BB&T Capital Markets

February 3, 2011

Chemicals

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COMPANIES MENTIONED

Arch Chemicals, Inc.
ARJ - $37.30 - Buy (1)

Celanese Corporation
CE - $43.61 - Buy (1)

DuPont
DD - $51.74 - Buy (1)

Eastman Chemical Company
EMN - $91.82 - Buy (1)

FMC Corp.
FMC - $79.01 - Hold (2)

Georgia Gulf Corporation
GGC - $27.46 - Hold (2)

Huntsman Corporation
HUN - $17.49 - Hold (2)

Innophos Holdings, Inc.
IPHS - $34.40 - Hold (2)

Kronos Worldwide, Inc.
KRO - $45.92 - Hold (2)

LyondellBasell Industries N.V.
LYB - $36.92 - Buy (1)

Monsanto Company
MON - $75.94 - Hold (2)

Olin Corporation
OLN - $19.25 - Buy (1)

PPG Industries, Inc.
PPG - $84.99 - Buy (1)

PolyOne Corporation
POL - $13.41 - Buy (1)

Solutia Inc.
SOA - $23.78 - Buy (1)

The Dow Chemical Company
DOW - $36.75 - Hold (2)

Westlake Chemical Corporation
WLK - $40.06 - Buy (1)

CHEMICAL CHECKPOINTS 0203

Key Points

- **Railcar Weekly +4.8% yr/yr, Six Week +8.8%.** Railcar loadings for chemical products increased 4.8% yr/yr for the week ending January 29, above the 3.0% the logged a week ago. The six-week rolling average improved by 8.8%, indicating continued demand improvement in the chemical sector.

- **Critical Thinking Still in Vogue.** Oftentimes we'll learn of folks in the investment community merely parroting the "wisdom" extolled by the so-called experts, the consultants, who presumably are all knowing as far as the future goes. But time and again, those same forecasts are woefully off the mark, and wind up costing investors, who paid attention, precious returns. We're reminded of this upon hearing of one consultant lowering forecasts on caustic soda and ECU pricing, despite evidence yielded by the global economic environment. Alas, these same consultants have been proven woefully wrong in the past (see **Figure 3**) and likely will be again. We just hope investors didn't sell **OLN, PPG,** etc. as a result.

- **Autos Still Revving.** Light vehicle sales for the month of January ticked 0.7% higher to a SAAR of 12.6M units. While essentially flat sequentially, sales are up **>17%** on a yr/yr basis. The nice trend upwards, which crossed the 12M threshold in October (see **Figure 4**), is encouraging and a leading indicator for production. Recall that **PPG**, **SOA** and **DD** are expecting global builds to increase 5% in 2011—with 10-15% growth in both Asia and N. America. **BB&T** expects to contribute to the sales # when an employee's insurance check cashes in… see **Figure 5** for a peek at what a totaled SUV looks like on the shoulder of a Virginia highway. We are happy to report the driver walked away scratch-free (save for some shards of glass in his bountiful hair).

- **Positive Manufacturing Data.** The U.S. manufacturing ISM index increased to 60.8 (from 58.5 in December) in January—the fastest pace in almost seven years! Initial estimates forecasted that the index would stay flat from the previous month. This represents the 18th month of expansion. The Chicago PMI also had positive figures, as the index grew from 66.8 in December to 68.8 in January—what a great way to start the New Year!

- **Tis the Season for Portfolio Optimization…** There have been numerous M&A announcements in chemical land recently, suggesting valuations are more agreeable to both sellers and buyers. **CYT** will sell its Building Block business to HIG Capital for $180M, or an estimated ~3x segment EBITDA and 0.3x revenues, in order to focus on core growth platforms. **SOA,** as part of its efforts to "fix, divest, or exit" other rubber chemicals, sold its DTC and TBzTD businesses (a **red** envelope goes to the first person able to decode this) to Performance Additives Europe for $26M (0.6x '10 revenue and ~5.5x EBITDA). **NLC** sold its $45M Performance Products Group to **LZ** for $166M. And finally, **PX** sold its U.S. homecare business… to which our first reaction was, "what the heck was it doing in that business in the first place?!"

- **…And a Hot Time for Carbon Black!** Continuing on the M&A theme, two just happen to be in carbon black—an additive used to enhance the performance of rubber, plastics, inks and paints. Aditya Birla Group's acquisition of Columbian Chemicals elevates the company to the #1 spot in carbon black globally (ahead of **CBT** and Evonik), and the purchase price of $875M represents an estimated >6x '10 EBITDA. German-based Evonik put its carbon black business on the sale block as well, with intentions of focusing on its specialty business (a common refrain). The company is looking to fetch >1x sales (~€1B) according to some sources, and bids are due by month's end (so hurry and get yours in!).

