

Chemical News: Just in Time for XMAS

Implications for MOMENT, HUN, ROC, TROX, AXLL, NCX and CHMT

- **Highlights:** The chemical industry has provided us with five newsworthy items just in time for the holidays.
 - **Momentive Performance Materials (MOMENT)-12/20/13:** In an unsubstantiated report, citing three unnamed sources close to the situation, Debtwire reported that Momentive Performance Materials had retained advisor Moelis to help management address cash flow and maturity concerns and the company's parent Momentive Performance Materials Holdings LLC had hired legal counsel Paul Weiss.
 - **Huntsman (HUN) -12/20/13:** HUN announced it had completed the US Antitrust review of its acquisition of Rockwood's (ROC) TiO2 and Performance Additives segments, clearing away a potential hurdle for a successful closing.
 - **Axiall (AXLL) – 12/19/13:** AXLL announced the planned construction of a new Ethylene cracker in LA with a soon to be named partner, for \$3B total, of which \$1B would come from AXLL via cash on hand and new debt.
 - **Nova (NCX) – 12/18/13:** NCX announced they are commencing Phase II of their Nova 2020 growth plan, focusing on \$300mm of expansions for the Corunna ethylene cracker and polyethylene lines at Moore.
 - **Albemarle (ALB) - 12/18/13:** The world's largest Bromine producer, reported softer than expected demand for flame retardants and as a result our equity counterparts lowered their forecast for earnings through 2015 citing weaker than expected Bromine demand. This has implications on Chemtura (CHMT), the world's #3 Bromine producer.
- **Credit Implications:** Inside we discuss the credit implications for each of the impacted credits (MOMENT, HUN, ROC, TROX, AXLL, NCX, CHMT).

