

Celanese Corporation

Premium valuation not justified by pace of recovery, reiterate Underperform

Reiterate Rating: UNDERPERFORM | PO: 135.00 USD | Price: 149.38 USD

Reiterate Underperform with \$135 PO

While Celanese guided to a soft 1Q, including limited sequential improvement in market demand, and lower-than-expected 2024 earnings, its outlook was consistent with that of most of its peers. What is different, however, is that CE's valuation already fully discounts this recovery in our view, leaving little room for upside to the shares. Moreover, even though we note the company has more controllables driving its 2024 earnings growth, as these fade it will face a tougher path to recovery in 2025-26 vs other companies: CE's Engineered Materials (EM) volumes held up better than its peers (e.g. Eastman and Huntsman) during this downturn owing to a ~50% exposure to the auto end-market, but as auto production plateaus there will be limited room for growth. Additionally, acetyls are facing a tougher road to recovery due to already solid US prices and new capacity growth in China. As such, we reiterate our Underperform with an unchanged \$135 PO (note that while we lower our 2024E earnings, we raise our EV/EBITDA multiple by 0.25x to 9.25x and our P/E multiple by 1x to 12x given a more de-risked 2024).

2024 estimates trimmed, EPS looks largely derisked

We are lowering our 2024E EBITDA to \$2,730mn from \$2849mn and EPS to \$11.60 from \$12.20. The decline is mostly driver by higher outage expense this year, almost all weighing on Q1 where our EBITDA and EPS estimates are now \$572mn (from \$646mn) and \$1.91 (\$2.48). We view the \$11-12 2024E EPS outlook as largely derisked, with \$150mn in synergies, a \$50mn lapse of inventory reduction (our f'cast), \$100mn in Acetyl Chain benefits from the Clear Lake expansion and other initiatives, offset by \$50mn in higher maintenance spend = \$250mn vs our y/y projected growth of \$286mn.

Path to earnings growth less certain post-2024

We lower our 2025 forecasts with EBITDA of \$3,074mn (from \$3,146mn) and EPS of \$14.45 (from \$15.10), and introduce our 2026 estimates of \$3,249mn and \$16.45. Unlike the "low-hanging fruit" driving our ~\$300mn expected EBITDA growth in 2024, we see the next ~\$300mn as being far less certain. We model \$60mn in additional synergies, and note that the balance of the Clear Lake benefit (~\$25mn) could be offset by other costs. As such, we think the recovery will hinge on an improvement in market fundamentals, that, as we noted above, is far less certain vs other chemical chains.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	15.89	8.92	11.60	14.45	16.45
GAAP EPS	17.42	18.00	11.60	14.45	16.45
EPS Change (YoY)	-12.7%	-43.9%	30.0%	24.6%	13.8%
Consensus EPS (Bloomberg)			11.62	14.35	15.61
DPS	2.74	2.80	2.80	2.80	2.88
Valuation (Dec)					
P/E	9.4x	16.7x	12.9x	10.3x	9.1x
GAAP P/E	8.6x	8.3x	12.9x	10.3x	9.1x
Dividend Yield	1.8%	1.9%	1.9%	1.9%	1.9%
EV / EBITDA*	11.5x	12.2x	10.9x	9.7x	9.2x
Free Cash Flow Yield*	7.8%	8.1%	8.4%	8.5%	9.7%

* 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: 26 February 2024 07:20AM EST

26 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	11,432.2	11,268.5
2025E Rev (m)	12,330.4	12,269.1
2026E Rev (m)	NA	13,150.9
2024E EPS	12.20	11.60
2025E EPS	15.10	14.45
2026E EPS	NA	16.45

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Stock Data

Price	149.38 USD
Price Objective	135.00 USD
Date Established	16-Jan-2024
Investment Opinion	B-3-7
52-Week Range	97.12 USD - 159.06 USD
Mkt Val (mn) / Shares Out (mn)	16,342 USD / 109.4
Free Float	99.5%
Average Daily Value (mn)	107.18 USD
BofA Ticker / Exchange	CE / NYS
Bloomberg / Reuters	CE US / CE.N
ROE (2024E)	15.8%
Net Dbt to Eqty (Dec-2023A)	157.3%
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".

iQprofileSM Celanese Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.6%	5.8%	6.8%	7.8%	8.3%
Return on Equity	32.6%	14.3%	15.8%	17.2%	17.1%
Operating Margin	18.5%	13.7%	15.7%	17.0%	17.0%
Free Cash Flow	1,276	1,331	1,380	1,393	1,579