FOR REQUIRED DISCLOSURES, INCLUDING ANALYST CERTIFICATION, PLEASE REFER TO THE IMPORTANT DISCLOSURES SECTION THAT ENDS ON THE NEXT TO LAST PAGE OF THIS REPORT

- **Outperformance from Chemicals.** According to the WSJ, earnings for companies in the S&P 500 Index are up **17%** yr/yr (ex. financials) for Q4'10, and sales for the group rose **9%**. Materials companies (which include chemicals) have earnings up **45%** yr/yr. In our universe, **CE, DD, EMN, OLN, PPG,** and **SOA** have reported thus far and have surpassed the S&P 500. On average, EPS has increased **24%** yr/yr, sales are up **16%**, and EBIT is up **44%.** The greatest EPS increase was experienced by **OLN**, which went from an earnings loss in Q4'09 to a colossal beat in Q4'10. **EMN** saw the greatest sales and EBIT growth yr/yr as many of its segments generated record results throughout the year.

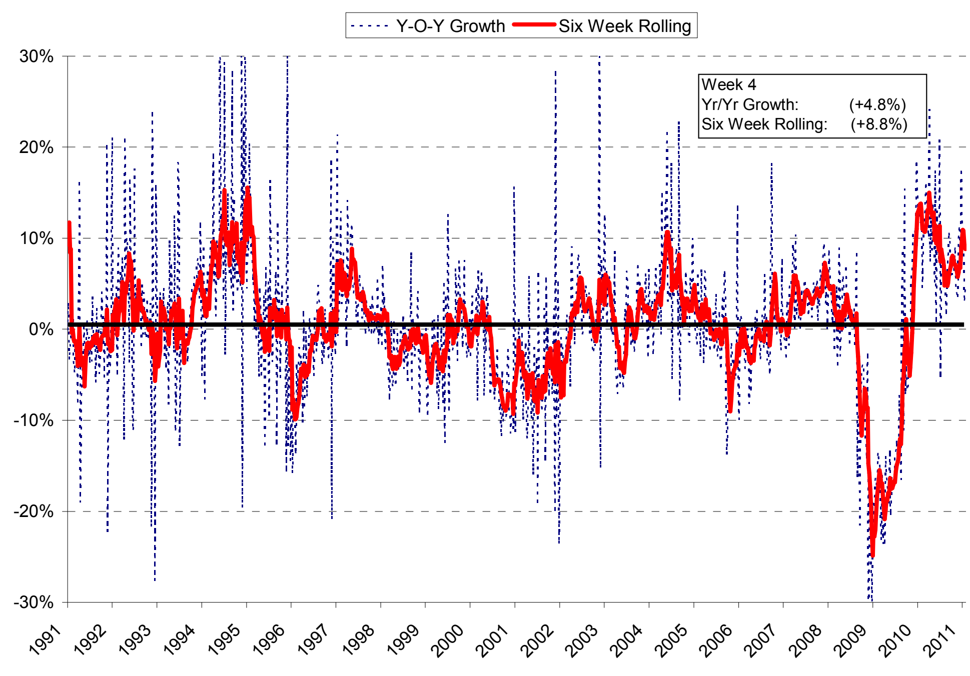
- **Chemical Stocks Increased 1.3%.** The chemical sector increased an average of 1.3% for the week ending Wednesday, greater than the 0.6% increase in the S&P 500. **CE** posted the greatest weekly gain (+7.2%), while **OLN** declined 3.4%. So far in 2011, chemicals are up 3.5%, with **GGC** up 14.3%, while **WLK** is down 8.2%.

- **The Dow Jones Titans Chemical Index Increased 2.7%** for the week ending Wednesday. Basic Materials were up 1.8%, with major a major increase from commodity chem, up 3.0%. YTD, the Dow Jones Titans Chemical Index is up 4.8% (compared to the S&P's increase of 3.7%) reflecting gains in all materials, except non-ferrous metals and gold mining, down 5.4% and 9.0%, respectively.

Additional Discussion

Railcar Weekly +4.8% yr/yr, Six Week +8.8%. Railcar loadings for chemical products increased 4.8% yr/yr for the week ending January 29, above the 3.0% the logged a week ago.

