

## Huntsman Corp

# Reiterate Buy as multi-year earnings recovery commences

Reiterate Rating: BUY | PO: 30.00 USD | Price: 26.18 USD

## First signs of recovery, long earnings growth leeway

Despite a soft 1Q24 guidance, investors were more focused on the first signs of recovery noted by Huntsman (HUN). These include (1) price increases for MDI (methylene diphenyl diisocyanate) in all regions, (2) a stronger recovery in Chinese demand in the first week post-Lunar New Year vs the past couple of years, and (3) broader signs of increasing demand for some of HUN's products that support the restart of a second, 130ktpa unit at its Geismar, LA plant. We believe that the company has substantial leverage to a market recovery with strong incremental margins as volumes rebound in Polyurethanes and Performance Products and as margins expand on a combination of higher prices and lower feedstock costs, mainly energy. We expect EBITDA to top \$1bn by 2026 vs \$472mn in 2023 and EPS to be in the mid-3s range. Although valuation on near-term estimates now looks more stretched, we think the sheer magnitude of earnings recovery, coupled with capital deployment optionality and an upgraded business portfolio vs past cycles should allow for more upside to the shares, and we reiterate our Buy rating.

## Paring back 2024 estimates but raising PO to \$30

Our 1Q24E EBITDA is now \$78mn vs a \$65-85mn guidance. We don't see much room for expansion beyond this quarter given rising benzene costs and the Lunar New Year impact but expect a step-up in earnings power in Q2/Q3 driven by higher volumes, pricing, and the flow-through of lower energy costs. Our 2024E EBITDA is lowered to \$553mn from \$654mn. We estimate 2025/26 EBITDA of \$842mn/\$1,050mn. Our 2026E EPS is \$3.40. We raise our PO to \$30 from \$28, as we lift our multiple on '24 EBITDA to 11x from 9x previously to account for increased confidence in a steep earnings recovery. Note that our \$30 PO reflects a 7.3x and 5.6x multiple on 2025/2026 EBITDA.

## Cash flow provides optionality

We expect net leverage to peak at ~3x in mid-2024, a very reasonable level in our view given the magnitude of earnings pressure, and thus no need for HUN to pay down any debt. We thus estimate HUN has ~\$700mn in excess capital (post-dividend) that could be allocated towards buybacks in 2024-26 (our base case assumption), or an even larger sum for bolt-on M&A (which we believe will enter the picture as we move to an upcycle).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.28	0.36	0.75	2.30	3.40
GAAP EPS	2.21	0.52	0.75	2.30	3.40
EPS Change (YoY)	-4.9%	-89.0%	108.3%	206.7%	47.8%
Consensus EPS (Bloomberg)			0.78	1.61	2.35
DPS	0.83	0.95	1.00	1.04	1.08
Valuation (Dec)					
P/E	8.0x	72.7x	34.9x	11.4x	7.7x
GAAP P/E	11.8x	50.3x	34.9x	11.4x	7.7x
Dividend Yield	3.2%	3.6%	3.8%	4.0%	4.1%
EV / EBITDA*	5.8x	14.9x	12.7x	8.3x	6.7x
Free Cash Flow Yield*	13.8%	-0.5%	7.6%	6.8%	12.1%

\* For full definitions of *IQmethod*<sup>SM</sup> 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: 23 February 2024 09:01AM EST

23 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	28.00	30.00
2024E Rev (m)	6,480.6	6,380.3
2025E Rev (m)	7,081.1	6,973.7
2026E Rev (m)	NA	7,422.9
2024E EPS	1.35	0.75
2025E EPS	2.70	2.30
2026E EPS	NA	3.40
2024E DPS	0.98	1.00

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### Stock Data

Price	26.18 USD
Price Objective	30.00 USD
Date Established	23-Feb-2024
Investment Opinion	B-1-7
52-Week Range	22.14 USD - 30.52 USD
Mrkt Val (mn) / Shares Out (mn)	4,657 USD / 177.9
Free Float	94.1%
Average Daily Value (mn)	52.89 USD
BofA Ticker / Exchange	HUN / NYS
Bloomberg / Reuters	HUN US / HUN.N
ROE (2024E)	4.0%
Net Dbt to Eqty (Dec-2023A)	33.0%
ESGMeter <sup>TM</sup>	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".