James P Finnerty

+1-212-816-9599

james.p.finnerty@citi.com

Jesse Hou

+1-212-816-3721

jesse.hou@citi.com

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

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MOMENT: Debtwire Article

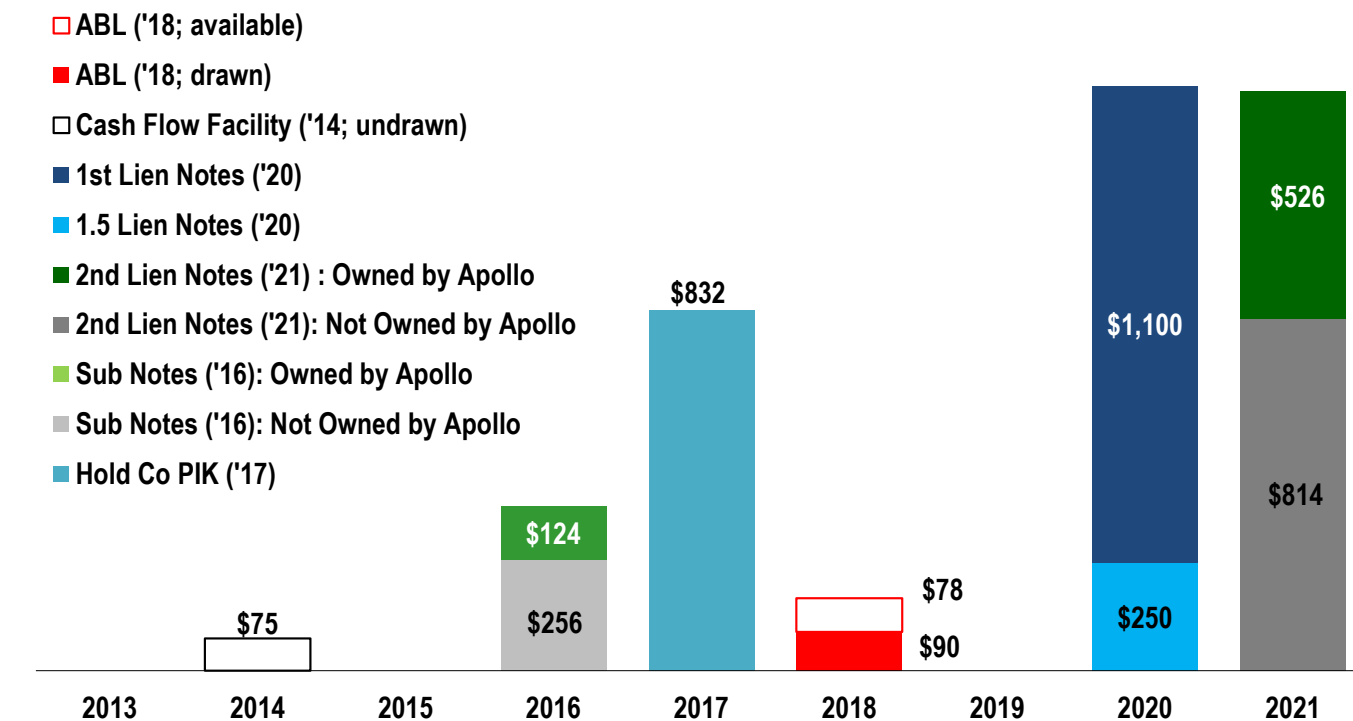
- **Advisors Reportedly Hired:** In an unsubstantiated article published on 12/20/13 Debtwire reported that Momentive Performance Materials (MOMENT) had retained advisor Moelis to help management address cash flow and maturity concerns and the company's parent Momentive Performance Materials Holdings LLC had hired legal counsel Paul Weiss, citing three unnamed sources close to the situation. We note that the author of the article appears to accidentally reference Momentive Specialty's (HXN) 3Q13 liquidity of \$862mm (\$362mm of cash) rather than MOMENT's 3Q13 liquidity of \$245mm.
- **Maintain Ratings:** We maintain our ratings given we have always assumed there was potential for restructuring given the capital structure appeared unsustainable over the long-term unless one assumed EBITDA would surpass peak EBITDA by a wide margin, which was and is not our belief. We maintain buys on the 1st, 1.5 and 2nd lien notes as we believe recovery prospects through the 1.5 lien are good and we continue to see the 2nd Lien as the fulcrum security (Apollo owns ~40% of the issue).
- **For Your Reference:** We include the latest capital structure with our ratings (Figure 1), maturity profile (Figure 2), an updated asset coverage table (Figure 3) and organizational charts from our initiation (Figure 4 & 5.).
- **Relevant Research**
 - **Momentive Performance Materials Inc. (MOMENT) Initiating Coverage - Emerging From a Silicone Valley**
 - [Silicone Industry Update - Waiting on a Friend; Operating Leverage Yet to Kick In](#)
 - **Momentive Specialty Chemicals Inc. (HXN) Initiating Coverage - Results Resin-ate with Investors**
 - [Epoxy Resin Call Recap - Resin Results 'Regulated': Downgrade HXN 2nd Lien to Neutral;](#)
 - [Downgrade HXN 2nd Lien to Sell from Neutral - Poor Epoxy Outlook Confirmed by Peers;](#)
 - [Dow Chemical Read-Throughs for HY - DOW Reports Challenged Epoxy Outlook and Positive Signs from Dow Corning JV;](#)
 - [HXN and MOMENT Post Call \(3Q13\) Recaps - Epoxy Under Pressure, Silicone Wants to Break Free of Supply](#)

Figure 1. MOMENT Capital Structure as of 3Q13

	09/30/13	Gross Leverage	Net Leverage	Bid		Rating
				Price	YTW	
LTM Adj. Segment EBITDA	\$236					
Debt						
ABL Facility (\$270mm, L+ 225bp, Apr 2018)	90					
8.875% 1st Lien Notes (\$1,100mm, Oct 2020)	1,100			\$105.25	7.55%	BUY
Total 1st Lien Debt	\$1,190	5.0x	4.7x			
10.00% 1.5 Lien Notes (Oct 2020)	250			\$104.50	8.82%	BUY
Total 1st & 1.5 Lien Debt	\$1,440	6.1x	5.7x			
ABOC Asset Loan due 2015	41					
India Bank Medium Term Loan 06/20/15	1					
Total Secured Debt	\$1,482	6.3x	5.9x			
9.0% 2nd Lien Nts (Jan 2021) (a.)	1,161			\$88.75	11.36%	BUY
9.5% 2nd Lien Nts (€133mm, Jan 2021)	179					
Total Debt Through 2nd Lien	\$2,822	12.0x	11.6x			
11.50% Sr. Sub. Notes (Dec 2016) (b.)	380			\$69.75	27.10%	NEUTRAL
Total Opco Debt	\$3,202	13.6x	13.2x			
GE Seller PIK Note (11% , Jun 2017)	832					
Total Holdco Debt	\$4,034	17.1x	16.7x			
U.S. Pension (underfunded) as of Dec-12	87					
Non U.S. Pension (underfunded) as of Dec-12	128					
OPEB (underfunded) as of Dec-12	91					
Total Holdco Debt	\$4,340	18.4x	18.0x			
Liquidity						
Unrestricted Cash (\$104mm in foreign jurisdictions)	92					
GE Cash Flow Revolver	75					
Revolver Availability	112					
Covenant Limitation	(34)					
Total	\$245					