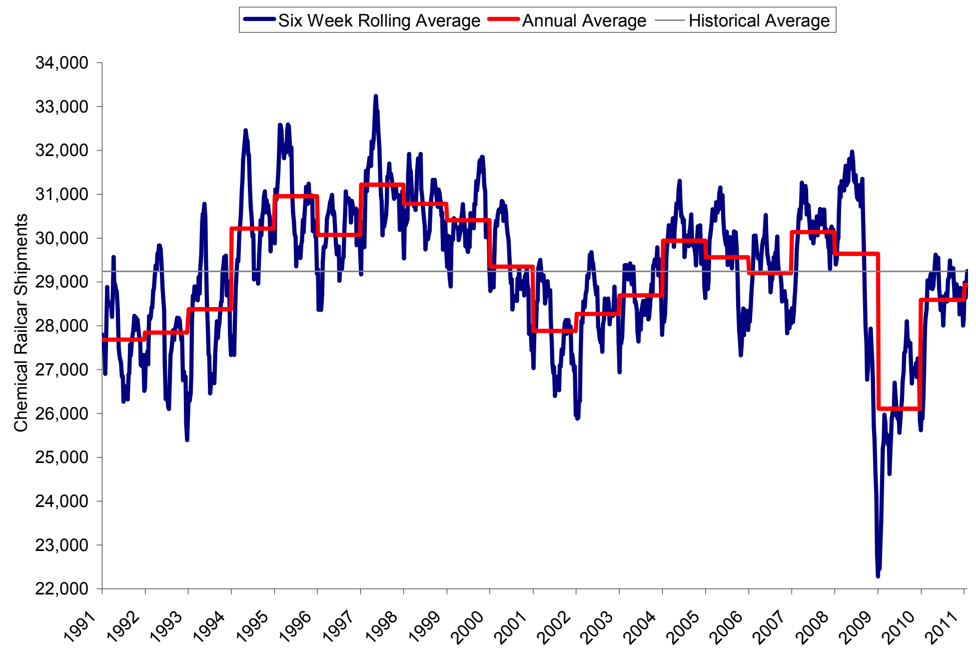
Figure 1: U.S. Chemical Railcar Loadings, 1991–Current



Source: American Association of Railroads; BB&T Capital Markets

The six-week rolling average improved by 8.8%, indicating continued demand improvement in the chemical sector.

Figure 2: U.S. Chemical Railcar Volumes Six-Week Rolling Average, 1991–Current



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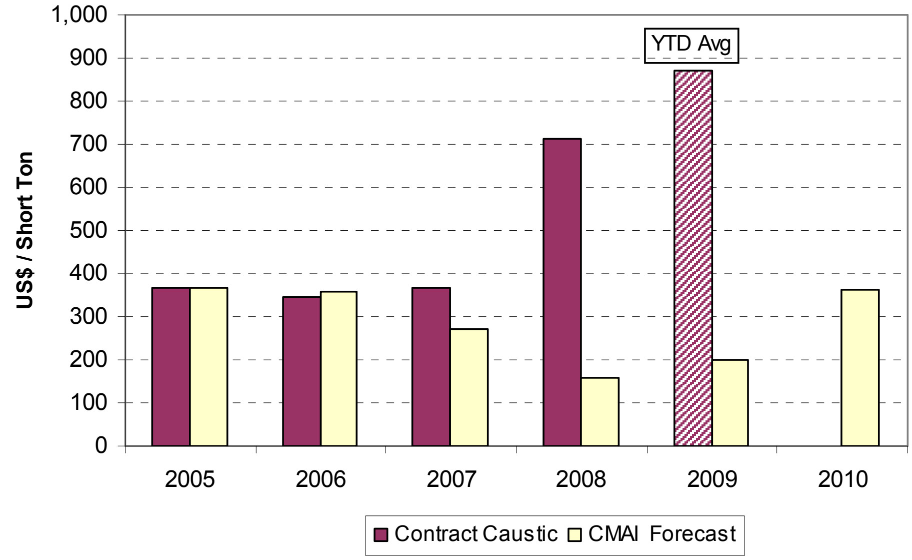
Critical Thinking Still in Vogue. Oftentimes we'll learn of folks in the investment community merely parroting the "wisdom" extolled by the so-called experts, the consultants, who presumably are all knowing as far as the future goes. But time and again, those same forecasts are woefully off the mark, and wind up costing investors, who paid attention, precious returns. We're reminded of this upon hearing of one consultant lowering forecasts on caustic soda and ECU pricing, despite evidence yielded by the global economic environment. Alas, these same consultants have been proven woefully wrong in the past (see **Figure 3**) and likely will be again. We just hope investors didn't sell **OLN, PPG,** etc. as a result.

Taken from the April 6, 2009 OLN research note:

> *Veteran chloralkali watchers will note that CMAI has been bearish for years, attributing expected declines to "lots of new capacity" slated to come on-line from 2004–2007, particularly in China and the Middle East, the latter of which has a relatively stable cash cost basis. CMAI had stated back in 2006, "it is now forecast that 2008 will be another low period for ECU margins, and then margins will increase again by the end of the decade as the rate of new capacity additions slows and demand catches up with capacity." Looking at a more recent forecast issues late in 2007 finds a full 30% discrepancy on average with actual 2008–2009 ECU values. See Figure 2 for how CMAI's forecast compares to actual results.*