# iQprofile<sup>SM</sup> Huntsman Corp

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.6%	2.0%	2.9%	7.1%	9.6%
Return on Equity	17.0%	1.9%	4.0%	12.5%	17.6%
Operating Margin	11.0%	3.2%	4.3%	8.1%	10.5%
Free Cash Flow	642	(21)	353	317	561

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	3.1x	4.3x	1.4x	1.4x
Asset Replacement Ratio	1.0x	0.8x	0.7x	0.8x	0.8x
Tax Rate	19.8%	33.9%	35.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	28.2%	33.0%	32.6%	31.0%	29.5%
Interest Cover	14.9x	3.0x	4.2x	9.4x	13.6x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,412	6,111	6,380	6,974	7,423
% Change	-0.5%	-27.4%	4.4%	9.3%	6.4%
Gross Profit	1,780	992	1,014	1,368	1,630
% Change	-11.0%	-44.3%	2.2%	34.9%	19.1%
EBITDA	1,205	472	553	842	1,050
% Change	-8.8%	-60.8%	17.2%	52.3%	24.6%
Net Interest & Other Income	3	(14)	5	16	23
<b>Net Income (Adjusted)</b>	<b>681</b>	<b>67</b>	<b>127</b>	<b>385</b>	<b>547</b>
<b>% Change</b>	<b>-10.8%</b>	<b>-90.2%</b>	<b>90.0%</b>	<b>202.1%</b>	<b>42.3%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	681	67	127	385	547
Depreciation & Amortization	281	278	279	276	273
Change in Working Capital	(64)	(159)	43	(140)	(63)
Deferred Taxation Charge	89	(10)	0	0	0
Other Adjustments, Net	(73)	33	104	16	24
Capital Expenditure	(272)	(230)	(200)	(220)	(220)
<b>Free Cash Flow</b>	<b>642</b>	<b>-21</b>	<b>353</b>	<b>317</b>	<b>561</b>
<b>% Change</b>	<b>5.2%</b>	<b>NM</b>	<b>NM</b>	<b>-10.3%</b>	<b>77.0%</b>
Share / Issue Repurchase	(1,019)	(359)	(125)	(125)	(350)
Cost of Dividends Paid	(171)	(169)	(171)	(174)	(174)
Change in Debt	206	(61)	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	654	540	598	616	653
Trade Receivables	813	747	778	910	969
Other Current Assets	1,678	1,027	1,074	1,141	1,174
Property, Plant & Equipment	2,377	2,376	2,297	2,241	2,187
Other Non-Current Assets	2,698	2,558	2,554	2,570	2,580
<b>Total Assets</b>	<b>8,220</b>	<b>7,248</b>	<b>7,301</b>	<b>7,478</b>	<b>7,563</b>
Short-Term Debt	66	12	12	12	12
Other Current Liabilities	1,635	1,160	1,282	1,341	1,369
Long-Term Debt	1,671	1,676	1,676	1,676	1,676
Other Non-Current Liabilities	1,008	922	992	992	992
<b>Total Liabilities</b>	<b>4,380</b>	<b>3,770</b>	<b>3,962</b>	<b>4,021</b>	<b>4,049</b>
<b>Total Equity</b>	<b>3,840</b>	<b>3,478</b>	<b>3,340</b>	<b>3,457</b>	<b>3,514</b>
<b>Total Equity &amp; Liabilities</b>	<b>8,220</b>	<b>7,248</b>	<b>7,301</b>	<b>7,478</b>	<b>7,563</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Chemicals-Major

## Company Description

Huntsman's portfolio of businesses represents a diversified set of chemical products touching an even broader set of end markets. The company reports across three business segments: Polyurethanes, Advanced Materials, and Performance Products, representing the revenues and profits from the company's exposure to five primary chemical chains. Across many of these platforms HUN operates a vertically integrated footprint from upstream commodities to downstream derivatives.

