Global chemical M&A to pick up in second half 2014 – banker

04 August 2014 21:23 Source:ICIS News

Interview story by **Joseph Chang**

NEW YORK (ICIS)--The pace of mergers and acquisitions (M&A) in the global chemical sector will pick up in the second half of 2014, one investment banker said on Monday.

"There is a clear up-tick in the number of announced deals with 23 transactions announced but not closed valued at $17.7bn at the end of the first half compared to $13.3bn at the end of 2013 – a sign that deal activity will likely increase from the first half's pace," said Peter Young, president of investment bank Young & Partners, in an interview with ICIS.

This includes US-based PPG Industries' planned buyout of Mexico-based coatings company Comex for $2.3bn.

Since then, there have been more deals announced such as Finland-based Kemira's pending €153m ($205m) acquisition of Netherlands-based AkzoNobel's paper chemicals assets, private equity firm CCMP Capital Advisors' $890m agreement to buy Belgium-based Solvay's Eco Services (sulphuric acid) unit and US-based Albemarle's $6.2bn planned acquisition of Rockwood Holdings for $6.2bn, although the latter is expected to close in the first quarter of 2015.

"In addition, a few of the larger deals that were announced but have not closed have been slow to close for regulatory or other reasons," he added.

One example is US-based Huntsman's planned acquisition of US-based Rockwood Holdings' titanium dioxide (TiO2) business which has been delayed by European regulatory issues.

The Huntsman/Rockwood TiO2 deal, which includes of $1.1bn in cash and $225m in assumed pension liabilities, was announced in September 2013 and expected to close in the first half of 2014.

"Although clearly many of the deals may not close in 2014, we believe that enough will close, resulting in a stronger second half for the chemical M&A market," said Young.

Through the first half of 2014, there were $15bn in global chemical deals closed, consisting of 37 deals over $25m in size. In all of 2013, there were 83 deals over $25m in size, for a total of $31bn, according to Young & Partners.

"Valuations also have been very strong, benefitting sellers of businesses," said Young.

"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 [earnings before interest, tax, depreciation and amortisation] and very low interest rates," he added.

Despite high valuations and a pick-up of M&A activity, the market in 2014 is not likely to approach the last record of $82bn in deals in 2011, the banker noted.

“The only thing missing in this strong M&A market are the very large deals – $5bn or greater in size,” said Young.

“This is mostly due to residual concerns about the global geopolitical and economic situation, and the high stock market valuations that make acquiring the larger public chemical companies difficult to do,” he added.

Another factor limiting M&A has been the growing use of spin-offs rather than outright sales, as may be the case with FMC and DuPont, he noted.

FMC is splitting into two companies – one consisting of agricultural, health and nutrition assets, and the other comprising its soda ash and lithium businesses. DuPont is planning to spin off its performance chemicals business, the majority of which is TiO_2.

Private equity firms continue to maintain strong market share in terms of number of deals completed, but less so in terms of dollar volume. They accounted for 21.6% of the total number of deals completed in the first half of 2014 and 18.4% of the dollar volume, according to Young & Partners.

“Private equity firms have a substantial amount of equity capital, and the availability of debt at attractive rates has allowed them to be very competitive in the M&A marketplace as buyers,” Young said.

“However, these conditions are a mixed blessing for private equity firms, who frequently find themselves competing with each other. High debt-to-EBITDA ratios are driving offers upward, making it more difficult for firms to get returns on their investments,” he added.

In addition, there are concerns about how private equity will exit their investments down the road if the business is of limited interest to strategic buyers and if chemical initial public offerings (IPOs) continue to be sparse, the banker noted.

“In many of the divestitures by private equity firms, they are selling to another private equity firm,” said Young.

One recent example was the sale of US-based Emerald Performance Materials by Sun Capital Partners, to American Securities, which closed on 1 August.

“It is an interesting, but understandable trend if the business was not of interest to strategic buyers when it was purchased and was not changed during the private equity firm’s ownership to be more attractive to a strategic buyer,” he added.

By Joe Chang