

Eastman Chemical Co

Moving to the next stage with multiple growth levers; reiterate Buy

Reiterate Rating: BUY | PO: 101.00 USD | Price: 82.60 USD

Multiple growth levers in '24-25 as we move past destock

Eastman's 2024 EPS guidance of \$7.25-8.00 was below expectations and our "going-in" estimate of \$8.10. While investors were certainly disappointed, we see signs that a recovery is here. Sequentially EMN's volumes declined by just -1% vs -11% in 4Q22, with the decline in Advanced Materials in particular being -3% vs -17% last year. We believe that the guidance remains cautious with a focus solely on the end of destocking, something that seems prudent as the macro environment and some end-markets remain challenged. But even so, we believe a ~3-4% volume growth with strong incremental margins (~40%) can be achieved relatively-easily. Plus as actual end-market demand recovers from a deep slump, we see strong volume growth in 2025 as well. Coupled with higher operating rates, the Kingsport methanolysis project, and additional business wins from EMN's continued investment in organic growth, we see EMN poised for a sustainable multi-year recovery that is not priced in the shares. As such we reiterate our Buy with a \$101 PO (down from \$104 due to lower 2024E earnings).

New EPS record seen in 2025

We have lowered our 2024E EBITDA to \$1.8bn from \$1.86bn previously due to a slower recovery pace, largely reflected in 1Q24 estimates. Our EPS estimate is reduced to \$7.65 from \$8.10, at the midpoint of the '24 guide. We expect another big step-up in profitability in 2025 with EBITDA of \$2bn and EPS of \$9.30. The EPS figure would be a new record for EMN, despite operating profitability still lagging pre-COVID levels, owing largely to a 20%+ reduced share count in the past decade.

Laser-focused on methanolysis

Most of the investor interest appears to be focused on EMN's methanolysis plant, which is now mechanically complete and preparing to start commercial shipments. The success of this initiative is critical to the Buy thesis, given the company has invested hundreds of millions in the Kingsport facility and has touted the earnings growth from additional facilities. We are encouraged that EMN has already made inroads on the commercial front with customers already marketing products based on its recycled polyesters. However, success, in our view, will hinge on whether the company can produce methanolysis-derived polyesters at a reasonable cost.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	7.83	6.40	7.65	9.30	10.25
GAAP EPS	7.11	7.50	7.65	9.30	10.25
EPS Change (YoY)	-11.6%	-18.3%	19.5%	21.6%	10.2%
Consensus EPS (Bloomberg)			7.76	9.04	10.02
DPS	3.04	3.16	3.28	3.40	NA
Valuation (Dec)					
P/E	10.5x	12.9x	10.8x	8.9x	8.1x
GAAP P/E	11.6x	11.0x	10.8x	8.9x	8.1x
Dividend Yield	3.7%	3.8%	4.0%	4.1%	0%
EV / EBITDA*	8.8x	10.0x	8.8x	7.9x	9.8x
Free Cash Flow Yield*	3.6%	5.6%	6.5%	8.1%	9.6%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 05 February 2024 04:53AM EST

05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	104.00	101.00
2024E Rev (m)	9,573.2	9,066.4
2025E Rev (m)	10,144.5	9,397.5
2026E Rev (m)	NA	9,683.7
2024E EPS	8.10	7.65
2025E EPS	10.15	9.30
2026E EPS	NA	10.25

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Stock Data

Price	82.60 USD
Price Objective	101.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-1-7
52-Week Range	68.89 USD - 91.38 USD
Mkt Val (mn) / Shares Out (mn)	9,793 USD / 118.6
Free Float	99.3%
Average Daily Value (mn)	86.84 USD
BofA Ticker / Exchange	EMN / NYS
Bloomberg / Reuters	EMN US / EMN.N
ROE (2024E)	15.9%
Net Dbt to Eqty (Dec-2023A)	73.0%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

EMN- Eastman Chemical

iQprofileSM Eastman Chemical Co

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.8%	7.7%	8.8%	10.0%	10.5%
Return on Equity	18.1%	14.3%	15.9%	18.0%	18.4%
Operating Margin	12.7%	11.9%	14.2%	16.0%	16.7%
Free Cash Flow	354	544	640	797	940