Source: Citi Research and Company Filings.

Figure 2. MOMENT Maturity Profile (mm) as of 3Q13



Source: Citi Research and Company Filings.

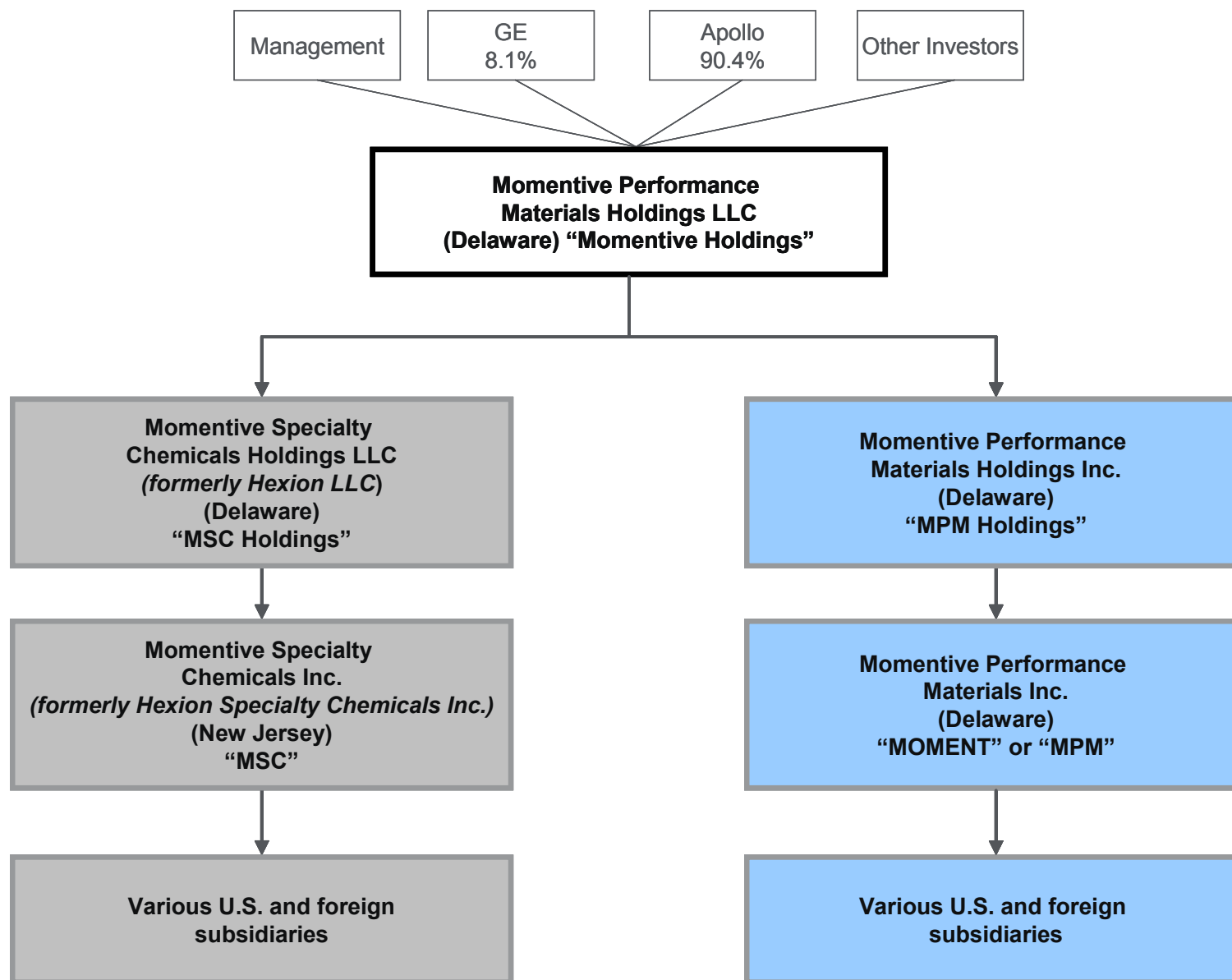
Asset Coverage: We examine asset coverage via a simple waterfall analysis using a reasonable range of EBITDA and multiples. Asset coverage at the subordinated level is poor (47%) even when assuming \$400mm of EBITDA and a multiple of 7.5x.

