

Celanese Corporation

Shares running ahead of themselves; downgrade to Underperform

Rating Change: UNDERPERFORM | PO: 135.00 USD | Price: 147.37 USD

Valuation, acetyls challenges, tough recovery = U/P

We are downgrading Celanese to Underperform from Neutral, with a PO of \$135 (up from \$124). The shares have had a great run in 2023 (+56%) and 4Q23 (+25%), which we believe overly discounts expectations of a 2024-25 recovery. In fact since the start of 2023, consensus EPS forecasts for 2024 and 2025 have declined by 20% and 15%, respectively, causing the stock to be overvalued in our view. Additionally, the acetyls environment remains challenging, with significant capacity growth in both acetic acid and VAM (vinyl acetate monomer) in 2024, and tough comps as margins in 2023 were boosted by supply disruptions. Lastly, beyond the near-term “low-hanging fruit” of synergies, lack of inventory adjustments, and the new Clear Lake capacity, we see limited growth drivers – unlike many peers which saw severe volume declines/destocking in 2022-23 – and thus a more uncertain path to our 2025 estimates.

Acetyls capacity growth to limit margin recovery

Our base case is that CE's 1.3mtpa Clear Lake, TX acetic acid expansion will be capacity neutral in the near-term, as it is offset by volume reductions elsewhere. However, according to ICIS there is 2mtpa in new capacity being added in 2024 in China, a ~10% growth. In VAM, we anticipate a similar ~10% capacity growth from five Chinese plants with start-ups in 4Q23 and 2024. In our view acetyl margins were already “artificially” high in 2022-23 due to severe supply disruptions – including the latest FM by Lyondell that has now been lifted. More normalized supply from legacy facilities along with the new capacity growth should put pressure on CE's acetyl margins in 2024 despite our expectation of some demand recovery (our indicator calls for a ~\$20/mt decline y/y).

Tweaking estimates, PO raised to \$135 from \$124

Our 2024E EPS is raised to \$12.20 from \$12.05 on FX, lower costs, and a better start to acid prices. We have trimmed our acetyl margin recovery expectations in 2025, more than offsetting a more benign cost environment in Engineered Materials, reducing our EPS forecast to \$15.10 from \$15.20. We are raising our 2024 EV/EBITDA and P/E multiples by half a turn, to 9x and 11x, respectively, in light of higher market multiples and other macro tailwinds such as a lower interest rate environment. Our PO moves to \$135 from \$124 for ~7% negative total return, warranting an Underperform rating.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	18.21	15.89	9.01	12.20	15.10
GAAP EPS	18.21	17.42	13.89	12.20	15.10
EPS Change (YoY)	139.0%	-12.7%	-43.3%	35.4%	23.8%
Consensus EPS (Bloomberg)			9.01	12.02	14.77
DPS	2.72	2.74	2.80	2.80	2.94
Valuation (Dec)					
P/E	8.1x	9.3x	16.4x	12.1x	9.8x
GAAP P/E	8.1x	8.5x	10.6x	12.1x	9.8x
Dividend Yield	1.8%	1.9%	1.9%	1.9%	2.0%
EV / EBITDA*	10.9x	11.8x	12.6x	10.8x	9.8x
Free Cash Flow Yield*	7.2%	7.9%	7.2%	8.8%	10.0%

* 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: 16 January 2024 06:01AM EST

16 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-7	B-3-7
Inv. Rating	NEUTRAL UNDERPERFORM	
Price Obj.	124.00	135.00
2023E Rev (m)	10,932.9	11,007.9
2024E Rev (m)	11,636.5	11,432.2
2025E Rev (m)	12,284.1	12,330.4
2023E EPS	8.98	9.01
2024E EPS	12.05	12.20
2025E EPS	15.20	15.10

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Stock Data

Price	147.37 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)	16,122 USD / 109.4
Free Float	99.5%
Average Daily Value (mn)	117.01 USD
BofA Ticker / Exchange	CE / NYS
Bloomberg / Reuters	CE US / CE.N
ROE (2023E)	14.9%
Net Dbt to Eqty (Dec-2022A)	215.7%
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".