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.8x	1.6x	1.4x	1.4x
Asset Replacement Ratio	1.3x	1.7x	1.5x	1.5x	NA
Tax Rate	14.6%	13.3%	15.5%	15.5%	15.5%
Net Debt-to-Equity Ratio	89.0%	73.0%	69.0%	65.2%	59.0%
Interest Cover	7.4x	5.1x	6.0x	7.2x	7.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	10,580	9,210	9,066	9,397	9,684
% Change	1.0%	-12.9%	-1.6%	3.7%	3.0%
Gross Profit	2,224	2,104	2,211	2,446	2,588
% Change	-13.1%	-5.4%	5.1%	10.7%	5.8%
EBITDA	1,816	1,595	1,800	2,017	1,618
% Change	-16.7%	-12.2%	12.8%	12.1%	-19.8%
Net Interest & Other Income	(182)	(215)	(215)	(210)	(208)
Net Income (Adjusted)	985	764	905	1,086	1,182
% Change	-19.0%	-22.5%	18.5%	20.0%	8.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	985	763	904	1,085	1,182
Depreciation & Amortization	477	498	509	513	0
Change in Working Capital	(311)	137	(53)	(60)	(19)
Deferred Taxation Charge	(136)	(102)	0	0	0
Other Adjustments, Net	(40)	78	55	8	527
Capital Expenditure	(621)	(830)	(775)	(750)	(750)
Free Cash Flow	354	544	640	797	940
% Change	-66.7%	53.7%	17.6%	24.5%	18.0%
Share / Issue Repurchase	(1,002)	(150)	(250)	(400)	(400)
Cost of Dividends Paid	(381)	(376)	(388)	(397)	(406)
Change in Debt	76	(338)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	493	548	550	550	684
Trade Receivables	1,277	1,091	1,131	1,183	1,210
Other Current Assets	2,008	1,925	1,708	1,764	1,795
Property, Plant & Equipment	5,160	5,072	5,338	5,575	5,808
Other Non-Current Assets	5,729	5,766	5,716	5,716	5,716
Total Assets	14,667	14,402	14,443	14,788	15,214
Short-Term Debt	1,126	461	461	461	461
Other Current Liabilities	2,125	2,148	1,918	1,966	2,006
Long-Term Debt	4,025	4,181	4,181	4,181	4,181
Other Non-Current Liabilities	2,155	2,002	1,952	1,852	1,752
Total Liabilities	9,431	8,792	8,512	8,460	8,400
Total Equity	5,236	5,610	5,932	6,278	6,714
Total Equity & Liabilities	14,667	14,402	14,443	14,738	15,114

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Chemicals-Major

Company Description

EMN's portfolio of businesses represents a highly diversified set of chemical products delivering exposure to an equally diverse number of end markets. This is accomplished through an expertise in four primary chemical chains, coal gasification and acetyls, para-xylene and polyesters, olefins, and methanol and alkylamines. EMN then markets these products to customers across the product chain, starting at upstream commodities and moving down to highly differentiated chemical derivatives.

Investment Rationale

Eastman has made significant progress in cleaning up its portfolio of businesses and has adopted a more shareholder-friendly capital deployment strategy. Estimates have been impacted by facility outages and higher raw material costs. However, we see both of these issues resolving in 2024, creating a better backdrop for earnings. With the new recycling ventures offering additional growth opportunities at minimal attributed value, we rate EMN Buy.