Figure 3: CMAI Caustic Soda Pricing Forecast, March 2006



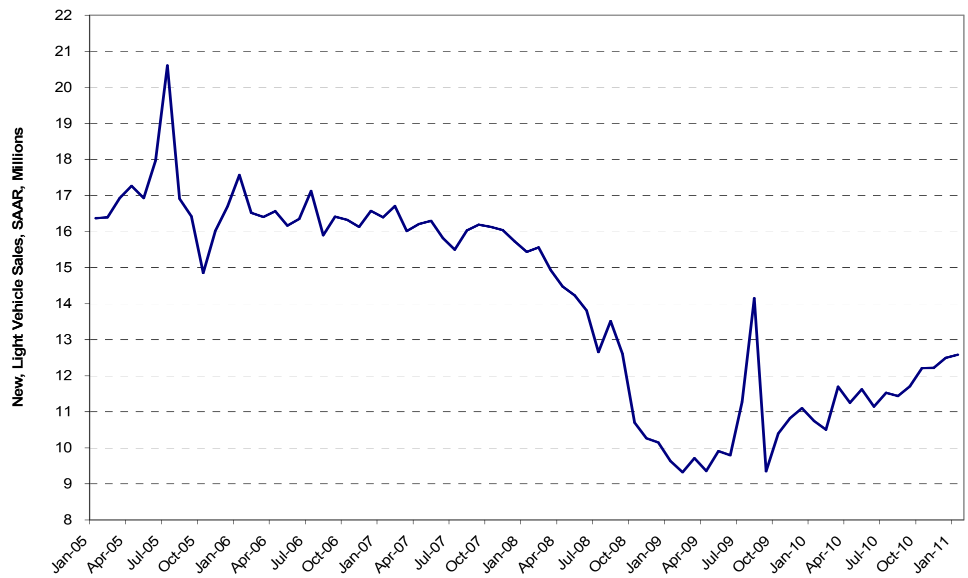
Source: CMAI; BB&T Capital Markets

Think about it, what drives demand for caustic? Well, IP (Industrial Production) is probably the best place to start. The data there suggests an improving economic backdrop with key sectors such as autos and aerospace nicely resurgent. The previous caustic soda pricing cycle was broken when prices became too high and Chinese imports hit our shores, leading to oversupply and a collapse. What's China doing now? Oh, that's right—**lowering its production** in an environmentally important and power-consuming industry such as chloralkali. And what about shipping costs? Gee, higher oil prices probably increase the costs of shipping a product that is half water. So forgive us if we are losing little sleep over potential Chinese caustic soda imports.

How about the other side of the molecule? Chlorine demand is currently seasonally weak but we expect to see some improvement in terms of export demand in the coming months. Probably not enough to make caustic supply demand go long, but enough to keep prices at attractive levels. Folks, we see **OLN's** ECU netbacks moving UP and staying at rather attractive and profitable levels. Think about it.

Autos Still Revving. Light vehicle sales for the month of January ticked 0.7% higher to a SAAR of 12.6M units. While essentially flat sequentially, sales are up >17% on a yr/yr basis. The nice trend upwards, which crossed the 12M threshold in October (see **Figure 4**), is encouraging and a leading indicator for production. Recall that **PPG**, **SOA** and **DD** are expecting global builds to increase 5% in 2011—with 10%–15% growth in both Asia and N. America.

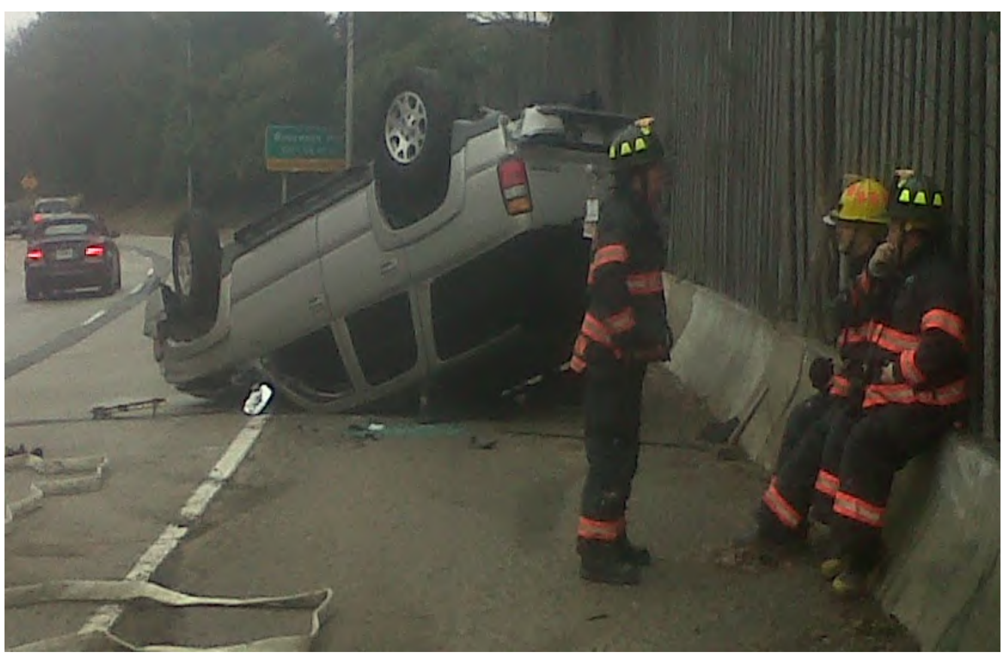
Figure 4: Total Light Vehicle Sales (SAAR), 2005–Current



Source: U.S. Department of Commerce; BB&T Capital Markets

BB&T expects to contribute to the vehicle sales # when an employee's insurance check cashes in… see **Figure 5** for a peek at what a totaled SUV looks like on the shoulder of a Virginia highway. We are happy to report that the driver walked away scratch-free (save for some shards of glass in his bountiful hair).