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.9x	1.4x	1.2x	1.2x
Asset Replacement Ratio	1.1x	0.8x	0.6x	0.7x	0.7x
Tax Rate	12.5%	8.9%	9.0%	12.0%	12.0%
Net Debt-to-Equity Ratio	215.7%	157.3%	126.1%	98.2%	82.0%
Interest Cover	10.3x	2.1x	2.6x	3.5x	4.1x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	9,689	10,940	11,269	12,269	13,151
% Change	13.4%	12.9%	3.0%	8.9%	7.2%
Gross Profit	2,685	2,845	3,060	3,466	3,702
% Change	-8.2%	6.0%	7.6%	13.3%	6.8%
EBITDA	2,598	2,444	2,730	3,074	3,249
% Change	-7.8%	-5.9%	11.7%	12.6%	5.7%
Net Interest & Other Income	274	(424)	(363)	(268)	(191)
Net Income (Adjusted)	1,733	977	1,272	1,586	1,782
% Change	-14.9%	-43.6%	30.2%	24.7%	12.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,733	977	1,272	1,586	1,782
Depreciation & Amortization	478	739	718	713	715
Change in Working Capital	280	516	125	(321)	(283)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(672)	(333)	(310)	(110)	(110)
Capital Expenditure	(543)	(568)	(425)	(475)	(525)
Free Cash Flow	1,276	1,331	1,380	1,393	1,579
% Change	9.7%	4.3%	3.6%	1.0%	13.3%
Share / Issue Repurchase	(17)	0	0	0	(500)
Cost of Dividends Paid	(297)	(305)	(307)	(307)	(312)
Change in Debt	10,779	(1,088)	(1,000)	(1,300)	(1,000)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,508	1,805	1,878	1,664	1,430
Trade Receivables	2,054	1,784	1,833	2,045	2,192
Other Current Assets	3,049	2,629	2,515	2,717	2,897
Property, Plant & Equipment	5,584	5,584	5,291	5,053	4,863
Other Non-Current Assets	14,077	14,795	15,120	15,250	15,380
Total Assets	26,272	26,597	26,637	26,729	26,762
Short-Term Debt	1,306	1,383	1,383	1,383	1,383
Other Current Liabilities	2,762	2,689	2,749	2,842	2,885
Long-Term Debt	13,373	12,301	11,301	10,001	9,001
Other Non-Current Liabilities	2,726	2,672	2,637	2,602	2,567
Total Liabilities	20,167	19,045	18,070	16,828	15,836
Total Equity	6,105	7,552	8,567	9,901	10,926
Total Equity & Liabilities	26,272	26,597	26,637	26,729	26,762

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

Company Sector

Chemicals-Major

Company Description

Celanese (CE) is a global producer of value-added industrial chemicals. It is the world's largest producer of acetyls, including acetic acid, VAM & POM, and a leading producer of high-performance engineered polymers used in auto, consumer and industrial products. The company has substantial exposure to Europe and Asia, including important JVs in China and Saudi Arabia. CE generated \$10.9B of revenue in 2023.

Investment Rationale

We rate Celanese shares Underperform as (1) we see the company's valuation as stretched following a strong 2023 rally, (2) we are concerned about capacity additions for both acetic acid and vinyl acetate monomer in the near-term, which should dampen a recovery in acetyl chain margins, and (3) beyond an expected strong 2024 earnings rebound we see a harder path to continued profitably expansion as the benefits of acquisition synergies and the Clear Lake, TX expansion lapse.

