

Chemicals companies will continue to have easy access to financing in 2021



Chemicals to see healthy financing

The surge in debt financing in 2020 as companies sought to boost liquidity is unlikely to be repeated. Yet chemicals companies will have easy access to debt markets

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2020 was a challenging and tumultuous year due to the pandemic and its negative impact on global health, economic conditions, the stock market, and the lives of billions of people around the world. The chemical industry, as a result, also went through a difficult year.

However, the chemicals industry did better than many sectors in terms of demand and profitability. It did better than energy, entertainment and hospitality, but worse than life sciences and online delivery and services. In the end, as the autumn arrived, chemicals saw a partial recovery from the economic and operational disruptions through the spring and summer.

Similarly, the stock market and financing markets for chemicals when through major fluctuations during the year with a severe drop in the first half of the year and a rebound thereafter.

So how did the industry end up doing by the

end of 2020 in terms of their public valuations and their access to debt and equity financing and why? What can we expect going forward?

Stock market trends

During 2020 the global equity markets saw a great deal of volatility in direct response to the coronavirus pandemic and associated government efforts to stimulate national economies. After a deep dive in stock prices, by the end of the year the S&P 500 had rebounded and increased by 15.3% and the S&P Euro 350 had decreased by just 4.9%.

Chemicals performance varied by sector. Although the industry lost some ground to market indices and multiples, the overall picture was still positive by the end of the year.

Equity multiples are quite high relative to historical multiples for most of the chemical industry sectors and relative to M&A multiples

In the US, the Young & Partners (Y&P) US Basic Chemicals index increased by 9.3%, our US Diversified Chemicals index increased by 29.6%, our US/Canada Fertilizers index decreased by only 0.2% and our US Specialties index increased by 22.4%.

In Europe, our European Basic Chemicals index increased by 24.5%, our European Diversifieds index decreased by 9.9% and our European Specialties index increased by 21.7%.

On an EV/EBITDA (enterprise value/earnings before interest, tax, depreciation and amortisation) basis, three of the seven western Y&P chemical indices were trading at a premium to the market indices as of the end of 2020, and the rest were trading at a respectable level below.

This is a sharp contrast to the situation not long ago when all the chemical indices were trading at a premium to the overall market. However, equity multiples are quite high relative to historical multiples for most of the chemical industry sectors and relative to M&A multiples.



» This situation has given chemicals companies, especially those in specialty chemicals, a strong currency to raise equity on reasonable terms and to use for M&A. On the other hand, the industry has also been able to easily borrow at exceptionally low interest rates to fund their operations and acquisitions as well.

The reason for the relatively strong valuations and stock price performance has been market confidence in the sector and the underlying support of the general industrial sectors in the west.

Debt financing trends

Global non-bank debt financing was \$52.2bn in 2020 compared to \$36.0bn in 2019. Companies issued large amounts of debt so that they would be assured of ample liquidity during the pandemic in addition to their normal financing and refinancing activity in a low interest environment.

Massive support by central banks kept the debt markets healthy and liquid. Although many initially drew down their credit lines, there was a subsequent shift to long-term debt.

Debt issuance surged across the board. Investment grade debt was \$38.5bn of the total issued in 2020 compared with \$26.1bn in 2019, a dramatic increase. Around \$13.7bn of high yield debt was issued in 2020 compared to \$9.8bn in 2019, also a substantial increase.

