

Westlake Corp

Lowering PO on PEM challenges despite brighter building products outlook; reit U/P

Reiterate Rating: UNDERPERFORM | PO: 127.00 USD | Price: 132.81 USD

Challenging PEM outlook, remain Underperform

Westlake's 4Q23 results missed expectations, and were notably weak in PEM (Performance and Essential Materials) with a sequential EBITDA decline of ~45%. We expect profitability to improve from the Q4 bottom, but ~\$200mn is a deep trough. Epoxies, caustic soda, and polyethylene should all experience improved economics off 4Q23, but we are more cautious about the PVC (polyvinyl chloride) outlook vs WLK's expectations of a 5cpp increase in domestic PVC prices in February. We note CMA's forecast for a 3cpp increase, and subsequent erosion into year-end, as China, the primary driver for global demand, still faces challenging fundamentals. Our cautious view on PVC, below-consensus forecasts, and valuation keep us at Underperform. Our PO is lowered to \$127 from \$129 reflecting lower 2024 earnings estimates, partially offset by an increased 2024E EBITDA multiple (8x from 7.5x) due to a deeper trough.

Lowering 2024E EBITDA, staying below consensus

Our 2024E PEM EBITDA is reduced by ~\$200mn, for a ~\$300mn y/y decline vs 2023. We are however raising our 2024 HIP (Housing and Infrastructure Products) EBITDA to \$913mn from \$875mn previously. While down from 2023's \$971mn, the price resiliency demonstrated by this business in 2H23, the widening price/cost spread, and somewhat improved housing indicators make us more constructive. WLK mgmt's implied 2024 EBITDA guide for HIP of \$800-880mn (~20% margins on a \$4-4.4bn revenue range) is below our \$913 estimate, due to our lower PVC price deck (transfer pricing to HIP). A 2cpp change in price has a ~\$40mn annual EBITDA impact on HIP, all else equal. Our 2024E WLK EBITDA is lowered to \$2,266mn from \$2,399mn, for a 14% y/y decline.

HIP provides resilience and margin benefits

We find Westlake's vertical integration into building product to be a compelling and longer-term opportunity for WLK. While EBITDA in PEM dropped 50% y/y in 2023, HIP EBITDA was essentially flat, representing 37% of company EBITDA in 2023, up from 23% in 2022. As commodity pricing eroded in PEM during 2023, lower costs to HIP resulted in expanding margins. As Westlake continues to expand HIP with further acquisitions in the fragmented building products industry, we expect Westlake to drive more cross selling benefits and more shelf space and pricing power among distributors.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	17.60	8.62	5.80	9.55	13.50
GAAP EPS	17.01	4.01	5.80	9.55	13.50
EPS Change (YoY)	12.1%	-51.0%	-32.7%	64.7%	41.4%
Consensus EPS (Bloomberg)			7.79	9.33	9.86
DPS	1.31	1.72	2.10	2.30	2.30
Valuation (Dec)					
P/E	7.5x	15.4x	22.9x	13.9x	9.8x
GAAP P/E	7.8x	33.1x	22.9x	13.9x	9.8x
Dividend Yield	1.0%	1.3%	1.6%	1.7%	1.7%
EV / EBITDA*	5.0x	8.0x	9.3x	7.3x	6.0x
Free Cash Flow Yield*	13.4%	7.7%	3.8%	7.2%	10.4%

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

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Timestamp: 21 February 2024 08:42AM EST

21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	129.00	127.00
2024E Rev (m)	12,252.5	11,991.5
2025E Rev (m)	13,682.2	13,342.7
2026E Rev (m)	NA	14,014.3
2024E EPS	6.60	5.80
2025E EPS	10.40	9.55
2026E EPS	NA	13.50

Steve Byrne, CFA

Research Analyst
BofAS
+1 646 855 5746
steve.byrne@bofa.com

Salvator Tiano, CFA

Research Analyst
BofAS
+1 646 855 5904
salvator.tiano@bofa.com

Rock Hoffman

Research Analyst
BofAS
+1 917 565 6205
rock.hoffman@bofa.com

Stock Data

Price	132.81 USD
Price Objective	127.00 USD
Date Established	21-Feb-2024
Investment Opinion	B-3-7
52-Week Range	102.64 USD - 145.98 USD
Mkt Val (mn) / Shares Out (mn)	17,018 USD / 128.1
Free Float	26.4%
Average Daily Value (mn)	47.51 USD
BofA Ticker / Exchange	WLK / NYS
Bloomberg / Reuters	WLK US / WLK.N
ROE (2024E)	6.8%
Net Dbt to Eqty (Dec-2023A)	14.9%
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"](#).

