



Westlake Corporation (WLK)

Updated December 2nd, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$133	5 Year CAGR Estimate:	2.9%	Market Cap:	\$16.9B
Fair Value Price:	\$110	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	02/28/2024 ¹
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.8%	Dividend Payment Date:	03/15/2024 ²
Dividend Yield:	1.5%	5 Year Price Target	\$140	Years Of Dividend Growth:	18
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Sell

Overview & Current Events

Westlake Corporation (WLK) is a global manufacturer and supplier of petrochemicals, polymers, and building products. Founded by Ting Tsung Chao in 1986, the company operates through two segments: Performance and Essential Materials and Housing and Infrastructure Products. The Performance and Essential Materials segment produces a wide range of products, including polyethylene, polypropylene, specialty polymers, and vinyl resins, used in various consumer and industrial markets such as packaging, automotive, and construction. The Housing and Infrastructure Products segment manufactures and sells a range of building products, including roofing materials, siding, and other products used in construction.

On November 2nd, 2023, the company announced results for the third quarter of 2023. WLK reported Q3 non-GAAP EPS of \$2.20, beating market estimates by \$0.22. The company reported revenues of \$3.12 billion for the quarter, down 21.2% year-over-year.

In Q3 2023, Westlake reported strong financials with \$3.1 billion in net sales, a net income of \$285 million, and an EBITDA of \$682 million. The Housing and Infrastructure Products (HIP) segment was particularly successful, with record quarterly income from operations (\$256 million) and EBITDA (\$327 million). Despite lower average sales prices, the company benefited from robust North American housing and infrastructure activities. However, a legal reserve and other items slightly reduced EBITDA by about \$20 million. Sales volumes in HIP increased by 7%, while the Performance and Essential Materials (PEM) segment saw a 2% rise from the previous quarter. HIP volumes remained constant year-over-year, but PEM experienced a 1% drop. Average sales prices fell across both segments compared to the previous quarter, leading to a significant overall annual decrease. HIP's operating income and EBITDA margins improved, contrasting with a decline in PEM's margins, reflecting varying segment performances.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.55	\$5.07	\$4.86	\$3.06	\$5.46	\$7.62	\$3.25	\$2.56	\$15.58	\$17.34	\$9.13	\$11.65
DPS	\$0.41	\$0.58	\$0.69	\$0.74	\$0.80	\$0.92	\$1.03	\$1.07	\$1.14	\$1.31	\$2.00	\$3.22
Shares³	133.3	132.9	130.2	128.9	129.4	128.5	128.4	127.8	127.9	127.5	126.9	123.8

Westlake Corporation remains well-positioned throughout its product range to benefit from structural market trends and deliver greater value when economic conditions improve, even though the adverse environment may persist in the near future. We do not expect a repeat of the unprecedented high EPS 2022 of \$17.34, driven by the favorable supply-demand dynamics that led to strong demand for the firm.

Considering the cyclical nature of the business, we revised our EPS forecast for 2023, using the midpoint of analysts' estimates of \$9.13, and the firm can grow annually by at least 5.0% for the next five years, suggesting an EPS of \$11.65 by 2028. In addition, Westlake Corporation has paid an increasing dividend for the past 18 years, and we expect the

¹ The ex-dividend date is estimated based on historical data.

² The dividend payment date is estimated based on historical data.

³ The shares are in millions.

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company to maintain its dividend growth. We have forecasted a dividend CAGR of 10.0%, leading to a dividend of \$3.22 in 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	10.9	14.6	13.0	15.8	13.4	12.9	20.9	23.1	5.9	5.2	14.6	12.0
Avg. Yld.	0.8%	0.8%	1.1%	1.5%	1.1%	1.0%	1.5%	1.8%	1.3%	1.2%	1.5%	2.3%

Westlake Corporation trades at a forward P/E of 14.6, considerably lower than its long-term 10-year and five-year average P/E of 13.6. Following the cyclical downturn of the stock, we believe that a P/E multiple of 12.0, slightly below the company's long-term average, is a fair reflection of its value. Accordingly, with an EPS of \$11.65 and P/E of 12.0, our target price for the stock stands at \$140 by 2028.