U/P: Underperform

iQprofileSM Celanese Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	18.9%	9.6%	6.1%	7.3%	8.4%
Return on Equity	48.3%	32.6%	14.9%	17.4%	18.7%
Operating Margin	25.6%	18.5%	14.1%	16.8%	17.9%
Free Cash Flow	1,163	1,276	1,159	1,414	1,615

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.8x	1.0x	1.7x	1.4x	1.3x
Asset Replacement Ratio	1.3x	1.1x	0.7x	0.6x	0.8x
Tax Rate	15.1%	12.6%	9.0%	12.5%	12.5%
Net Debt-to-Equity Ratio	75.6%	215.7%	166.6%	131.2%	103.1%
Interest Cover	24.0x	10.3x	2.2x	2.9x	3.7x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	8,545	9,689	11,008	11,432	12,330
% Change	51.1%	13.4%	13.6%	3.9%	7.9%
Gross Profit	2,926	2,685	2,870	3,230	3,595
% Change	104.8%	-8.2%	6.9%	12.6%	11.3%
EBITDA	2,817	2,598	2,445	2,849	3,146
% Change	89.8%	-7.8%	-5.9%	16.6%	10.4%
Net Interest & Other Income	208	267	(472)	(385)	(307)
Net Income (Adjusted)	2,037	1,733	985	1,338	1,648
% Change	128.2%	-14.9%	-43.2%	35.8%	23.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	2,037	1,733	985	1,338	1,648
Depreciation & Amortization	355	478	727	720	715
Change in Working Capital	(617)	280	241	(64)	(130)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(145)	(672)	(264)	(155)	(68)
Capital Expenditure	(467)	(543)	(530)	(425)	(550)
Free Cash Flow	1,163	1,276	1,159	1,414	1,615
% Change	18.8%	9.7%	-9.2%	22.0%	14.2%
Share / Issue Repurchase	(1,003)	(17)	0	0	(200)
Cost of Dividends Paid	(304)	(297)	(305)	(307)	(321)
Change in Debt	724	10,779	(925)	(1,000)	(1,300)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	536	1,508	1,810	1,917	1,711
Trade Receivables	1,667	2,054	1,758	1,842	2,021
Other Current Assets	1,604	3,049	2,569	2,536	2,711
Property, Plant & Equipment	4,193	5,584	5,374	5,079	4,914
Other Non-Current Assets	3,975	14,077	14,234	14,334	14,364
Total Assets	11,975	26,272	25,745	25,708	25,721
Short-Term Debt	791	1,306	1,408	1,408	1,408
Other Current Liabilities	1,714	2,762	2,238	2,225	2,449
Long-Term Debt	3,176	13,373	12,291	11,291	9,991
Other Non-Current Liabilities	1,757	2,726	2,670	2,565	2,460
Total Liabilities	7,438	20,167	18,607	17,489	16,308
Total Equity	4,537	6,105	7,138	8,219	9,400
Total Equity & Liabilities	11,975	26,272	25,745	25,708	25,709

* 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 \$9.7B of revenue in 2022.