Stock Data

Average Daily Volume 1,051,296

Quarterly Earnings Estimates

	2023	2024
Q1	1.63A	1.34E
Q2	1.99A	2.23E
Q3	1.47A	2.36E
Q4	1.31A	1.72E

Exhibit 1: Eastman Income Statement Summary

We cut our 2023 EPS estimate to \$6.34/share

Net Sales	2021	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
Additives & Functional Products	3,700	3,165	777	747	670	640	2,834	713	740	707	686	2,846	3,002
Advanced Materials	3,027	3,207	742	739	746	705	2,932	746	769	788	735	3,037	3,158
Chemical Intermediates	2,849	3,026	589	514	527	513	2,143	481	466	476	443	1,867	1,907
Fibers	900	1,022	303	323	323	346	1,295	312	329	323	353	1,317	1,331
Other	0	0	1	1	1	3	6	0	0	0	0	0	0
Consolidated Total	10,476	10,420	2,412	2,324	2,267	2,207	9,210	2,252	2,305	2,293	2,217	9,066	9,397
Adjusted EBITDA													
Additives & Functional Products	725	617	163	174	140	99	593	127	173	167	142	608	669
Advanced Materials	716	558	131	144	138	110	524	135	183	197	151	666	760
Chemical Intermediates	568	524	70	67	34	52	224	50	60	69	50	229	283
Fibers	197	201	104	116	119	123	462	109	119	120	123	471	474
Other	-28	-84	-61	-46	-56	-44	-208	-57	-38	-38	-41	-175	-169
Consolidated Total	2,179	1,816	424	455	376	340	1,595	363	496	515	426	1,800	2,017
Operating Income	1,641	1,339	283	336	256	222	1,097	241	368	385	297	1,291	1,504
Profit Before Tax	1,442	1,157	231	282	199	170	882	189	315	329	243	1,076	1,294
Adjusted Net Income	1,216	985	195	238	175	155	763	159	265	277	203	904	1,085
Diluted - Adjusted EPS	\$8.86	\$7.83	\$1.63	\$1.99	\$1.47	\$1.31	\$6.40	\$1.34	\$2.23	\$2.36	\$1.72	\$7.65	\$9.30
Segment Sales Growth													
Additives & Functional Products	24.3%	-10.2%	-3.5%	-10.5%	-18.3%	-9.2%	-10.5%	-8.3%	-0.9%	5.5%	7.2%	0.4%	5.5%
Advanced Materials	20.0%	5.8%	0.7%	-12.6%	-16.0%	-4.2%	-8.5%	0.5%	4.0%	5.6%	4.2%	3.6%	4.0%
Chemical Intermediates	36.1%	6.2%	-26.3%	-40.3%	-29.8%	-16.6%	-29.2%	-18.3%	-9.3%	-9.7%	-13.6%	-12.9%	2.1%
Fibers	7.5%	13.6%	42.3%	33.5%	29.2%	9.0%	26.7%	3.0%	2.0%	0.0%	2.0%	1.7%	1.0%
Consolidated Total	23.6%	-0.5%	-11.1%	-16.5%	-16.3%	-7.0%	-11.6%	-6.6%	-0.8%	1.2%	0.4%	-1.6%	3.7%
Adjusted EBITDA Margin													
Additives & Functional Products	19.6%	19.5%	21.0%	23.3%	20.9%	15.4%	20.9%	17.8%	23.3%	23.7%	20.8%	21.4%	22.3%
Advanced Materials	23.7%	17.4%	17.7%	19.5%	18.5%	15.6%	17.9%	18.1%	23.8%	25.0%	20.5%	21.9%	24.1%
Chemical Intermediates	19.9%	17.3%	11.9%	13.1%	6.5%	10.2%	10.4%	10.4%	12.8%	14.5%	11.3%	12.3%	14.9%
Fibers	21.9%	19.7%	34.3%	35.9%	36.8%	35.5%	35.7%	35.1%	36.0%	37.2%	34.9%	35.8%	35.6%
Consolidated Total	20.8%	17.4%	17.6%	19.6%	16.6%	15.4%	17.3%	16.1%	21.5%	22.5%	19.2%	19.9%	21.5%

Source: Company Reports and BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Eastman Chemical Co (EMN)

Our \$101 PO is based on the average of our EV to 2024E EBITDA valuation of \$94 and our Price to 2024E EPS valuation of \$84, as well as an additional \$12/share of value attributable to the methanolysis contract opportunity. Our PO is based on 8.5x and 11x multiples for our 2024 EBITDA and EPS estimates, more in line with historical averages. The \$12/share for methanolysis process is attained by multiplying the \$300mn in expected EBITDA by 7.0x, and discounting back to 2024 at a WACC of 12%.

Risks to the downside (upside) are a slowdown (acceleration) in the global macroeconomic backdrop, volatility in raw material prices, and the potential for increased industry supply across its various chemical products.