Figure 3. MOMENT Asset Coverage Through Capital Structure: 3Q13

		5.50x	6.50x	7.50x	8.50x
Enterprise Value (\$mm)	\$ 200	1,100	1,300	1,500	1,700
	\$ 250	1,375	1,625	1,875	2,125
	\$ 300	1,650	1,950	2,250	2,550
	\$ 350	1,925	2,275	2,625	2,975
	\$ 400	2,200	2,600	3,000	3,400
	\$ 450	2,475	2,925	3,375	3,825
	\$ 500	2,750	3,250	3,750	4,250
Asset Coverage Secured + 1st Lien		5.50x	6.50x	7.50x	8.50x
	\$ 200	92%	109%	126%	143%
	\$ 250	116%	137%	158%	179%
	\$ 300	139%	164%	189%	214%
	\$ 350	162%	191%	221%	250%
	\$ 400	185%	218%	252%	286%
	\$ 450	208%	246%	284%	321%
Asset Coverage Secured + 1.5 Lien		5.50x	6.50x	7.50x	8.50x
	\$ 200	0%	44%	124%	204%
	\$ 250	74%	174%	274%	374%
	\$ 300	184%	304%	424%	544%
	\$ 350	294%	434%	574%	714%
	\$ 400	404%	564%	724%	884%
	\$ 450	514%	694%	874%	1054%
Asset Coverage Secured + 2nd Lien		5.50x	6.50x	7.50x	8.50x
	\$ 200	0%	0%	4%	19%
	\$ 250	0%	13%	31%	50%
	\$ 300	15%	37%	59%	80%
	\$ 350	35%	60%	86%	111%
	\$ 400	55%	84%	113%	142%
	\$ 450	75%	107%	140%	173%
Asset Coverage Subordinated		5.50x	6.50x	7.50x	8.50x
	\$ 200	0%	0%	0%	0%
	\$ 250	0%	0%	0%	0%
	\$ 300	0%	0%	0%	0%
	\$ 350	0%	0%	0%	40%
	\$ 400	0%	0%	47%	152%
	\$ 450	0%	27%	146%	264%
Asset Coverage GE Seller Note		5.50x	6.50x	7.50x	8.50x
	\$ 200	0%	0%	0%	0%
	\$ 250	0%	0%	0%	0%
	\$ 300	0%	0%	0%	0%
	\$ 350	0%	0%	0%	0%
	\$ 400	0%	0%	0%	24%
	\$ 450	0%	0%	21%	75%
	\$ 500	0%	6%	66%	126%

