Westlake Corporation (WLK)

Updated November 26th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$128	**5 Year CAGR Estimate:**	0.1%	**Market Cap:**	$16.4B
Fair Value Price:	$90	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	11/26/2024
% Fair Value:	143%	**5 Year Valuation Multiple Estimate:**	-6.9%	**Dividend Payment Date:**	12/12/2024
Dividend Yield:	1.6%	**5 Year Price Target**	$114	**Years Of Dividend Growth:**	19
Dividend Risk Score:	B	**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 (PEM) and Housing and Infrastructure Products (HIP). 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 5th, 2024, Westlake Corporation reported third-quarter 2024 net sales of $3.1 billion, down 3% sequentially, with net income of $183 million and EBITDA of $580 million. Results were impacted by unplanned maintenance outages at the ethylene joint venture and chlorovinyl facilities, which led to higher ethylene feedstock costs and lower sales volumes. The Performance and Essential Materials (PEM) segment reported sales of $2.0 billion, stable sequentially, though income from operations declined to $66 million due to outages and increased feedstock costs. Meanwhile, the Housing and Infrastructure Products (HIP) segment posted sales of $1.1 billion, reflecting a 7% sequential decline due to softer North American residential construction and weather disruptions.

Compared to Q3 2023, EBITDA decreased 15% due to operational challenges and lower sales prices, despite higher chlorine, caustic soda, and epoxy resin volumes. CEO Jean-Marc Gilson highlighted improving macroeconomic trends globally but emphasized a focus on preventive maintenance to enhance reliability following recent disruptions. Net cash from operating activities reached $474 million, supporting $220 million in capital expenditures and the redemption of $300 million in senior notes, ending the quarter with $2.9 billion in cash and $4.6 billion in total debt.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$5.07	$4.86	$3.06	$5.46	$7.62	$3.25	$2.56	$15.58	$17.34	$3.70	***$5.98***	***$7.63***
DPS	$0.58	$0.69	$0.74	$0.80	$0.92	$1.03	$1.07	$1.14	$1.31	$1.71	***$2.10***	***$3.38***
Shares[1]	132.9	130.2	128.9	129.4	128.5	128.4	127.8	127.9	127.5	128.8	***128.4***	***126.2***

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, which was driven by the favorable supply-demand dynamics that led to strong demand for the firm.

Considering the cyclical nature of the business and the operational challenges we revised our EPS forecast for 2024, using the midpoint of analysts' estimates of $5.98, and believe the firm can grow annually by at least 5.0% for the next five years, suggesting an EPS of $7.63 by 2029. In addition, Westlake Corporation has paid an increasing dividend for the past 19 years, and we expect the company to maintain its dividend growth. We have forecasted a dividend CAGR of 10.0%, leading to a dividend of $3.38 in 2029.

[1] The shares are in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	14.7	13.0	16.1	13.8	12.7	20.6	22.8	5.8	6.1	33.2	***21.4***	***15.0***
Avg. Yld.	0.8%	1.1%	1.5%	1.1%	1.0%	1.5%	1.8%	1.3%	1.2%	1.4%	***1.6%***	***3.0%***

Westlake Corporation trades at a forward P/E of 21.4, higher than its long-term 10-year and five-year average P/E of 15.9 and 17.7, respectively. Following the cyclical downturn of the company, we believe that a P/E multiple of 15.0, below the company's long-term average, is a fair reflection of its value. Accordingly, with an EPS target of $7.63 and a P/E target of 15.0, our target price for the stock stands at $114 by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

