Celanese Corp (CE)

Updated May 10th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$158	**5 Year CAGR Estimate:**	4.0%	**Market Cap:**	$18 B
Fair Value Price:	$124	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	04/26/2024
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Dividend Payment Date[1]:**	05/13/2024
Dividend Yield:	1.8%	**5 Year Price Target:**	$174	**Years Of Dividend Growth:**	12
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Celanese Corporation is a global chemical and specialty materials company that 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 acetyl chain and engineered materials. Celanese trades on the NYSE under the ticker symbol CE and has a market capitalization of $18 billion. CE is headquartered in Dallas, Texas and has 12,400 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 marked 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 September 27th, 2023, Celanese completed forming its Food Ingredients joint venture with Mitsui. Celanese contributed its Food Ingredients business to form a standalone Food Ingredients JV (Nutrinova), of which Celanese now owns 30% and Mitsui owns 70% which it purchased for $472.5 million. Celanese used the cash proceeds to deleverage.

Celanese reported first quarter fiscal 2024 results on May 8th, 2024. Net sales for the quarter was $2.6 billion, an 8.4% decrease over the prior year, largely due to sales decrease in Engineered Materials. Celanese generated adjusted earnings per share of $2.08 compared to $2.01 in Q1 2023.

Leadership provided second quarter 2024 guidance and expects adjusted EPS for the quarter to come in at $2.60 to $3.00. For the full year, it continues to expect EPS of $11 to $12.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Adj. EPS	$5.67	$6.02	$6.61	$7.51	$11.00	$9.53	$7.64	$18.12	$15.88	$8.92	***$11.29***	***$15.83***
DPS	$0.93	$1.15	$1.38	$1.74	$2.08	$2.40	$2.48	$2.72	$2.74	$2.80	***$2.80***	***$3.93***
Shares[2]	152.9	146.8	140.7	135.8	128.1	119.6	114.2	114.2	109.2	109.5	***109.0***	***95.0***

Celanese's adjusted earnings per share history has trended mostly upwards in the last decade, with significantly more volatility after 2019. This volatility has led to a negative 5-year EPS CAGR. We believe 2021 is likely to be a long-term peak in EPS. While 2022 results came short of 2021, adjusted earnings were still excellent. Celanese has a record of compounding adjusted EPS at a rate of 5% and -4% over the past nine and five years. We estimate that Celanese can grow adjusted EPS by 7.0% in the intermediate term, and we expect the dividend will grow at the same rate.

Near-term earnings growth will be achieved by further synergies with the M&M business, expecting $150 million in 2024, expansion projects such as at Clear Lake, and lower interest expense due to debt reduction. Following the M&M acquisition, Celanese is now focusing on deleveraging towards its target leverage of 3X. We expect that shares repurchases will be muted until the company reaches its leverage target.

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[1] Estimated date

[2] In millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	10.3	10.6	10.3	12.7	9.7	11.5	13.3	8.6	7.9	13.4	***14.0***	***11.0***
Avg. Yld.	1.6%	1.8%	2.0%	1.8%	2.0%	2.2%	2.4%	1.7%	2.1%	2.4%	***1.8%***	***2.3%***

Celanese has traded at a narrow PE over the last ten and five years, at 10.8 and 10.9 on average over these periods. Today the company trades above its average PE ratio, at 14.0 times adjusted EPS. Still, we believe the valuation will contract from here, despite its robust growth plan and solid earnings and dividend growth rate, as the business is highly cyclical. We see CE as trading at 127% of fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

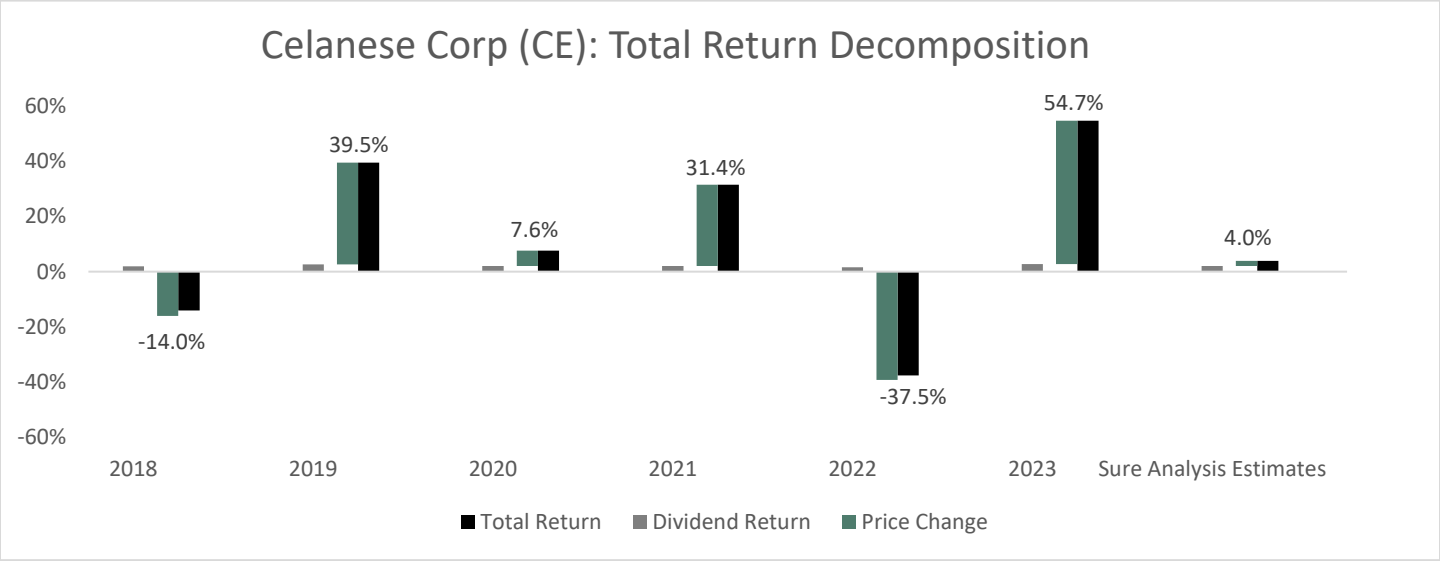
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	16%	19%	21%	23%	19%	25%	32%	15%	17%	31%	***25%***	***25%***