Acronyms

cpp – cents per pound

W

CMA – Chemical Market Analytics

iQprofileSM Westlake Corp

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	13.9%	6.4%	4.5%	6.9%	8.9%
Return on Equity	23.9%	10.4%	6.8%	10.5%	13.5%
Operating Margin	19.9%	11.2%	9.2%	13.1%	17.1%
Free Cash Flow	2,287	1,302	653	1,227	1,769

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.5x	2.1x	2.2x	1.8x	1.6x
Asset Replacement Ratio	1.0x	0.9x	0.9x	0.9x	0.9x
Tax Rate	22.4%	16.3%	23.0%	23.0%	23.0%
Net Debt-to-Equity Ratio	25.3%	14.9%	10.8%	2.4%	-8.7%
Interest Cover	17.5x	8.5x	7.1x	11.6x	16.6x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	15,565	12,548	11,992	13,343	14,014
% Change	35.1%	-19.4%	-4.4%	11.3%	5.0%
Gross Profit	4,986	3,364	2,928	3,596	4,288
% Change	18.5%	-32.5%	-13.0%	22.8%	19.3%
EBITDA	4,224	2,635	2,266	2,880	3,532
% Change	13.8%	-37.6%	-14.0%	27.1%	22.6%
Net Interest & Other Income	(104)	(29)	(75)	(85)	(80)
Net Income (Adjusted)	2,268	1,107	744	1,227	1,738
% Change	11.8%	-51.2%	-32.7%	64.9%	41.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,195	515	744	1,227	1,738
Depreciation & Amortization	1,056	1,097	1,058	1,051	1,044
Change in Working Capital	(24)	332	(204)	(131)	(94)
Deferred Taxation Charge	(21)	(175)	30	30	30
Other Adjustments, Net	189	567	0	0	0
Capital Expenditure	(1,108)	(1,034)	(975)	(950)	(950)
Free Cash Flow	2,287	1,302	653	1,227	1,769
% Change	31.7%	-43.1%	-49.8%	87.9%	44.1%
Share / Issue Repurchase	(101)	(23)	0	0	0
Cost of Dividends Paid	(169)	(221)	(270)	(296)	(296)
Change in Debt	(250)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,228	3,304	3,688	4,619	6,092
Trade Receivables	1,801	1,601	1,767	1,901	1,997
Other Current Assets	1,944	1,704	1,790	1,898	1,894
Property, Plant & Equipment	8,525	8,519	8,436	8,335	8,241
Other Non-Current Assets	6,052	5,907	5,907	5,907	5,907
Total Assets	20,550	21,035	21,588	22,660	24,130
Short-Term Debt	0	299	299	299	299
Other Current Liabilities	2,298	2,491	2,539	2,650	2,648
Long-Term Debt	4,879	4,607	4,607	4,607	4,607
Other Non-Current Liabilities	2,908	2,874	2,904	2,934	2,964
Total Liabilities	10,085	10,271	10,349	10,490	10,518
Total Equity	10,465	10,764	11,239	12,170	13,613
Total Equity & Liabilities	20,550	21,035	21,588	22,660	24,130

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

Company Sector

Chemicals-Specialty

Company Description

Westlake is a petrochemicals producer with revenue of over \$12.5bn in 2023 across two businesses: upstream olefins and vinyls and downstream building products. The olefins business produces ethylene, polyethylene and co-products. The vinyls business produces PVC and also sells caustic soda. Downstream building products specializes in PVC pipes and fittings, roofing and siding.