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 793,995

Quarterly Earnings Estimates

	2022	2023
Q1	5.54A	2.01A
Q2	4.98A	2.16A
Q3	3.94A	2.50A
Q4	1.44A	2.31E

Exhibit 2: Celanese Income Statement Summary

We don't expect EPS to return to 2022 levels by 2025

Net Sales	2020	2021	2022	1Q23	2Q23	3Q23	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
Engineered Materials	\$2,081	\$2,718	\$4,024	\$1,630	\$1,585	\$1,528	\$1,473	\$6,216	\$1,548	\$1,630	\$1,603	\$1,561	\$6,343	\$6,433
Acetate Tow	519	514	379	0	0	0	0	0	0	0	0	0	0	0
Acetyl Chain	3,147	5,430	5,403	1,250	1,233	1,220	1,190	4,893	1,285	1,365	1,272	1,273	5,195	6,004
Intersegment Eliminations	-90	-117	-117	-27	-23	-25	-26	-101	-25	-28	-28	-25	-106	-107
Consolidated Total	5,657	8,545	9,689	2,853	2,795	2,723	2,637	11,008	2,808	2,967	2,847	2,810	11,432	12,330
Adjusted EBITDA														
Engineered Materials	532	706	992	327	317	340	335	1,319	384	382	436	427	1,629	1,722
Acetate Tow	288	246	102	0	0	0	0	0	0	0	0	0	0	0
Acetyl Chain	730	2,020	1,687	370	386	365	367	1,488	351	409	400	415	1,575	1,784
Other	-66	-155	-183	-101	-87	-81	-94	-363	-90	-80	-85	-100	-355	-360
Consolidated Total	1,484	2,817	2,598	596	616	624	609	2,445	646	711	750	742	2,849	3,146
Operating Income	861	2,185	1,790	381	386	405	385	1,557	425	481	516	500	1,922	2,204
Profit Before Tax	1,024	2,393	2,057	252	269	284	280	1,085	313	382	425	417	1,537	1,897
Adjusted Net Income	893	2,037	1,733	220	237	274	253	985	272	334	370	363	1,338	1,648
Diluted - Adjusted EPS	\$7.62	\$18.21	\$15.89	\$2.01	\$2.17	\$2.50	\$2.31	\$9.00	\$2.48	\$3.04	\$3.38	\$3.31	\$12.20	\$15.10
Segment Sales Growth														
Engineered Materials	-19.7%	30.6%	48.1%	79.1%	67.2%	64.5%	19.1%	54.5%	-5.0%	2.9%	4.9%	6.0%	289.2%	305.9%
Acetate Tow	-20.0%	-1.0%	-26.3%											
Acetyl Chain	-22.1%	72.5%	-0.5%	-18.7%	-15.3%	-4.2%	4.8%	-9.4%	2.8%	10.7%	4.3%	7.0%	315.6%	387.0%
Consolidated Total	-20.9%	51.1%	13.4%	12.4%	12.4%	18.3%	12.3%	13.6%	-1.6%	6.2%	4.6%	6.5%	300.7%	341.2%
Adjusted EBITDA Margin														
Engineered Materials	25.6%	26.0%	24.7%	20.1%	20.0%	22.3%	22.8%	21.2%	24.8%	23.4%	27.2%	27.4%	25.7%	26.8%
Acetate Tow	55.5%	47.9%	0.0%											
Acetyl Chain	23.2%	37.2%	31.2%	29.6%	31.3%	29.9%	30.9%	30.4%	27.4%	30.0%	31.4%	32.6%	30.3%	29.7%
Consolidated Total	26.2%	33.0%	26.8%	20.9%	22.0%	22.9%	23.1%	22.2%	23.0%	24.0%	26.4%	26.4%	24.9%	25.5%

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 \$136 and our P/E valuation of \$134. Our PO is based on an 9x and an 11x multiple for our 2024E EBITDA and EPS estimates.

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				
	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

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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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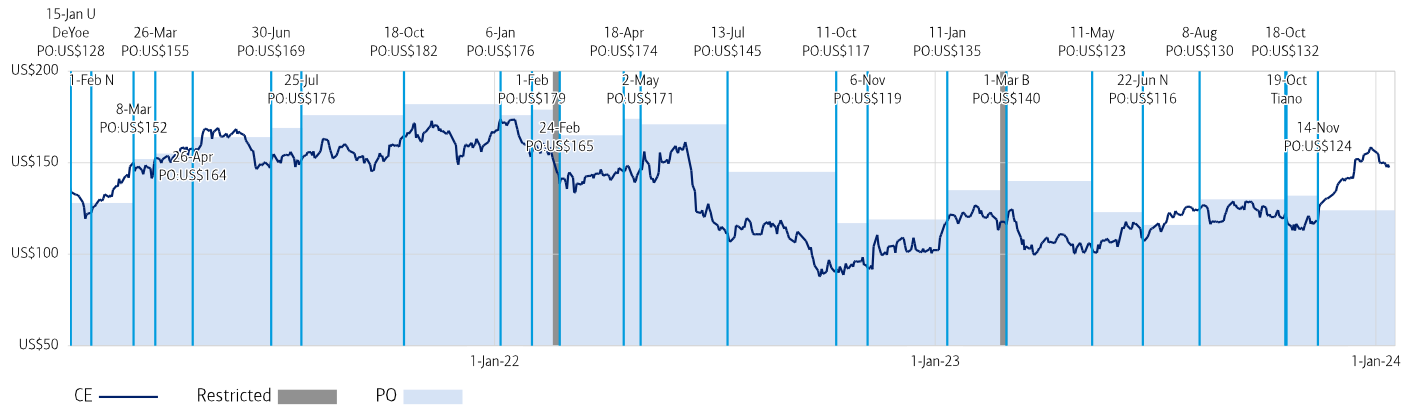
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Disclosures

Important Disclosures

Celanese (CE) 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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