Celanese's dividend appears to be quite safe given its forecasted payout ratio of 25% in 2024. This dividend has grown for twelve consecutive years, and the low payout ratio can support continued increases. Celanese Corporation did not endure significant hardship 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 its competitive advantages include its global assets and resources, marketplace presence, broad materials portfolio, and differentiated capabilities. Celanese's net debt of $12.0 billion is significant, but is now on a downtrend as it digests its M&M acquisition. In 2023, it reduced its net debt by $1.3 billion and plans to further reduce net debt in 2024, with the target of achieving 3X leverage, which it currently expects to reach in 2025.

Final Thoughts & Recommendation

Celanese completed the transformative M&M acquisition worth $11 billion, which has seen the company's debt load increase, but should drive significant free cash flow expansion. We believe Celanese is trading at 127% fair value, and that it can generate 4.0% total annual returns based on 7.0% earnings growth and a 1.8% dividend yield, partly offset by a -4.7% valuation headwind. Celanese maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	6,802	5,674	5,389	6,140	7,155	6,297	5,655	8,537	9673	10940
Gross Profit	1,616	1,318	1,405	1,511	1,972	1,606	1,293	2,682	2380	2603
Gross Margin	23.8%	23.2%	26.1%	24.6%	27.6%	25.5%	22.9%	31.4%	24.6%	23.8%
D&A Exp.	298	363	295	310	349	356	356		824	739
Operating Profit	752	682	940	922	1,330	1,032	715	1,938	478	1218
Operating Margin	11.1%	12.0%	17.4%	15.0%	18.6%	16.4%	12.6%	22.7%	14.3%	11.1%
Net Profit	624	304	900	843	1,207	852	1,985	1,890	1894	1960
Net Margin	9.2%	5.4%	16.7%	13.7%	16.9%	13.5%	35.1%	22.1%	19.6%	17.9%
Free Cash Flow	284	342	647	536	1,221	1,084	979		1276	1331
Income Tax	314	201	122	213	292	124	247	330		-790

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	8,796	8,586	8,357	9,538	9,313	9,476	10,909	11,975	26272	26600
Cash & Equivalents	780	967	638	576	439	463	955	536	1508	1805
Accounts Receivable	801	706	801	986	1,017	850	792	1,161	1379	1243
Inventories	782	682	720	900	1,046	1,038	978	1,524	2808	2357
Goodwill & Int. Ass.	881	830	990	1,304	1,367	1,386	1,485	2,147	11247	10950
Total Liabilities	5,718	5,757	5,336	6,239	5,934	6,578	7,014	7,438	20167	19040
Accounts Payable	757	587	625	807	819	780	797	1,160	1518	1510
Long-Term Debt	2,723	2,981	3,008	3,641	3,531	3,905	3,723	3,967	14679	13680
Shareholder's Equity	2,818	2,378	2,588	2,887	2,984	2,507	3,526	4,189	5637	7091
LTD/E Ratio	0.97	1.25	1.16	1.26	1.18	1.56	1.06	0.95	2.60	1.93

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.0%	3.5%	10.6%	9.4%	12.8%	9.1%	19.5%	16.5%	9.9%	7.4%
Return on Equity	22.6%	11.7%	36.2%	30.8%	41.1%	31.0%	65.8%	49.0%	38.6%	28.7%
ROIC	10.8%	5.2%	15.2%	13.0%	17.4%	12.4%	27.5%	23.4%	12.9%	9.3%
Shares Out.	152.9	146.8	140.7	135.8	128.1	119.6	114.2	114.2	109.24	109.38
Revenue/Share	43.56	37.26	37.00	44.39	52.84	50.52	47.73	76.16	88.55	100.02
FCF/Share	1.82	2.25	4.44	3.88	9.02	8.70	8.26		11.68	12.17

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

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