Investment Rationale

We rate WLK share Underperform. With our earnings forecasts revised lower, valuation looks full at these levels. Caustic soda prices have more downside and we see little relief on PVC margins, such that we expect 2024 EBITDA to decline meaningfully vs 2023, a rare occurrence within our commodity coverage. Lastly, we believe the stock can also come under pressure as what we see as lofty consensus estimates are revised lower and closer to our forecasts.

Stock Data

Average Daily Volume 357,712

Quarterly Earnings Estimates

	2023	2024
Q1	3.05A	1.06E
Q2	2.33A	1.51E
Q3	2.37A	1.75E
Q4	0.85A	1.48E

Exhibit 1: WLK Income Statement Summary

We expect EBITDA to decline in 2024

Sales and Operating Income by Segment

	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Performance & Essential Materials	\$11,008	\$2,349	\$2,136	\$1,971	\$1,880	\$8,336	\$1,879	\$1,910	\$1,950	\$2,023	\$7,761	\$8,786	\$9,091
Housing & Infrastructure Products	4,786	1,007	1,115	1,144	946	4,212	1,001	1,101	1,151	978	4,230	4,556	4,923
Consolidated Net Sales	15,794	3,356	3,251	3,115	2,826	12,548	2,879	3,011	3,100	3,001	11,992	13,343	14,014

Adjusted EBITDA

Performance & Essential Materials	3,312	615	435	359	201	1,610	271	326	351	385	1,333	1,946	2,547
Housing & Infrastructure Products	968	205	244	327	195	971	220	242	265	186	913	934	985
Corporate & Other	(55)	8	14	16	16	54	5	5	5	5	20	0	0
Total	4,225	828	693	702	412	2,635	496	573	620	576	2,266	2,880	3,532

Operating Income Before Unusual Items

Performance & Essential Materials	2,491	403	215	125	(39)	704	61	115	134	171	481	1,101	1,709
Housing & Infrastructure Products	688	143	190	256	143	732	162	182	200	124	668	689	740
Corporate & Other	(84)	(7)	(6)	(12)	(9)	(34)	(12)	(12)	(11)	(11)	(46)	(46)	(46)
Total	3,095	539	399	369	95	1,402	211	285	322	284	1,103	1,744	2,403
Change	11%	-48%	-66%	-37%	-66%	-55%	-61%	-29%	-13%	199%	105%	337%	551%

Interest Expense	177	42	42	40	41	165	40	39	39	37	155	150	145
Other Expense (Income)	(73)	(22)	(23)	(56)	(35)	(136)	(20)	(20)	(25)	(15)	(80)	(65)	(65)
Pretax Income	2,991	519	381	385	89	1,374	191	266	308	262	1,028	1,659	2,323
Income Taxes	671	114	71	70	(31)	224	44	61	71	60	236	382	534
Tax Rate	22.4%	21.9%	18.6%	18.2%	-34.3%	16.3%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Minority Interest/Other	50	13	10	10	10	43	11	11	13	12	47	50	50
Income Before Nonrecurring items	2,270	392	300	305	110	1,107	136	194	224	190	744	1,227	1,738
Nonrecurring Items	(75)	17	(2)	0	(607)	(592)	0	0	0	0	0	0	0
Net Income	2,195	409	298	305	(497)	515	136	194	224	190	744	1,227	1,738

Diluted EPS Before Nonrecurring	\$17.60	\$3.05	\$2.33	\$2.37	\$0.85	\$8.62	\$1.06	\$1.51	\$1.75	\$1.48	\$5.80	\$9.55	\$13.50
Change Before Gains/(Charges)	12.0%	-48.7%	-65.0%	-32.9%	-40.3%	-51.0%	-65.2%	-35.3%	-26.3%	72.8%	-32.7%	64.7%	41.4%

Diluted Shares Outstanding (Million)	128.8	128.5	128.5	128.6	128.2	128.4	128.2	128.3	128.4	128.5	128.4	128.6	128.8
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Segment Sales Growth:

Performance & Essential Materials	27.0%	-17.1%	-31.2%	-27.3%	-20.4%	-24.3%	-20.0%	-10.6%	-1.1%	7.6%	230.4%	311.3%	361.2%
Housing & Infrastructure Products	54.0%	-17.7%	-19.1%	-8.1%	0.9%	-12.0%	-0.6%	-1.3%	0.6%	3.4%	320.1%	308.6%	330.4%
Consolidated Net Sales	34.1%	-17.3%	0.0%	-21.3%	-14.3%	-20.6%	-14.2%	-7.4%	-0.5%	6.2%	257.3%	310.4%	349.9%