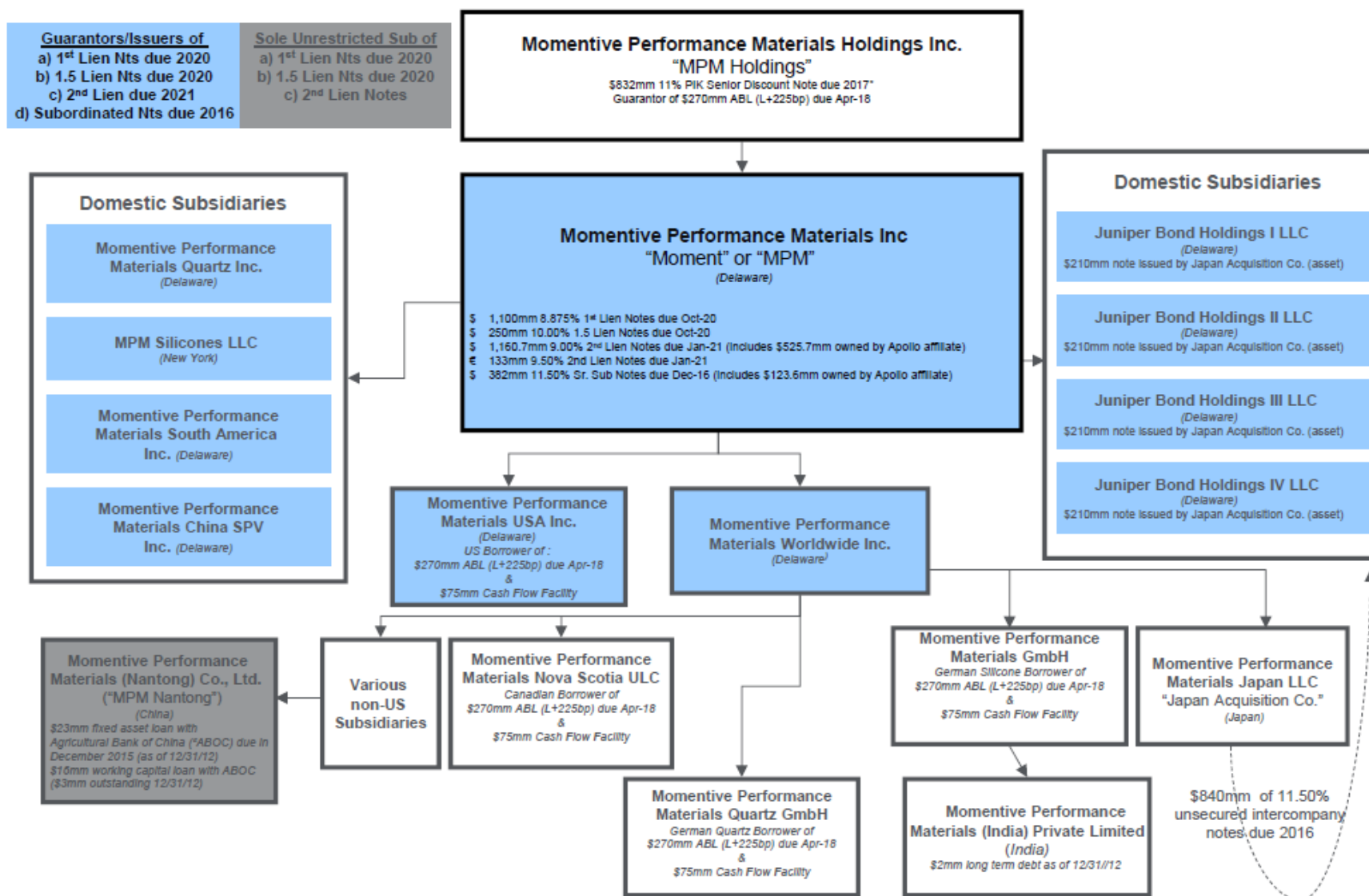
Source: Citi Research and Company Filings.

Figure 4. Momentive Performance Holdings LLC Simple Organizational Structure



Source: Citi Research and Company Filings.

Figure 5. Momentive Performance Materials Holdings Inc. Organizational Structure



Source: Citi Research and Company Filings.

HUN completes Antitrust Review

This morning (12/20/13) Huntsman (HUN) announced the completion of the US Antitrust review of its planned acquisition of Rockwood's (ROC) TiO₂ and Performance Additives businesses. HUN stated that it continues to anticipate closing the transaction in 1H14 and that it continues to work through the EU regulatory process. Note that the European process may be more onerous given the combination would represent almost 50% of the EU's TiO₂ capacity according to our equity counterparts in their latest industry piece: [TiO₂ - Emerging from an Eclipse: Implications for Pigment Producers and Feedstock Suppliers](#). Going forward given the industry will likely be more consolidated, antitrust will play a bigger role in potential transactions, especially as Tronox (TROX) continues to explore consolidation opportunities.