Figure 5: Aftermath of Slippery Road Conditions on a Virginia Highway



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Tis the Season for Portfolio Optimization… There have been numerous M&A announcements in chemical land recently, suggesting valuations are more agreeable to both sellers and buyers. Cytec will sell its Building Block Chemicals business (melamine, acrylonitrile, sulfuric acid, etc.) to HIG Capital for $180M (mostly funded by $165M of cash), or an estimated ~3x segment EBITDA and 0.3x revenue, in order to focus on core growth platforms. The deal is expected to be dilutive by ~$0.15 in 2011 as Cytec will now have to purchase raws in which it was previously vertically integrated.

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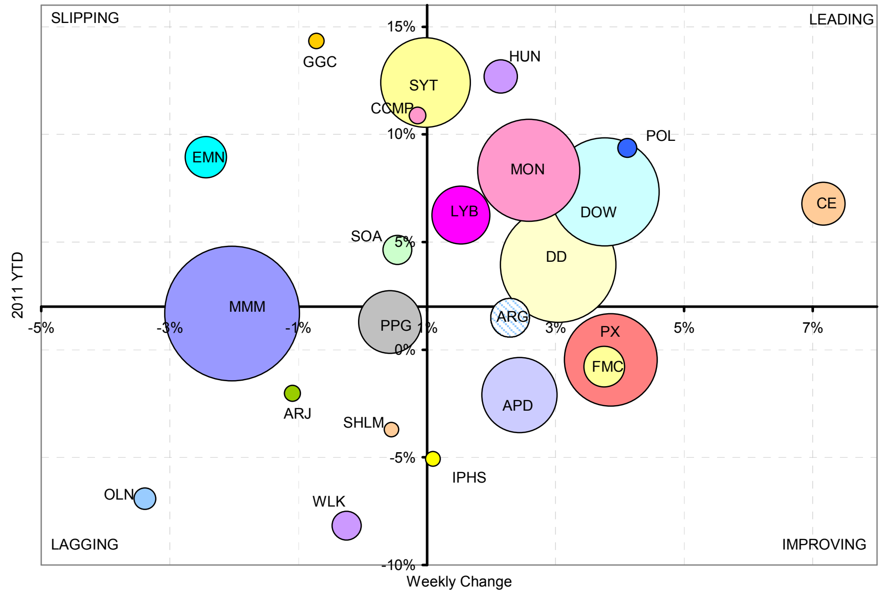
Figure 6: Yr/Yr Growth for Select Chemical Companies, Q4'09 vs. Q4'10

	Yr/Yr Growth (%)		
	EPS	**Sales**	**EBIT**
CE	46	17	45
DD	14	21	66
EMN	33	28	76
OLN	NM	4	5
PPG	45	10	49
SOA	(16)	19	27
Average	**24%**	**16%**	**44%**
Median	**33%**	**18%**	**47%**
S&P 500-a	**17%**	**9%**	**n/a**

a- reportings to date
Source: Company Reports; BB&T Capital Markets

Chemical Stocks Increased 1.3%. The chemical sector increased an average of 1.3% for the week ending Wednesday, greater than the 0.6% increase in the S&P 500. **CE** posted the greatest weekly gain (+7.2%), while **OLN** declined 3.4%. So far in 2011, chemicals are up 3.5%, with **GGC** up 14.3%, while **WLK** is down 8.2%.

