

Axial Corp (AXLL)

Another Earnings Miss Increases Event Risk

- **Event** — AXLL announced 2Q14 EBITDA guidance of \$125-130mm after the close on July 9th which is substantially below the consensus estimate of \$162mm. The miss was driven by:
 - **VCM facility in Lake Charles, LA:** The facility was at full capacity at the end of June after being repaired; however the production ramp was slower than the guidance of full operating rates by May given by management on April 14, 2014.
 - **Building Products:** Negatively impacted by weaker Canadian sales and fx headwinds.
 - **Aromatics:** Operating earnings down \$12mm YoY due to lower operating rates and lower margins.
- **Event Risk Slanted towards Credit Positive** — We believe this 2nd consecutive earnings warning which followed several earnings misses in 2013 increases event risk for AXLL. This event risk could take the form of a(n):
 - **Higher Rated Strategic Acquirer:** Note that WLK (Baa3/BBB) made a run at Georgia Gulf in 2012 before GGC agreed to merge with PPG's commodity business and changed its name to Axiall. Alternatively LYB (Baa1/BBB+) has a strong balance sheet and management has stopped stating that it needs to "earn the right" to do M&A. LYB management's current stance is they will explore M&A if strategic and meaningfully accretive. AXLL is short ethylene of which LYB is a cost advantaged producer.
 - **Activist Investor:** AXLL may also be ripe for an activist investor, especially given the increased activity in the space (i.e. ASH & Jana partners, DD & Trian), in our view. We think an activist could push for a management shakeup or the sale of the business which both could potentially be viewed as credit positive.
- **Credit Implications** — We maintain Overweight on AXLL and Buy on the 4.875% Sr Nts due 2023 and 4.625% Sr Nts due 2021(Ba3/BB).
- **Relative Value:** We continue to prefer AXLL 2021s to HUN 4.875% Sr Nts due in 2020 as they are higher rated, have lower leverage, offer ~50bps more in yield, trade at a ~3 point discount and offer more positive event risk. We see little chance of HUN being acquired by a higher rated entity in the near-term given it is in the midst of doubling down in TiO2 via the acquisition of ROC's assets.

James P Finnerty
+1-212-816-9599
james.p.finnerty@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Relative Value Table

Figure 1. Comp Table

AXIALL CORP (AXLL) - Overweight

Coupon	Description	Citi	Maturity	Ratings	Amount	Bid	Ask	Current Prices		Net
		Rating		(Moody's/S&P)	Outst (\$mm)			YTW (%)	Z-Sprd (bp)	Leverage
4.625%	Sr Nts	Buy (1)	2/15/2021	Ba3(S)/BB(S)	\$688	\$99.000	100.000	4.62%	280	2.20x
4.875%	Sr Nts	Buy (1)	5/15/2023	Ba3(S)/BB(S)	\$450	\$99.250	100.250	4.83%	274	2.20x

HUNTSMAN INTERNATIONAL L (HUN) - Underweight

Coupon	Description	Citi	Maturity	Ratings	Amount	Bid	Ask	Current Prices		Net
		Rating		(Moody's/S&P)	Outst (\$mm)			YTW (%)	Z-Sprd (bp)	Leverage
4.875%	Sr Nts	Sell (3)	11/15/2020	B1(S)/B+(N)	\$650	\$102.750	103.750	4.17%	223	2.10x
8.625%	Sr Sub Nts	Neutral (2)	3/15/2020	B2(S)/B+(N)	\$350	\$108.000	108.750	1.81%	157	2.70x
8.625%	Sr Sub Nts	Neutral (2)	3/15/2021	B2(S)/B+(N)	\$530	\$110.250	111.250	2.45%	212	2.70x

LyondellBasell (LYB)

Coupon	Description	Maturity	Ratings	Amount	Bid	Ask	Current Prices		Net
			(Moody's/S&P)	Outst (\$mm)			YTW (%)	Z-Sprd (bp)	Leverage
4.000%	Sr Nts	7/15/2023	Baa1(S)/BBB(S)	\$750	\$104.697	105.090	3.34%	89	0.43x

WestLake (WLK)

Coupon	Description	Maturity	Ratings	Amount	Bid	Ask	Current Prices		Net
			(Moody's/S&P)	Outst (\$mm)			YTW (%)	Z-Sprd (bp)	Leverage
3.600%	Sr Nts	7/15/2022	Baa3(S)/BBB(S)	\$250	\$99.500	100.500	3.53%	125	-0.01x

Source: Citi Research

Related Research

Equity

- 07/09/14: [Axiall Corporation \(AXLL\) - Another Miss in 2Q; An Activist or Acquirer to Approach?](#)

High Yield

- 05/19/14: [TiO2 1Q14 Industry Update - Room for Consolidation: Volumes \(+\), Pricing Stable & Inventory \(-\) QoQ](#)
- 02/24/14: [Relative Value Call: AXLL vs. HUN - Reiterate Buy AXLL 21 & 23s; Downgrade HUN Snr Nts to Neutral](#)

Appendix A-1

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Axiall Corporation (AXLL) — Issuer Portfolio Weighting and Issue Rating History

High Yield Credit Research

Analyst: James P Finnerty

Issuer		Issue			
Weighting	Date	Coupon	Description	Maturity	Date
MW	23-Oct-12	9.000%	Sr Sec Nts	15-Jan-17	Neutral (2)
OW	28-Jan-13				NC
		4.625%	Sr Nts	15-Feb-21	Buy (1)
		4.875%	Sr Nts	15-May-23	Buy (1)

Huntsman Corp (HUN) — Issuer Portfolio Weighting and Issue Rating History

High Yield Credit Research

Analyst: James P Finnerty

Issuer		Issue			
Weighting	Date	Coupon	Description	Maturity	Date
UW	23-Oct-12	5.500%	Sr Unsec Nts	30-Jun-16	Sell (3)
					NC
		8.625%	Sr Sub Nts	15-Mar-20	Sell (3)
					Neutral (2)
		8.625%	Sr Unsec Nts	15-Mar-21	Sell (3)
					Neutral (2)
		4.875%	Sr Nts	15-Nov-20	Buy (1)

Neutral (2)
Sell (3)

24-Feb-14
19-May-14

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