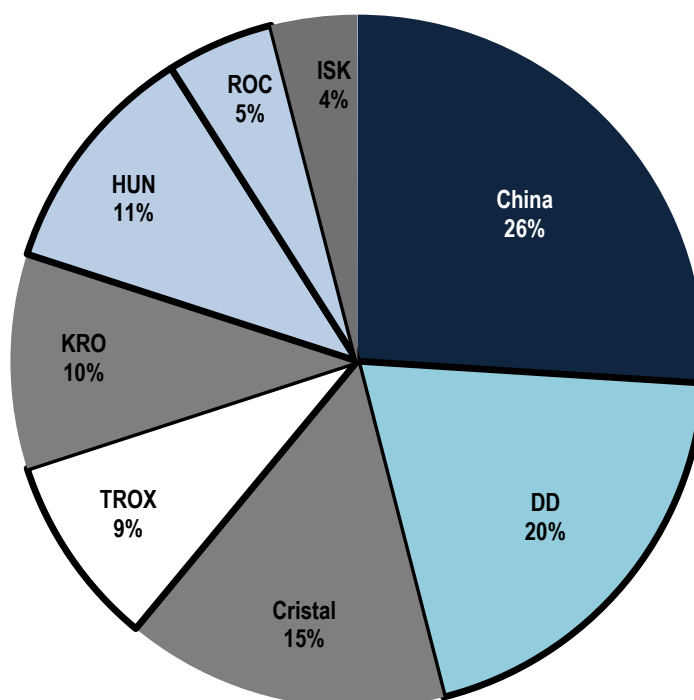
■ **Credit Implications:** Overall we feel that the US Antitrust approval was largely expected, and the real test will be the EU approval process. Thus we maintain our existing ratings.

1. **HUN:** We maintain our Sell on HUN's 8.625s of 2020 and 2021, and our Buy on their 4.875s of 2020.
2. **ROC:** We maintain our Neutral on ROC 4.625s of 2020.
3. **TROX:** We maintain our Neutral on the TROX 6.375s of 2020.

■ **Relevant Research**

- [TiO₂ 3Q13 Industry Update](#)
- [Tronox Ltd \(TROX\): Anadarko Ruling; Downgrade TROX 20s to Neutral from Buy](#)
- [M&A Monday: DOW's Plant to Carve-Out Commodity Chems & ROC's Talison JV](#)

Figure 6. Global TiO₂ Capacity



Source: Citi Research and Company Presentations.

AXLL Announces New Ethylene Cracker

Yesterday (12/19/13) evening AXLL announced that it had selected Louisiana as the site for the planned construction of a new world scale Ethylene cracker and derivatives plant.

- **Total Cost** – Approaching \$3B. AXLL will pay for approximately \$1B and a yet to be named partner will cover the remainder.
- **Size** – “World Scale” typically implies a plant size of at least 1mm tons. If we apply a \$1 cost per lb of new capacity \$3B would equate to somewhere between 1mm and 1.5mm tons (1mm tons = \$2.20B and 1.5mm tons = \$3.31B). Bloomberg news reported that AXLL investor relations stated in an email that the planned project would include a \$2B ethane cracker and a \$1B derivatives plant.
- **Project Partner** — Unknown, “soon to be named”.
- **Timing** — Management stated that commercial operation could begin in 2018. However it is important to note there is a lot of details yet to be worked out which could impact if and when this project is completed. Management stated in the press release that they:
 - Are still considering a number of options and potential partners.
 - Haven’t received final investment approval from their Board of Directors.
 - Haven’t yet begun permitting process and front-end engineering design activities.
- **AXLL’s Contribution** – \$1B CAPEX to be funded via cash on hand and new debt.
- **Credit Implications** — Given the lack of details we believe it is safe to say that spending on the planned cracker won’t begin for another 12 months at a minimum. We also believe AXLL will generate additional cash flow by the time CAPEX steps up which could be used to help fund the project and lower the amount of debt that needs to be raised. Additionally supplying ~50% of their annual ethylene requirements will eventually benefit EBITDA. Therefore we maintain our current ratings: Overweight on AXLL and Buy on the 4.875% senior notes due 2023 and 4.625% senior notes due 2021(Ba3/BB).
- **Relevant Research**
 - [M&A Monday: DOW's Plant to Carve-Out Commodity Chems & ROC's Talison JV](#)

Nova (NCX) 2020 Growth Plan: Phase II

On Wednesday (12/18/13), NCX announced multiple projects in Ontario, Canada as part of their Nova 2020 Growth Plan, effectively launching the second phase of CAPEX spending to enhance their Eastern Canadian Olefins and PE assets.