Analyst Certification

I, Salvator Tiano, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Chemicals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Axalta Coating Systems	AXTA	AXTA US	Steve Byrne, CFA
	Bunge Limited	BG	BG US	Salvator Tiano, CFA
	CF Industries	CF	CF US	Steve Byrne, CFA
	Dow Inc	DOW	DOW US	Steve Byrne, CFA
	Eastman Chemical Co	EMN	EMN US	Salvator Tiano, CFA
	Element Solutions Inc.	ESI	ESI US	Steve Byrne, CFA
	Green Plains	GPPE	GPPE US	Salvator Tiano, CFA
	Huntsman Corp	HUN	HUN US	Salvator Tiano, CFA
	Linde	LIN	LIN US	Steve Byrne, CFA
	Linde	LINGY	LIN GY	Steve Byrne, CFA
	Nutrien	NTR	NTR US	Steve Byrne, CFA
	Olin Corp	OLN	OLN US	Steve Byrne, CFA
	PPG Industries Inc.	PPG	PPG US	Steve Byrne, CFA
	Sigma Lithium	SGML	SGML US	Steve Byrne, CFA
	The Mosaic Company	MOS	MOS US	Steve Byrne, CFA
NEUTRAL				
	Air Products	APD	APD US	Steve Byrne, CFA
	Albemarle	ALB	ALB US	Steve Byrne, CFA
	Archer-Daniels-Midland Company	ADM	ADM US	Salvator Tiano, CFA
	Corteva	CTVA	CTVA US	Steve Byrne, CFA
	Ecolab Inc	ECL	ECL US	Steve Byrne, CFA
	International Flavors & Fragrances	IFF	IFF US	Salvator Tiano, CFA
	LyondellBasell Industries	LYB	LYB US	Steve Byrne, CFA
	Origin Materials	ORGN	ORGN US	Steve Byrne, CFA
UNDERPERFORM				
	Celanese Corporation	CE	CE US	Salvator Tiano, CFA
	DuPont	DD	DD US	Steve Byrne, CFA
	FMC Corporation	FMC	FMC US	Steve Byrne, CFA
	RPM International Inc	RPM	RPM US	Steve Byrne, CFA
	Sherwin-Williams Company	SHW	SHW US	Steve Byrne, CFA
	Westlake Chemical Partners, LP	WLKP	WLKP US	Steve Byrne, CFA
	Westlake Corp	WLK	WLK US	Steve Byrne, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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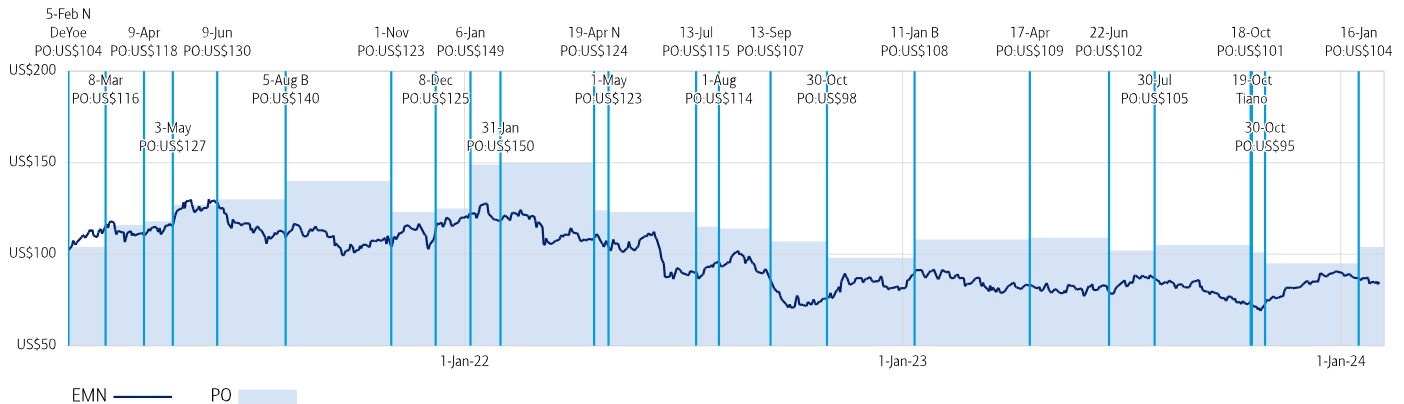
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Disclosures

Important Disclosures

Eastman Chemical (EMN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Chemicals Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	66	47.83%	Buy	33	50.00%
Hold	33	23.91%	Hold	16	48.48%
Sell	39	28.26%	Sell	20	51.28%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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