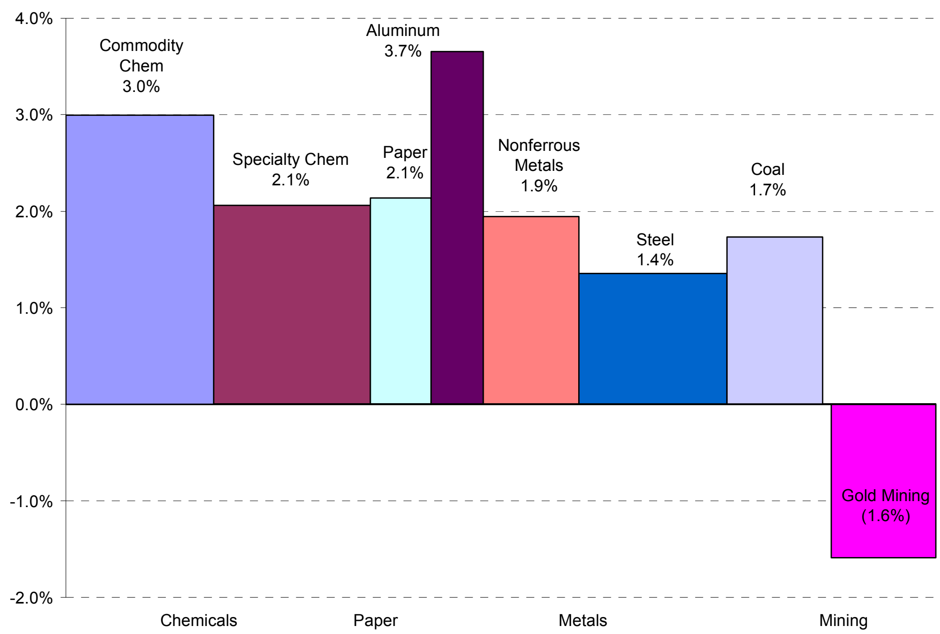
Figure 7: Selected Companies Stock Price Performance, Weekly vs. 2011 YTD



Note: The axis reflects S&P 500 movement
Source: Dow Jones, BB&T Capital Markets

The Dow Jones Titans Chemical Index Increased 2.7% for the week ending Wednesday. Basic Materials were up 1.8%, with a major increase from commodity chem, up 3.0%.

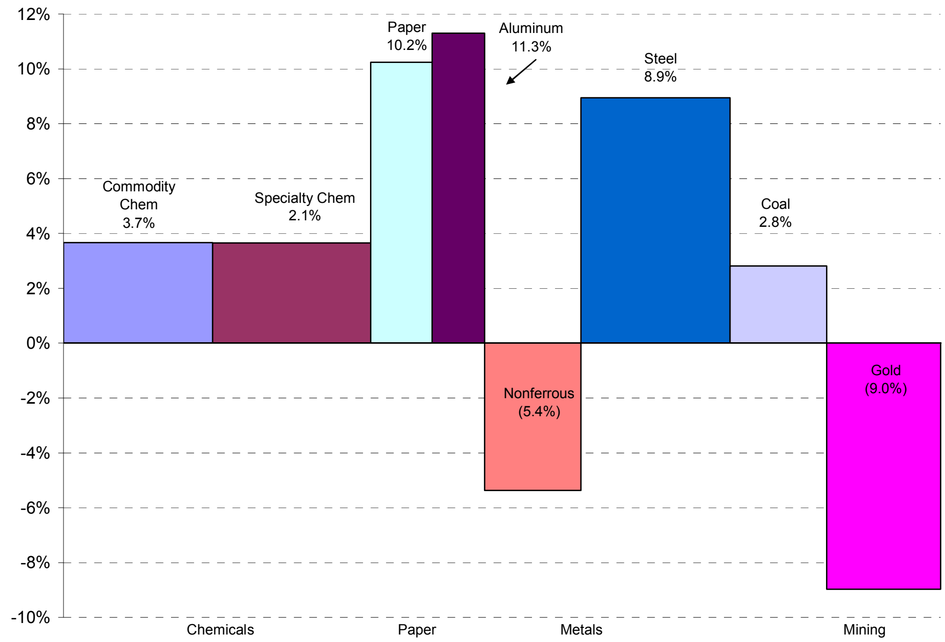
Figure 8: Weekly Performance of Basic Materials Stock Price Indices



Note: Column widths represent trading volume
Source: Thomson One; BB&T Capital Markets

YTD, the Dow Jones Titans Chemical Index is up 4.8% (compared to the S&P's increase of 3.7%) reflecting gains in all materials, except non-ferrous metals and gold mining, down 5.4% and 9.0%, respectively.

Figure 9: 2011 YTD Performance of Basic Materials Stock Price Indices



Note: Column widths represent trading volume
Source: Thomson One; BB&T Capital Markets

Q4 Earnings Calendar

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday/Sunday
31	February 1 **8am EMN** 913. 312.0413 **10am CE** 866.700.7173 **10am OLN** 800.860.2442	2 **Groundhog Day** 	3 **Chinese New Year**  **9am POL** 866.543.6403 **10am DOW** 719.785.9451 **11am ARJ** 888.395.3186	4	5 6 **Skiing in Poconos**
7	8 **10am IPHS** 888.680.0893 **11am FMC** 800.374.1799	9	10 **BB&T hosts DD, Boston** **Jim Cramer's Birthday**	11	12 13 **Randy Moss' Birthday**
14 **Valentine's Day!** 	15 **TiO2 Conference Scottsdale, AZ**	16 **TiO2 Conference Scottsdale, AZ** **BB&T Transport Conference SoBe**	17 **9am HUN** 888.679.8040 **10am GGC** **BB&T Transport Conference SoBe**	18	19 20
21	22 **11am WLK** 866.356.4441	23	24	25 ***Chelsea Handler's Birthday**	26

*Note: She frequently watched Frank play in the Springfield Men's Softball League.

