Valuation

Our $100 target is based on Eastman trading at 13x 2015E EPS in 12 months, a 12% discount to its closest differentiated chemical peer Dow, which trades at 14.8x '15E EPS. We believe this multiple is warranted given the progress made integrating Solutia and cost synergies already realized. With the new Eastman becoming a more consistent, stable and predictable earnings generator, we believe Eastman's discount versus its main differentiated peer, DOW will begin to close. Our valuation is further supported by our estimate of Eastman's return on invested capital of 11.2% in 2013E and 11.2% in 2014E and our analysis showing a strong correlation (R2>70%) between chemical sector valuations and returns on capital.

Risks

Downside risks to our forecasts include increased leverage (~2.8x debt/EBITDA) a failure to achieve Solutia acquisition synergies, increases in propane and paraxylene prices (Eastman's two largest raw materials), a narrowing of the US Gulf Coast propane-propylene spread, price erosion within Additives and Functional Products, additional acetate tow capacity and lower global demand.