Chem financing to remain challenged

Debt issuance will be constrained by higher interest rates and lower M&A volumes, even as availability has improved with markets opening up

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Chemical industry financing activity is driven by a number of factors – the performance of the stock market, interest rates, how much funding is needed by chemical companies, the condition of the equity markets and the willingness of lenders to lend.

These factors have all been difficult or limited for some time, so debt and equity financing has not revived in 2023 from subdued levels in 2022.

During 2022, the global equity markets experienced serious declines for a variety of reasons, but recovered partially in H1 2023. In H1, the S&P 500 increased by 16.4% and the S&P Euro 350 by 6.4%.

With the exception of the Young & Partners (Y&P) European Basic Chemical index of companies, the other Y&P US and European Chemical indices did not do as well as the market.

In H1 2023, the Y&P US Basic Chemicals index increased 3.8%, the Y&P US Diversified Chemicals index gained 8.5%, and the Y&P US Specialties index rose 5.8%. The Y&P US/Canada Fertilizers index decreased by 17.1%. The Y&P European Basic Chemicals index increased 21.3% (the only outperformer), the Y&P European Diversified Chemicals index decreased by 2.5%, and the Y&P European Specialties index rose just 3.7%.

As a result, there was some deterioration in the relative valuations of chemical companies compared to the general market indices.

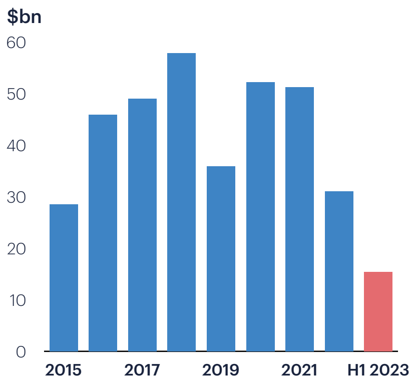
Debt financing flattens

Global non-bank debt financing, totalling $15.4bn in H1 2023 was at a similar annualised pace as the $31.0bn issued in 2022. The 2022 issued amount, however, was well below the $51.2bn issued in 2021.

In 2022, as interest rates went up, the drive to refinance disappeared and lower M&A volumes reduced the amount of M&A debt financing required. This continued in H1 2023.

Investment grade debt was the largest component of the total with $12.4bn issued in H1.

Global chemical non-bank debt financing



Source: Young & Partners

High yield debt volume has been a very different story. With $1.1bn of high yield debt issued in H1 2023, volume has recovered slightly from the near zero level in 2022.

In 2022, underwriters held back due to economic, interest rate and geopolitical uncertainties and the overhang of previous offerings. The overhang problem was less severe in H1 2023 as lenders became more willing to lend.

Equity financing much weaker

Equity financing was much weaker in H1 2023 compared to 2022. Around $7.6bn of equity was issued via 33 offerings in H1 2023. This was a slight decline in annualised dollar volume compared to the $17.7bn of equity issued in 2022, and well below the annualised number of financings compared to the 91 offerings in 2022.

The disruptions to equity markets and the drop in valuations have both contributed to the slower pace of equity issuance.

Initial public offerings (IPOs) also fell dramatically. In H1 2023, 13 IPOs were completed worth $2.2bn compared to 41 IPOs completed in 2022 worth $9.4bn.

All of the IPOs were completed by Asian companies issuing in the Asian public markets. Access to IPOs by Western chemical companies continues to be difficult.

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Debt and equity financing outlook

Debt issuance will continue to be subdued in 2023, with increasing interest rates and a slower M&A dollar volume environment.

Volume has been driven by issuer needs rather than investor demand historically, except for the recent stalling of the high yield market. Since overall issuer needs are diminished this year, debt issuance volume will not increase significantly from current levels, even with the slight revival of the high yield market.

Equity financing slipped globally with the stock market correction that started in January 2022. It is unclear if the market will rebound in 2023 and bring equity financing with it.

The only active area has been the volume of Asian IPOs and secondary offerings, but the future is uncertain given the current economic and financial turmoil in China. Western IPOs will continue to be modest to nonexistent.

Debt financing will be available, but expensive. Existing public chemical companies will continue to have access to secondary offerings, but private Western chemical companies will continue to find it difficult to do IPOs. ■

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