Chemicals Weekly Valuation, February 2, 2011

Company	Rating	Closing Price	PE(x) 2009	PE(x) 2010E	PE(x) 2011E	EV/EBITDA (x)-a 2009	EV/EBITDA (x)-a 2010E	EV/EBITDA (x)-a 2011E	P/Book	Div. Yield
Diversified										
Arch Chemicals	Buy	$37.16	19.5	14.9	14.0	8.8	7.1	6.6	2.1	2.2
Cabot Microelectronics	NR	45.96	46.0	21.6	16.8	17.8	6.5	6.1	2.0	0.0
Celanese Corp	Buy	43.96	26.0	13.0	11.0	10.8	8.4	7.3	7.5	0.4
DuPont	Buy	51.85	25.4	16.6	14.0	13.0	9.1	9.0	5.3	3.2
Eastman	Buy	91.60	25.3	12.6	11.7	9.5	6.6	5.9	4.0	2.1
FMC	Hold	79.26	19.1	16.5	14.8	10.6	9.1	8.3	4.4	0.6
Innophos	Hold	34.25	11.0	12.3	10.4	4.8	5.4	5.3	2.3	2.0
PolyOne	Buy	13.66	36.9	15.9	13.7	9.8	6.9	6.2	3.0	0.0
PPG	Buy	85.15	29.1	7.2	14.2	11.0	8.3	7.3	3.6	2.6
Solutia	Buy	24.15	22.4	15.6	11.2	9.7	9.2	7.4	4.0	0.0
Commodities										
Dow	Hold	36.64	65.4	19.6	16.3	10.9	8.0	6.6	2.4	1.6
Georgia Gulf	Hold	27.51	NM	NM	NM	7.6	7.6	6.6	2.2	0.0
Huntsman	Hold	17.59	NM	23.8	15.3	12.5	8.4	6.9	2.3	2.3
Kronos	Hold	46.01	NM	25.3	14.2	NM	11.2	7.8	5.5	2.2
LyondellBasell	Buy	36.55	NM	15.9	13.8	12.2	5.5	5.9	2.1	0.0
Olin	Buy	19.10	19.3	18.4	15.3	7.8	7.2	6.2	1.8	4.2
Westlake	Buy	39.92	49.9	14.0	12.5	35.3	5.8	5.3	1.9	0.6
Industrial Gases										
Air Products	NR	89.04	21.9	17.7	15.7	11.3	8.5	7.6	3.3	2.2
Praxair	NR	95.02	23.8	20.0	17.6	12.2	9.9	8.9	4.9	1.9
Agrochemicals										
Monsanto (FY)	Hold	75.44	17.1	31.4	26.0	10.2	17.0	13.7	4.0	1.4
Syngenta	NR	66.07	22.4	21.0	17.9	13.3	12.9	11.1	4.6	1.7
Median			**23.8x**	**16.6x**	**14.2x**	**10.9x**	**8.3x**	**6.9x**	**3.3x**	**2.0%**
S&P 500			**21.0x**	**15.7x**	**14.1x**					**1.8%**

Notes:

a: enterprise value uses year end net debt forecast and includes pension provisions where applicable
Multiples for companies not covered based on FirstCall consensus estimates

