Chemical M&A solid in first half, expected to rise


Young: Second-half pickup expected.

Chemical industry M&A values and volumes remain solid, with activity expected to rise in the second half, according to Young and Partners (New York). The total value of chemical M&A transactions above $25 million during first-half of 2014 stands at $15 billion, with 37 deals completed, says Peter Young, Young & Partners president.

The value of deals announced but not yet closed as of 30 June is $17.7 billion, up from $13.3 billion as of 31 December 2013. “That is a sign that deal activity will likely increase from the first half’s pace,” Young says. Several big deals have also been announced in the third quarter, including Albemarle-Rockwood, Eastman-Taminco, and Merck KGaA–Sigma-Aldrich. “While many of the deals may not close in 2014, [we] believe that enough will, resulting in a stronger second half for the chemical M&A market,” Young says.

Valuations also remain strong, Young says. “This is driven primarily by being at a cyclical peak of the market but also because financial buyers are able to borrow at debt levels that are high multiples of Ebitda and very low interest rates,” he adds.

Chemical industry debt financing, meanwhile, slowed a bit in first-half 2014 mainly because lower high-yield issues, Young says. Global nondebt bank financing in first-half 2014 was $17.3 billion, down 36% from the prior-year period.

Nearly all of the decline was in high-yield debt. Investment-grade debt totaling $15.4 billion was issued in the first half, down 2.0% from the same year-ago period, Young says. “Investors continue to flock to investment-grade chemical companies with volume essentially only limited by the amount of financing companies need,” Young says.

Chemical equity issues, however, remain modest. In first-half 2014, just $2.7 billion was issued as a result of 11 offerings by chemical makers.

Chemical initial public offerings remain sparse despite high overall market valuations. Young says there were five chemical IPOs in 2013 and four in 2012. Four IPOs were completed in first-half 2014, raising $932 million. Most of that activity has been in emerging markets, with Styron the only IPO completed in developed markets. Orion Engineered Carbons, the former carbon black business of Degussa, completed an IPO in August, but pricing was below the original range.

Chemical equities are trading at very high valuations, even higher than M&A values, Young says. “The fact that trading values are equal to or higher than M&A values is particularly unusual,” Young says. He cites the current average specialty chemical M&A enterprise value (EV)/Ebitda multiple of 9.3. The current trailing trading EV/Ebitda multiple for US specialty chemical index is 11.7 and in Europe it is 12.3.

“Trading values, which do not include synergies or premiums associated with taking control of a company, are typically materially lower than M&A values,” Young says. Chemical stock valuations are also above the broader equities market. The 12-month trailing price-to-earnings ratios for Young & Partners’s seven chemical indexes range from 27.3 times (x) to 32.3x versus 19.4 x for the benchmark S&P 500. “The simple explanation is that the stock market has become overvalued,” Young says. “The market values do not reflect what the value is to an industrial buyer who is buying it as part of a business.”

“We expect chemical public valuations to stay high for the moment, and debt will continue to be easily available,” Young adds. “IPOs will be far and few between, and the high chemical trading values will be both a curse and a blessing depending on who you are and what you are trying to do.”