	979		19.6%
Income Tax	508	314	201	122	213	292	124	247	330	1276

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9,018	8,796	8,586	8,357	9,538	9,313	9,476	10,909	11,975	26272
Cash & Equivalents	984	780	967	638	576	439	463	955	536	1508
Accounts Receivable	867	801	706	801	986	1,017	850	792	1,161	1379
Inventories	804	782	682	720	900	1,046	1,038	978	1,524	2808
Goodwill & Int. Ass.	940	881	830	990	1,304	1,367	1,386	1,485	2,147	11247
Total Liabilities	6,319	5,718	5,757	5,336	6,239	5,934	6,578	7,014	7,438	20167
Accounts Payable	799	757	587	625	807	819	780	797	1,160	1518
Long-Term Debt	3,064	2,723	2,981	3,008	3,641	3,531	3,905	3,723	3,967	14679
Shareholder's Equity	2,699	2,818	2,378	2,588	2,887	2,984	2,507	3,526	4,189	5637
LTD/E Ratio	1.14	0.97	1.25	1.16	1.26	1.18	1.56	1.06	0.95	2.60

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.2%	7.0%	3.5%	10.6%	9.4%	12.8%	9.1%	19.5%	16.5%	9.9%
Return on Equity	49.7%	22.6%	11.7%	36.2%	30.8%	41.1%	31.0%	65.8%	49.0%	38.6%
ROIC	20.8%	10.8%	5.2%	15.2%	13.0%	17.4%	12.4%	27.5%	23.4%	12.9%
Shares Out.	156.9	152.9	146.8	140.7	135.8	128.1	119.6	114.2	114.2	109.24
Revenue/Share	40.86	43.56	37.26	37.00	44.39	52.84	50.52	47.73	76.16	88.55
FCF/Share	2.42	1.82	2.25	4.44	3.88	9.02	8.70	8.26		11.68

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

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