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Banker: 'Major acceleration' in chemicals M&A during third quarter

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M&A activity in the chemicals sector rose significantly on a sequential basis during the third quarter, with $30.9 billion in deals over $25 million completed, according to data compiled by Young & Partners (Y&P; New York), an investment bank. This figure represents more than double the level of activity in the entire first half, which stood at $14.6 million. On an annualized basis, current activity points total chemicals M&A activity of somewhat more than $40.0 billion in 2014, about one-third higher than 2013 levels, according to Peter Young, president of Y&P.

"This matches our prediction that the M&A market would strengthen considerably in the second half," Young says. However, the market is far below 2011's record pace of $82.0 billion, he adds. Large deal activity has mostly been slow. "CEO concerns about global economic, and financial issues have constrained the pursuit of very large deals," Young says.

Some 64 transactions were completed in the first the quarter of 2014, up 8.0% year-on-year (YOY). Activity has been highest in Asia, followed by Europe, and then the United States, Y&P adds. While European activity led the way in the first half, it has since slackened because of the Ukraine crisis and economic recession. Deal volume was evenly divided between basic and specialty chemicals, Y&P says.

Valuations are also high because of both a cyclical peak and high prices paid by private equity firms, which are enjoying strong access to financing. Private equity firms have accounted for 25% of the value of deals above $25 million completed this year, Y&P says.

For the fourth quarter and 2015, the outlook is robust. Some 40 deals worth $28.1 billion were announced but not completed as of the end of the third quarter, according to Y&P. The firm "believes that enough of these announced deals will be completed that we will have a very strong second half of the year," Young says. "We expect 2015 to be at the same pace or higher than this year. The only factor that could disrupt this prediction would be major, negative economic or financial event or downturn."