## Investment Rationale

We rate shares of HUN at Buy as we move past the 2023 earnings trough. While near-term MDI and construction fundamentals could remain challenging, HUN has faced intense volume pressures in 2023 due to sharp destocking, such that we expect volumes to improve next year even without an end-market recovery. We believe that profitability can rebound sharply given the company's high fixed cost base and incremental margins. Lastly, we maintain a positive long-term view of the MDI market.

## Stock Data

Average Daily Volume 2,020,343

## Quarterly Earnings Estimates

	2023	2024
Q1	0.20A	-0.05E
Q2	0.22A	0.18E
Q3	0.15A	0.37E
Q4	-0.21A	0.25E

**Exhibit 1: Huntsman Income Statement Summary**

We expect significant EBITDA recovery in by 2025

<b>Net Sales</b>	<b>2022</b>	<b>1Q23</b>	<b>2Q23</b>	<b>3Q23</b>	<b>4Q23</b>	<b>2023</b>	<b>1Q24E</b>	<b>2Q24E</b>	<b>3Q24E</b>	<b>4Q24E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Polyurethanes	\$5,067	\$991	\$1,012	\$967	\$895	\$3,865	\$950	\$1,030	\$1,036	\$1,018	\$4,034	\$4,463	\$4,693
Performance Products	1,713	334	307	277	260	1,178	294	315	305	295	1,210	1,319	1,464
Advanced Materials	1,277	289	284	268	251	1,092	286	295	298	285	1,164	1,222	1,296
Textile Effects	389	0	0	0	0	0	0	0	0	0	0	0	0
Corporate and Eliminations	-34	-8	-7	-6	-3	-24	-7	-7	-7	-7	-28	-30	-30
Consolidated Total	8,412	1,606	1,596	1,506	1,403	6,111	1,523	1,633	1,633	1,592	6,380	6,974	7,423
<b>Adjusted EBITDA</b>													
Polyurethanes	628	66	88	81	13	248	36	76	103	80	295	519	630
Performance Products	469	71	55	47	28	201	38	49	66	55	209	261	344
Advanced Materials	233	48	51	49	38	186	44	54	62	52	212	227	246
Textile Effects	50	0	0	0	0	0	0	0	0	0	0	0	0
Corporate and Eliminations	-175	-49	-38	-41	-35	-163	-40	-41	-42	-39	-162	-165	-170
Consolidated Total	1,205	136	156	136	44	472	78	138	188	149	553	842	1,050
Operating Income	924	67	86	67	-26	194	8	68	118	80	274	566	776
Profit Before Tax	927	61	83	67	-31	180	5	70	123	81	279	582	799
Adjusted Net Income	681	37	39	27	-36	67	-9	32	63	42	127	385	547
<b>Diluted - Adjusted EPS</b>	\$3.28	\$0.20	\$0.22	\$0.15	-\$0.21	\$0.36	-\$0.05	\$0.18	\$0.37	\$0.25	\$0.75	\$2.30	\$3.40
<b>Segment Sales Growth</b>													
Polyurethanes	1.1%	-28.0%	-25.0%	-23.0%	-16.0%	-23.4%	-4.1%	1.7%	7.1%	13.8%	4.4%	10.6%	5.2%
Performance Products	15.5%	-30.0%	-38.0%	-36.0%	-15.0%	-31.1%	-12.0%	2.7%	10.3%	13.6%	2.7%	9.0%	11.0%
Advanced Materials	6.7%	-14.0%	-15.0%	-18.0%	-10.0%	-14.4%	-1.0%	3.7%	11.3%	13.6%	6.6%	5.0%	6.0%
Textile Effects	-23.9%	-100.0%	-100.0%	0.0%	0.0%	-100.0%	0.0%	0.0%	0.0%	0.0%	-100.0%	0.0%	0.0%
Consolidated Total	-0.5%	-32.4%	-32.3%	-25.0%	-14.8%	-27.4%	-5.2%	2.3%	8.5%	13.7%	4.4%	9.3%	6.4%
<b>Adjusted EBITDA Margin</b>													
Polyurethanes	12.4%	6.7%	8.7%	8.4%	1.5%	6.4%	3.7%	7.4%	9.9%	7.9%	7.3%	11.6%	13.4%
Performance Products	27.4%	21.3%	17.9%	17.0%	10.8%	17.1%	13.1%	15.6%	21.5%	18.8%	17.2%	19.8%	23.5%
Advanced Materials	18.2%	16.6%	18.0%	18.3%	15.1%	17.0%	15.3%	18.3%	20.6%	18.4%	18.2%	18.6%	19.0%
Textile Effects	12.9%												
Consolidated Total	14.3%	8.5%	9.8%	9.0%	3.1%	7.7%	5.1%	8.5%	11.5%	9.4%	8.7%	12.1%	14.1%