- **Total Cost** – Could represent investments exceeding \$300mm.
- **Confirmed Phase II Projects** – Take advantage of the Corunna cracker's (located in Corunna, Ontario) imminent ability to utilize 100% natural gas liquids (NGLs) as its feedstock.
 - Expanding Corunna cracker ethylene capacity by ~20%.
 - Efficiency additions to low density and high density polyethylene lines at Moore.
- **Potential Future Projects** – For the third and final phase of Nova 2020, NCX is considering a second Advanced SCLAIRTECH™ (AST) facility in Ontario or the US Gulf Coast.
- **Ongoing Phase I Projects** – Work is continuing for:
 - Converting the Corunna cracker to utilize 100% NGL feedstocks. Ethane from the Marcellus Shale is currently accumulating in a local storage unit for use at Corunna.
 - Target completion date: 1Q14.
 - Building a world-scale gas-phase PE reactor at Joffre, Alberta.
 - Target completion date: 1Q16.
- **Timing** — Expansions to take place from 2014 through 2018.
- **Credit Implications** — Given the detailed guidance NCX management has consistently provided on their Nova 2020 CAPEX plans, these announcements should not be a surprise to the market. We also note the extended timeline during which these expansions will take place. Thus we maintain our Buy on the 5.25% Sr. Nts due 2023 as NCX has IG credit metrics, a AA rated parent, and trades ~100bps behind comparable IG peers.
- **Relevant Research** — [Nova 3Q13 Post Call Recap](#)

Bromine Read-Throughs from ALB

ALB, the world's #1 Bromine producer, released an updated 2013 Business Outlook (they report 4Q13 and FY13 results officially on 1/28/14) on Wednesday (12/18/13), describing softer than anticipated fundamental trends in certain products. We believe this has read-throughs for CHMT, the world's #3 producer of Bromine.

- **Lowered Earnings Guidance** — ALB reduced 4Q13 net income guidance to \$83-88mm or \$1.02-\$1.07 per share, which translates into FY13 earnings of \$4.00-\$4.05 per share. Note street estimates for 4Q13 net income before the announcement were around \$99mm (the range was \$93-\$106mm).
- **Weaker Than Expected Fundamentals** – Demand has been soft, a result of several factors:
 - Weak demand across electronic end markets the company serves. One clear indicator of this is the IPC North America PCB Book-to-Bill ratio falling from 0.98 in September to 0.94 in October (PCB = Printed Circuit Board, the ratio is calculated by dividing the \$ value of orders booked over the latest three months by the \$ value of sales billed during the same period from companies in IPC's survey. If the ratio > 1.00, that implies demand > supply, a positive indicator for future sales growth).

Figure 7. IPC North America PCB Book-to-Bill Ratio



Source: IPC and Company Report.

- More cautious working capital management from customers in fluid cracking catalysts, clear completion fluids, and flame retardants.
- Certain orders being pushed into 2014.
- **Credit Implications** — Despite the weakness during 4Q13, the company reiterated its view for positive underlying fundamentals in its various markets. We reiterate our Buy on the CHMT 5.75s of 2021 (B1/BB-). Bonds currently yield 5.54% (\$101) which looks attractive vs. BB/B chemical issues yielding closer to 5%.
- **Relevant Research**
 - (Equity) [Albemarle Corp \(ALB\) - Lowering Estimates on 4Q13 Preannouncement as Bromine Trends Remain Weak](#)
 - (High Yield) [Chemtura Dec 2013 Investor Day Recap - Sees Improved Results Driven by Rebound in Bromine](#)

Related Research

High Yield

- **October 18, 2013:** [High Yield Chemicals 3Q13 Earnings Preview: Looking for Value in All the Right Places](#)

Equity

- **December 20, 2013:** [Chemical Distillate: A Week's Worth of Chemicals](#)

Appendix A-1

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