Recent BB&TCM Chemicals Equity Research

Feb 2	EMN: “Beginning of the Expansion Cycle”
Feb 2	OLN: “Traction in Caustic”; Bumping Estimates
Feb 2	CE: Next Stop, $4! Raising Estimate
Jan 28	SOA: “Attractive Growth Opportunities Ahead”
Jan 27	Chemical Checkpoints 0127
Jan 26	DD: Agility Coming Through
Jan 21	SOA: Cars Bumping Estimates Higher
Jan 21	PPG: Great year for PPG (& the Steelers)
Jan 20	Chemical Checkpoints 0120
Jan 14	Q4 Preview: Delivering on Higher Expectations?
Jan 13	Chemical Checkpoints 0113
Jan 10	DD: Acquiring Danisco—Quixotic Quest? Maybe Not
Jan 6	Chemical Checkpoints 0106
Jan 5	**The Downstream Dictionary (100 pages)**
Dec 29	**Chemicals: From Recovery (2010) to Expansion (2011) (22 pages)**
Dec 23	Chemical Checkpoints 1223
Dec 16	HUN: Leveraged to a Recovery; Raising Estimates
Dec 16	Chemical Checkpoints 1216
Dec 16	WLK: “Cheap Gas Into Expensive PE”
Dec 15	PPG: 2010—An Unqualified Success
Dec 13	DD: Hitting Targets One Year Early
Dec 10	OLN: Taking Positive Pre-Emptive Actions
Dec 09	LYB: Large and Well Positioned
Dec 09	Chemical Checkpoints 1209
Nov 24	Chemical Checkpoints 1124
Nov 23	ARJ: The Biocides Company
Nov 22	GGC: Exports a Nice Bridge ‘Til Recovery
Nov 19	EMN: “Early in the Cycle”
Nov 19	POL: Building Towards Specialty
Nov 19	FMC: Optimization, Not Transformation
Nov 11	Chemical Checkpoints 1111
Nov 11	SOA: Layering Productivity on Performance; Raising Ests, Price Target
Nov 5	HUN: Brighter Pigments, Performing Products
Nov 5	IPHS: Rare Downside with Additional Pressure from Raws
Nov 5	POL: Confidence Built on Performance
Nov 5	HUN Pre-Call: Polyurethanes Beat, Pigments Shine
Nov 4	GGC: Sweet Smell from Aromatics; Construction a Different Scent
Nov 4	DOW: All Elements in Place!
Nov 3	WLK: Outstanding Olefins!
Nov 3	WLK: Record Olefins
Nov 3	IPHS: Surpassed Price Target; Disappointing Q3; Downgrade to Hold
Nov 3	GGC Pre-Call: Sweet Smell from Aromatics Drives Upside
Nov 3	ARJ: Biocides Beats; Raising Estimates, Price Target
Nov 2	ARJ Pre-Call: Q3 Boost from Biocides
Nov 1	EMN: “That Was Easy”
Nov 1	LYB: Nicely Out of the Gate
Oct 29	EMN Pre-Call: “That Was Easy”
Oct 29	SOA: Solid YTD Sets Stage to Ram Ahead
Oct 28	Chemical Checkpoints 1028
Oct 28	DOW Pre-Call: Monster Beats in Basics
Oct 28	SOA Pre-Call: (Under)Performance Films, Guidance In-Line
Oct 28	FMC Pre-Call: Industrials Upside, In-Line Guidance
Oct 27	DD: Juiced Up for December 9
Oct 27	OLN: Keeping an Eye on 2011
Oct 26	CE: Main Engine on Track
Oct 25	EMN: High Reward for Lost PET; Raising Target
Oct 22	DOW: Favorable Trends; Raising Est
Oct 22	PPG: Glass-Kicking Results! Raising Est, Price Target
Oct 21	Chemical Checkpoints 1021

IMPORTANT DISCLOSURES
Price Chart

To receive price charts on the companies mentioned in this report, please contact BB&T Capital Markets Research at 800-552-7757 x8785.

BB&T Capital Markets' rating distribution by percentage (as of December 31, 2010):

All companies under coverage:		All companies under coverage to which it has provided investment banking services in the previous 12 months:	
Buy (1)	53.8%	Buy (1)	13.7%
Hold (2)	45.5%	Hold (2)	6.6%
Underweight/Sell (3)	0.7%	Underweight/Sell (3)	0.0%
Not Rated (NR)	0.0%	Not Rated (NR)	0.0%
Suspended (SP)	0.0%	Suspended (SP)	0.0%

BB&T Capital Markets Ratings System:

The BB&T Capital Markets Equity Research Department Stock Rating System consists of three separate ratings. The appropriate rating is determined by a stock's estimated 12-month total return potential, which consists of the percentage price change to the 12-month price target and the current yield on anticipated dividends. A 12-month price target is the analyst's best estimate of the market price of the stock in 12 months. A 12-month price target is highly subjective and the result of numerous assumptions, including company, industry, and market fundamentals, both on an absolute and relative basis, as well as investor sentiment, which can be highly volatile.

The definition of each rating is as follows:

Buy (1): estimated total return potential greater than or equal to 10%
Hold (2): estimated total return potential greater than or equal to 0% and less than 10%
Underweight (3): estimated total return potential less than 0%

NR: Not Rated
NA: Not Applicable
NM: Not Meaningful
SP: Suspended

Stocks rated Buy (1) are required to have a published 12-month price target, while it is not required on stocks rated Hold (2) and Underweight (3).

BB&T Capital Markets Equity Research Disclosures as of February 3, 2011

Company	Disclosure
Arch Chemicals, Inc. (ARJ)	6
Celanese Corporation (CE)	6
DuPont (DD)	6, 9
Eastman Chemical Company (EMN)	1, 6, 9
FMC Corp. (FMC)	1, 6
Georgia Gulf Corporation (GGC)	6
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Kronos Worldwide, Inc. (KRO)	4, 5, 6
LyondellBasell Industries N.V. (LYB)	1, 6
Monsanto Company (MON)	1, 6
Olin Corporation (OLN)	6, 9
PPG Industries, Inc. (PPG)	6
PolyOne Corporation (POL)	1, 4, 5, 6, 9
Solutia Inc. (SOA)	6
The Dow Chemical Company (DOW)	3, 6
Westlake Chemical Corporation (WLK)	1, 6

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

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