Source: Company Reports, and BofA Global Research Estimates

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## Price objective basis & risk

### Huntsman Corp (HUN)

Our \$30 PO is based on an 11x EV to 2024E EBITDA methodology. This multiple is on the high end of the historic range for HUN, which we believe is appropriate given our expectations of significant earnings growth beyond 2024.

Downside (upside) risks to our price objective come from volatility in underlying commodity markets, corporate actions, and a slowdown to (expansion in) the broader economic backdrop.

## 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	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

## iQmethod<sup>SM</sup> 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 &amp; 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

iQmethod<sup>SM</sup> 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.

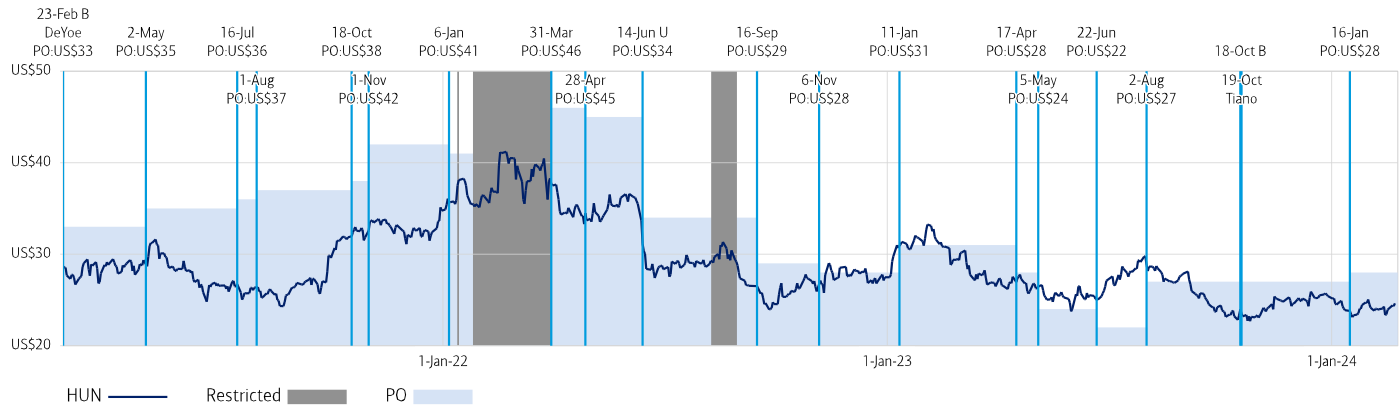
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# Disclosures

## Important Disclosures

### Huntsman Corp (HUN) 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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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