Equity financing trends

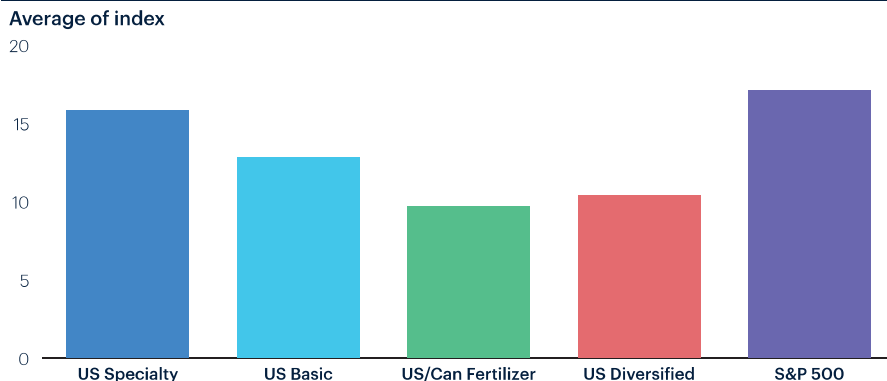
There was also a massive pick-up in equity issuance activity in 2020. Around \$14.0bn of equity was issued from 79 offerings in 2020 compared to just \$5.6bn of equity issued from 34 offerings for all of 2019. Much of this activity was secondary offerings by Asian companies.

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In terms of initial public offerings (IPOs), there was a huge increase with 45 IPOs completed worth \$6.5bn in 2020 compared with 18 IPOs in 2019 worth \$3.2bn. Although this was a surge in volume, the IPO market was dominated by Asian and primarily Chinese companies. There was only one western IPO that raised \$80m.

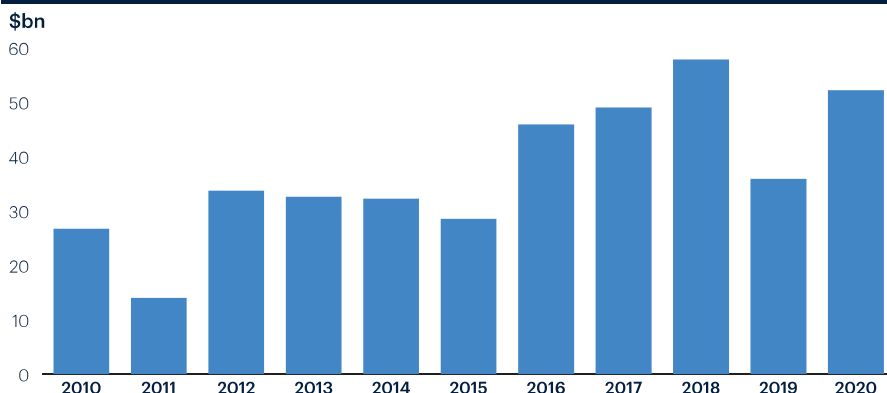
Asian companies issuing in the Asian public markets continued their domination of both the IPO and secondary offering markets, as has been true for many years. So the IPO market has been a great source of shareholder liquidity for Asian companies, but western private companies will have to continue to look

US equity LTM EV/EBITDA multiples



Note: As of 31 December 2020
Source: Young & Partners

Worldwide chemical debt financing



Source: Young & Partners

elsewhere for shareholder liquidity and public funds. And other avenues do exist.

Economic and chemicals outlook

The future economic picture is very uncertain and will depend heavily on how quickly the pandemic can be controlled. The pandemic is seriously damaging the global economy across almost all countries around the world.

The most likely scenario is a continuation of the coronavirus infections at high levels through the early autumn of 2021 with the continued negative economic effect and spill-over into the financial ecosystem.

The chemicals industry will continue to fare better than many industries in 2021, with the hardest hit being those companies serving impaired industries/markets. Of course, the increases in capacity in commodity chemicals that were coming on stream independent of the pandemic will dampen the earnings of commodity chemical companies.

Stock market outlook

The stock market favoured the chemicals industry for many years due to the industry's strong earnings fundamentals and tie to industrials, that have been in favour. As a result,

chemicals companies will continue to trade well and enjoy attractive multiples.

However, certain sectors such as technology and life sciences are heavily in favour and have a large impact on overall market multiples. The result will be a continued modest erosion of chemicals stock market performance relative to the overall market indices.

Debt and equity financing outlook

There will be continued healthy debt issuance, but the need for liquidity that led to last year's surge has passed. Yet the chemical industry will continue to have easy access to the debt markets at favourable rates. Volume will be driven heavily by issuer needs, with M&A related financing driving volume. Equity financing will continue to be strong in Asia and subdued in the west. ■



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