Stock Data

Average Daily Volume 717,494

Quarterly Earnings Estimates

	2023	2024
Q1	2.01A	1.91E
Q2	2.16A	2.87E
Q3	2.50A	3.51E
Q4	2.24A	3.31E

Exhibit 1: Celanese Income Statement Summary

We see 2024E EPS of \$11.60

Net Sales	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Engineered Materials	\$4,024	\$1,630	\$1,585	\$1,528	\$1,406	\$6,149	\$1,500	\$1,583	\$1,572	\$1,476	\$6,131	\$6,377	\$6,760
Acetate Tow	379	0	0	0	0	0	0	0	0	0	0	0	0
Acetyl Chain	5,403	1,250	1,233	1,220	1,181	4,884	1,220	1,365	1,313	1,337	5,235	5,991	6,491
Intersegment Eliminations	-117	-27	-23	-25	-18	-93	-25	-28	-28	-17	-98	-99	-100
Consolidated Total	9,689	2,853	2,795	2,723	2,569	10,940	2,695	2,920	2,858	2,797	11,269	12,269	13,151
Adjusted EBITDA													
Engineered Materials	992	327	317	340	311	1,295	306	354	426	384	1,469	1,641	1,766
Acetate Tow	102	0	0	0	0	0	0	0	0	0	0	0	0
Acetyl Chain	1,687	370	386	365	354	1,475	346	410	406	414	1,575	1,753	1,813
Other	-183	-101	-87	-81	-57	-326	-80	-80	-80	-75	-315	-320	-330
Consolidated Total	2,598	596	616	624	608	2,444	572	684	752	722	2,730	3,074	3,249
Operating Income	1,790	381	386	405	328	1,500	331	452	530	457	1,770	2,082	2,230
Profit Before Tax	2,064	252	269	284	271	1,076	231	348	427	401	1,406	1,814	2,039
Adjusted Net Income	1,733	220	237	274	245	977	209	314	385	363	1,272	1,586	1,782
Diluted - Adjusted EPS	\$15.89	\$2.01	\$2.17	\$2.50	\$2.24	\$8.92	\$1.91	\$2.87	\$3.51	\$3.31	\$11.60	\$14.45	\$16.45
Segment Sales Growth													
Engineered Materials	48.1%	79.1%	67.2%	64.5%	13.7%	52.8%	-8.0%	-0.1%	2.9%	5.0%	276.1%	302.3%	342.4%
Acetate Tow	-26.3%												
Acetyl Chain	-0.5%	-18.7%	-15.3%	-4.2%	4.1%	-9.6%	-2.4%	10.7%	7.6%	13.2%	318.8%	385.9%	432.0%
Consolidated Total	13.4%	12.4%	12.4%	18.3%	9.4%	12.9%	-5.6%	4.5%	4.9%	8.9%	295.0%	339.0%	383.0%
Adjusted EBITDA Margin													
Engineered Materials	24.7%	20.1%	20.0%	22.3%	22.1%	21.1%	20.4%	22.4%	27.1%	26.0%	24.0%	25.7%	26.1%
Acetate Tow	0.0%												
Acetyl Chain	31.2%	29.6%	31.3%	29.9%	30.0%	30.2%	28.4%	30.0%	30.9%	30.9%	30.1%	29.3%	27.9%
Consolidated Total	26.8%	20.9%	22.0%	22.9%	23.7%	22.3%	21.2%	23.4%	26.3%	25.8%	24.2%	25.1%	24.7%

Source: Company Reports and BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Celanese Corporation (CE)

Our \$135 PO reflects the average of our EV/EBITDA valuation of \$132 and our P/E valuation of \$139. Our PO is based on a 9.25x and a 12x multiple for our 2024E EBITDA and EPS estimates, a premium to the 5-year average forward multiples of 9x and 10.5x, respectively, due to below normalized profitability in 2024.

Downside (upside) risks to our price objective are volatile raw commodity costs, accretive corporate actions, and competitors' addition (reduction) of production capacity in Acetyl Intermediates.

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				
	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	GPRE	GPRE 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

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

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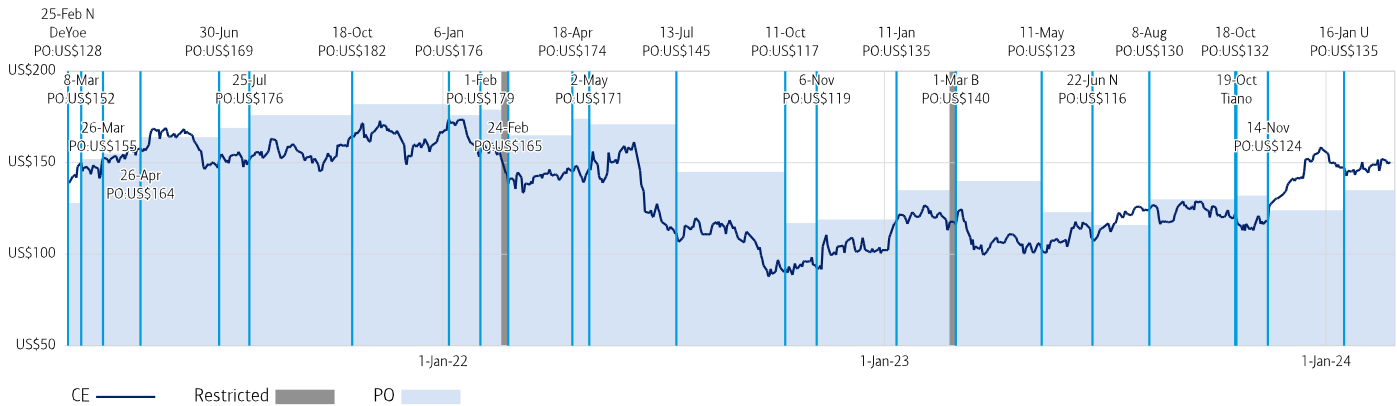
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Disclosures

Important Disclosures

Celanese (CE) Price Chart



CE — Restricted PO

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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