Safety, Quality, Competitive Advantage, & Recession Resiliency

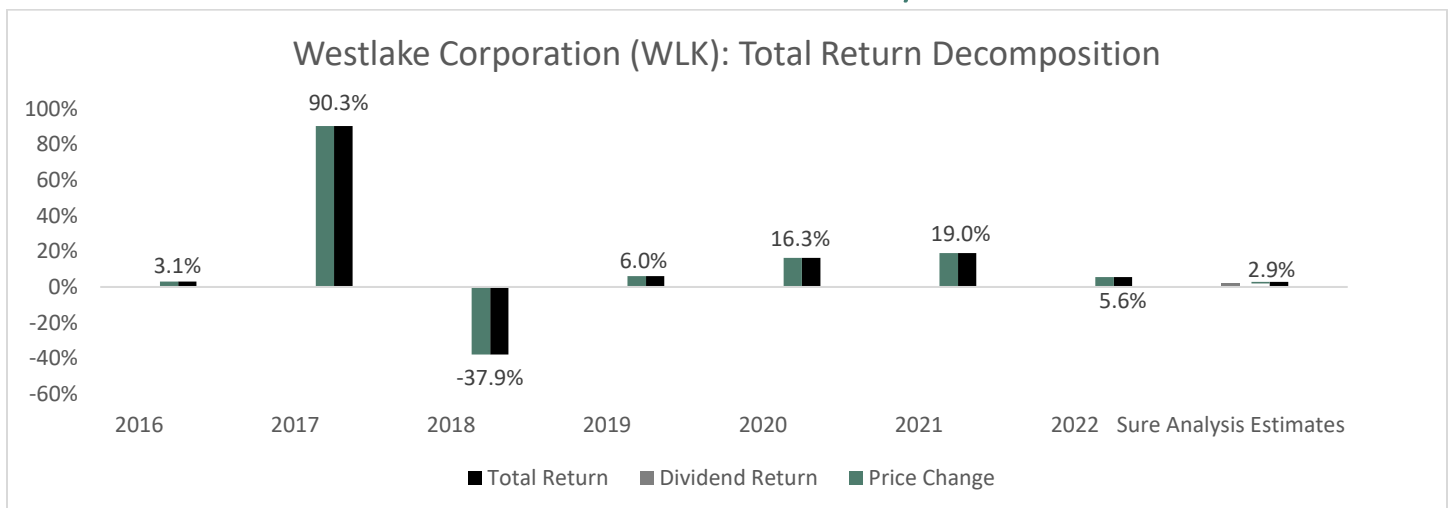
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	9%	11%	14%	24%	15%	12%	32%	42%	7%	8%	22%	23%

Westlake Corporation is a leading global manufacturer and supplier of specialty chemicals, polymers, and building products. The company's competitive advantage lies in its vertically integrated business model and diversified product portfolio, which allows it to control the entire supply chain, reduce production costs, maintain high-quality standards, and provide a competitive advantage in the marketplace. In addition, the company has shown resilience during economic downturns due to its strong financial position and ability to adapt to changing market conditions. Finally, Westlake Corporation has managed its debt well and maintained a solid credit rating, allowing it to access capital at competitive rates and finance strategic investments for future growth. Overall, Westlake Corporation's strong competitive position and recession resiliency will allow it to increase its dividend payout in the following years.

Final Thoughts & Recommendation

Despite Westlake Corporation's resiliency amidst the downturn, it remains a cyclical business, though its dividend growth prospects could remain strong throughout the cycle. We maintain our sell rating premised upon the 2.9% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 5.0%, 1.5% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	3,759	4,415	4,463	5,076	8,041	8,635	8,118	7,504	11,778	15,794
Gross Profit	1,101	1,317	1,185	983	1,761	1,987	1,260	1,023	3,495	4,073
Gross Margin	29.3%	29.8%	26.6%	19.4%	21.9%	23.0%	15.5%	13.6%	29.7%	25.8%
SG&A Exp.	148	184	218	258	399	445	458	449	551	835
D&A Exp.	158	208	246	378	601	641	713	773	840	1,056
Operating Profit	953	1,134	960	687	1,254	1,441	693	465	2,821	3,083
Op. Margin	25.4%	25.7%	21.5%	13.5%	15.6%	16.7%	8.5%	6.2%	24.0%	19.5%
Net Profit	610	679	646	399	1,304	996	421	330	2,015	2,247
Net Margin	16.2%	15.4%	14.5%	7.9%	16.2%	11.5%	5.2%	4.4%	17.1%	14.2%
Free Cash Flow	73	601	588	238	951	707	514	772	1,736	2,287
Income Tax	332	399	298	138	(258)	300	108	(42)	607	649

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,061	5,214	5,569	10,890	12,076	11,602	13,261	13,835	18,459	20,550
Cash & Equivalents	461	881	663	459	1,531	753	728	1,313	1,908	2,228
Acc. Receivable	411	526	439	828	983	969	948	1,086	1,764	1,676
Inventories	472	526	434	801	900	1,014	936	918	1,407	1,866
Goodwill & Int.	159	218	213	1,734	1,789	1,661	1,784	1,695	3,604	3,726
Total Liabilities	1,642	2,012	2,007	6,998	6,707	5,526	6,858	7,257	9,931	10,085
Accounts Payable	250	261	229	496	600	507	435	529	849	870
Long-Term Debt	764	764	764	3,828	3,837	2,668	3,471	3,573	5,180	4,879
Total Equity	2,419	2,912	3,266	3,524	4,874	5,590	5,860	6,043	7,955	9,931
D/E Ratio	0.32	0.26	0.23	1.09	0.79	0.48	0.59	0.59	0.65	0.49

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	16.3%	14.6%	12.0%	4.8%	11.4%	8.4%	3.4%	2.4%	12.5%	11.5%
Return on Equity	28.5%	25.5%	20.9%	11.8%	31.1%	19.0%	7.4%	5.5%	28.8%	25.1%
ROIC	21.0%	19.0%	15.6%	6.6%	15.4%	11.1%	4.5%	3.3%	16.9%	15.5%
Shares Out.	133.3	132.9	130.2	128.9	129.4	128.5	128.4	127.8	127.9	127.5
Revenue/Share	28.10	33.04	33.73	39.05	62.07	66.43	63.05	58.58	91.52	122.58
FCF/Share	0.55	4.50	4.44	1.83	7.34	5.44	3.99	6.03	13.49	17.75

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

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