EBITDA Margins Before Special Items

Performance & Essential Materials	30.1%	26.2%	20.4%	18.2%	10.7%	19.3%	14.4%	17.1%	18.0%	19.0%	17.2%	22.1%	28.0%
Housing & Infrastructure Products	20.2%	20.4%	21.9%	28.6%	20.6%	23.1%	22.0%	22.0%	23.0%	19.0%	21.6%	20.5%	20.0%
Total	26.7%	24.7%	21.3%	22.5%	14.6%	21.0%	17.2%	19.0%	20.0%	19.2%	18.9%	21.6%	25.2%

Source: Company Reports and BofA Global Research Estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Westlake Corp (WLK)

Our \$127 PO is based on a 8x 2024E EV/EBITDA multiple. This multiple is somewhat above the five year average of roughly 7.5x balancing trough 2024 earnings with concerns about further declines in caustic/PVC prices.

Downside risks to our PO are the absence of a material upturn in PVC/chlor-alkali prices and margins from current levels, faster than expected capacity expansions in chlor-alkali/PVC (versus our expectations for virtual no capacity growth), a deeper trough in polyethylene margins and broader macroeconomic risks, particularly in emerging markets, that would impair the demand outlook for these commodities.

Upside risks to our PO are an inflection in chlor-alkali or polyethylene pricing and margins, an improving economic outlook, and increasing capacity expansion in chlor-alkali and/or polyethylene.

Analyst Certification

I, Steve Byrne, 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				
	Air Products	APD	APD US	Steve Byrne, CFA
	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				
	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

US - Chemicals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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

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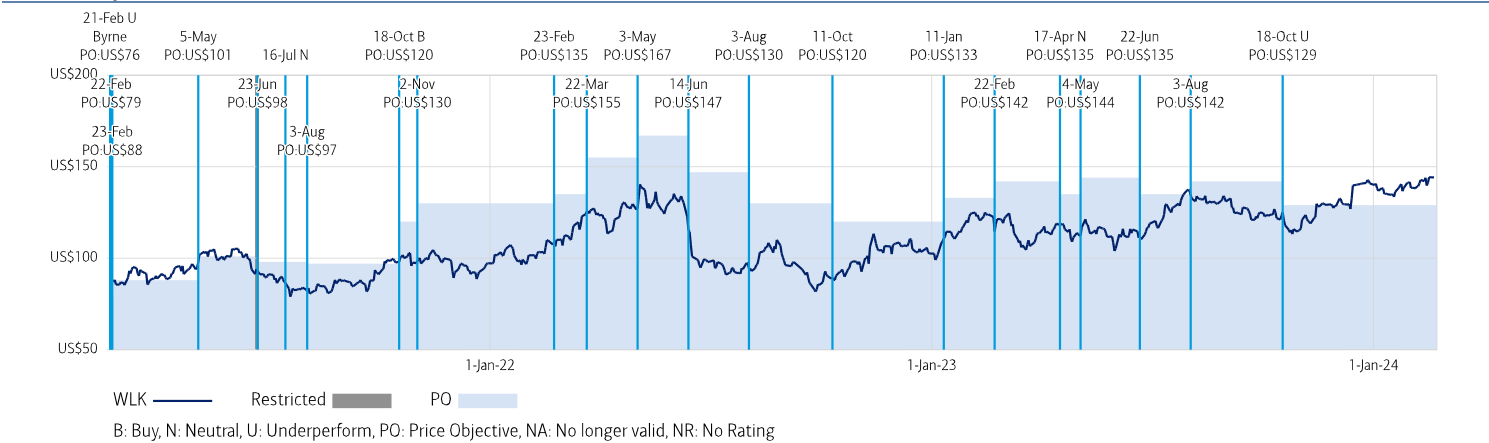
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Disclosures

Important Disclosures

Westlake Corp (WLK) Price Chart



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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