



Rating
Buy

North America
United States

Industrials
Chemicals / Specialty

Company
Eastman Chemical

Reuters EMN.N Bloomberg EMN UN Exchange NYS Ticker EMN

Date
29 July 2014

Results

Price at 29 Jul 2014 (USD)	81.52
Price target	100.00
52-week range	90.20 - 72.67

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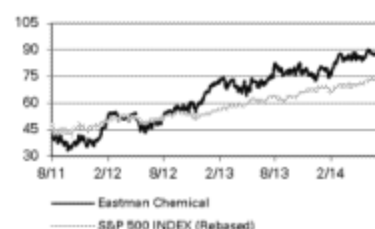
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Share Price Decline Unwarranted

Concerns overdone. Valuation compelling at 10.6x '15E vs Dow at 14.8x. Buy Eastman shares fell 8% despite a solid Q2 beat and the reaffirming of '14 guidance as investors focused on i) new '15 guidance of \$7.50-\$8.00 (vs \$8 previously) and ii) a lowering of '14 Fibers (largest and highest margin segment) EBIT guidance by 6%. We believe investor concerns are overdone as i) Eastman has been backing away from the \$8 target for months and, as evidenced by consensus of \$7.77, was not viewed as achievable either and ii) Fibers is under-earning in '14 due to destocking, lower demand and reduced operating rates. With valuation a compelling 10.6x '15 EPS vs 14.8x for Dow and Q2 evidencing a more predictable and resilient earnings generator, Buy. Q2 beats by \$0.08. '14 guidance of \$6.70-\$7.00 reaffirmed (cons: \$6.93). Eastman reported Q2 EPS of \$1.92, up 7%, and \$0.08 or 4% above consensus. An unplanned outage at Eastman's Kingsport plant reduced sales by \$10MM (in Specialty Fluids & Intermediates (SFI)), EBIT by \$10MM (evenly divided between Advanced Mat'ls, Fibers and SFI) and EPS by \$0.05. Prior to the outage, consensus was \$1.88. A lower than expected tax rate added \$0.01. The upside was driven by stronger than expected results in Adhesives & Plasticizers (AP) and SFI. Sales rose 1% on flat volumes and price while FX added 1%. EBIT fell 3% to \$441MM while margins compressed 70bps YoY (+130 QoQ) to 17.9% on higher propane costs. Eastman repurchased \$100MM of stock in Q2 and has \$640MM left under its \$1B authorization. Eastman reaffirmed its full year guidance range of \$6.70-\$7.00, up 4-9% (cons: \$6.93). Lowering '14E EPS by \$0.05 to \$6.90. Lowering '15E EPS by \$0.05 to \$7.70. Notwithstanding a solid Q2 release, Eastman shares fell 8% due to concerns over lowered '15 EPS and '14 Fibers guidance. Another driver, in our view, was the wide \$0.30 guidance range for 2H14 as it implies a high degree of volatility in Eastman's business. A slight narrowing of the range to \$6.75-\$6.95, in our view, would have alleviated this concern. For 2H14, we expect slightly lower EPS for Eastman due to destocking in Fibers, a slowdown in heat transfer fluids (China) and a planned outage at the company's largest ethylene cracker in Longview, TX (\$20MM, or \$0.10 impact in Q4). Looking ahead to '15, we believe Fiber earnings will recover modestly post destocking and lower plant operating rates in '14. While we concur with Eastman's view that Fiber earnings are plateauing, we believe EBIT will be higher in '15 at ~\$500MM vs the depressed level of \$480MM in '14. And with EBITDA of \$550MM and capex of just \$50MM, Fibers should be strong source of cash to fund growth (M&A, buybacks). For all of '15, we believe Eastman has a number of tailwinds that should drive earnings well above \$7.50 including: normalized operations (outages/turnarounds: \$0.20), lower propane costs (\$0.15-\$0.20), acquisitions (\$0.10-plus), base business growth (\$0.35) and share buybacks (\$0.20). To reflect lower Fibers earnings, we are trimming our '14E EPS by \$0.05 to \$6.90, up 7% and our '15E by \$0.05 to \$7.70 up 12%.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-6.7	-5.4	8.6
S&P 500 INDEX	0.5	4.9	16.9

Source: Deutsche Bank

Target price of \$100

Our \$100 target price is based on Eastman trading at 13x '15E EPS in 12mos, a 12% discount to its differentiated chemical peer Dow. Risks: weaker tire demand, increased leverage and the Solutia integration.

Forecasts And Ratios

Year End Dec 31	2013A	2014E	2015E
FY EPS (USD)	6.44	6.90	7.70

Source: Deutsche Bank estimates, company data

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