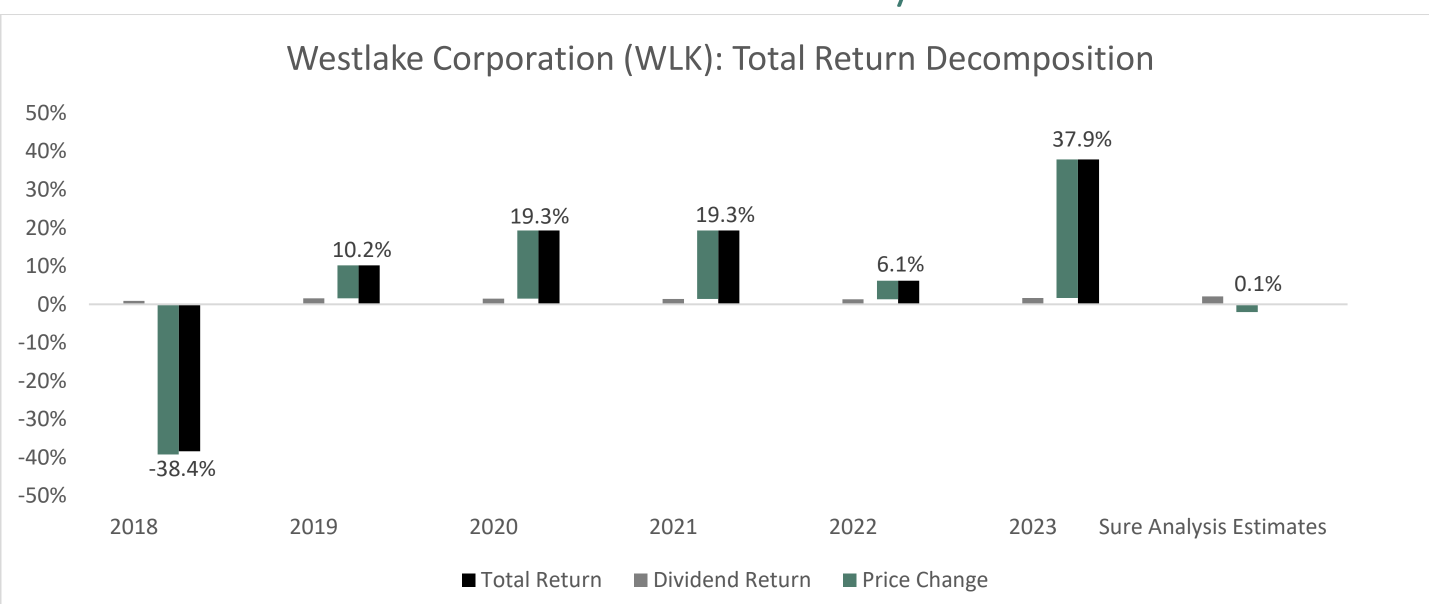
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	11%	14%	24%	15%	12%	32%	42%	7%	8%	46%	***35%***	***44%***

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. However, Westlake's performance is influenced by the inherent cyclicality of the chemical and building materials industries, with earnings closely tied to global economic conditions, supply-demand dynamics, and raw material price fluctuations.

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 0.1% annualized total returns for the medium-term, derived from the forecasted earnings-per-share growth of 5.0%, 1.6% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,415	4,463	5,076	8,041	8,635	8,118	7,504	11,778	15,794	12,550
Gross Profit	1,317	1,185	983	1,761	1,987	1,260	1,023	3,495	4,073	2,219
Gross Margin	29.8%	26.6%	19.4%	21.9%	23.0%	15.5%	13.6%	29.7%	25.8%	17.7%
SG&A Exp.	184	218	258	399	445	458	449	551	835	865
D&A Exp.	208	246	378	601	641	713	773	840	1,056	1,097
Operating Profit	1,134	960	687	1,254	1,441	693	465	2,821	3,083	1,232
Op. Margin	25.7%	21.5%	13.5%	15.6%	16.7%	8.5%	6.2%	24.0%	19.5%	9.8%
Net Profit	679	646	399	1,304	996	421	330	2,015	2,247	479
Net Margin	15.4%	14.5%	7.9%	16.2%	11.5%	5.2%	4.4%	17.1%	14.2%	3.8%
Free Cash Flow	601	588	238	951	707	514	772	1,736	2,287	1,302
Income Tax	399	298	138	(258)	300	108	(42)	607	649	178

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,214	5,569	10,890	12,076	11,602	13,261	13,835	18,459	20,550	21,040
Cash & Equivalents	881	663	459	1,531	753	728	1,313	1,908	2,228	3,304
Acc. Receivable	526	439	828	983	969	948	1,086	1,764	1,676	1,413
Inventories	526	434	801	900	1,014	936	918	1,407	1,866	1,622
Goodwill & Int.	218	213	1,734	1,789	1,661	1,784	1,695	3,604	3,726	3,444
Total Liabilities	2,012	2,007	6,998	6,707	5,526	6,858	7,257	9,931	10,085	10,270
Accounts Payable	261	229	496	600	507	435	529	849	870	849
Long-Term Debt	764	764	3,828	3,837	2,668	3,471	3,573	5,180	4,879	4,906
Total Equity	2,912	3,266	3,524	4,874	5,590	5,860	6,043	7,955	9,931	10,240
D/E Ratio	0.26	0.23	1.09	0.79	0.48	0.59	0.59	0.65	0.49	0.48

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	14.6%	12.0%	4.8%	11.4%	8.4%	3.4%	2.4%	12.5%	11.5%	2.3%
Return on Equity	25.5%	20.9%	11.8%	31.1%	19.0%	7.4%	5.5%	28.8%	25.1%	4.5%
ROIC	19.0%	15.6%	6.6%	15.4%	11.1%	4.5%	3.3%	16.9%	15.5%	3.1%
Shares Out.	132.9	130.2	128.9	129.4	128.5	128.4	127.8	127.9	127.5	128.6
Revenue/Share	33.04	33.73	39.05	62.07	66.43	63.05	58.58	91.52	122.58	97.58
FCF/Share	4.50	4.44	1.83	7.34	5.44	3.99	6.03	13.49	17.75	10.12

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