Young & Partners Forum Newsletter

Chemical Financing: Reflections on 2023 and the Current Outlook

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What happened in 2023 and what is the outlook for 2024?

The Stock Market

There was a spectacular turnaround in the overall equity markets in 2023. S&P 500 increased by 24.7% and the S&P Euro 350 by 15.8%. This was a sharp improvement over the dismal equity market performance in 2022.

Unfortunately, although 5 of the 7 of the Young & Partners ("Y&P") western chemical indices increased, with the exception of our European Basics Index, the Y&P U.S. and European Chemical indices did not do as well as the market.

The Y&P U.S. Basic Chemicals index increased by 4.9%, the Y&P U.S. Diversified Chemicals index increased by 7.4%, and the Y&P U.S. Specialties index increased by 13.7%. Our European Basic Chemicals index increased by 31.2% and our European Diversifieds index increased by 16.4%. On the declining side, our U.S./Canada Fertilizers index decreased by 15.1% and our European Specialties index decreased by 3.6%.

Overall, the industry multiples improved, but lost some ground relative to the overall stock market valuations.

The Debt Markets

In terms of debt financing, global chemical non-bank debt financing totaled $31.6 billion in 2023, similar to the $31.0 billion issued in 2022, but well below the $52 billion issued in 2021. The ongoing higher interest rates and moderate M&A activity that started in 2022 continued in 2023 and suppressed debt financing volume.

Investment grade debt was $27.3 billion of the total in 2023. High yield debt volume recovered from the near zero level in 2022, when the market froze, to $4.3 billion in 2023.

The Equity Markets

Unlike the debt markets that held steady relative to 2022, the equity market issues dropped significantly. $13.7 billion of equity was issued via 84 offerings in 2023, well below the $17.7 billion of equity issued via 91 offerings in 2022. Disruptions to the equity markets and geopolitical and economic uncertainties contributed to the slower pace of equity issuance.

The IPO segment of the equity issuance market also fell dramatically. Only 23 IPOs were completed worth $3.9 billion compared to 41 IPOs completed in 2022 worth $9.4 billion. All but one of the 20 IPOs was completed by Asian companies issuing in the Asian public markets. The dominance of Asian chemical IPOs has been true for a number of years. But the decline in the Chinese equity markets and the troubled Chinese economy contributed to the drop in Asian IPOs.

What is the outlook for 2024 and beyond?

Predicting the stock market has become a difficult sport as uncertainties around the timing and pace of interest rate cuts, economic growth, geopolitical turmoil and corporate profits continue to be high. However, we do feel that the chemical industry will do well in the specialty chemical sectors and in the U.S. and less well in commodity chemicals, Europe and China.

Debt issuance will continue to be healthy but moderate in 2024, aided by the eventual move to lower interest rates, but held down by the slow dollar pace of M&A volume and the financing of deals.
Volume has been driven by issuer needs rather than investor demand except for recently in high yield.

Equity financing will continue to be subdued, overall and with regard to IPOs. The health of the equity issuance market will depend heavily on how the overall stock market and the chemical company shares fare this year. The only certainty is that IPOs will continue to be subdued and those few that happen will tend to be Asian companies, not Western companies.

How should senior management approach financing in this environment?

The challenge on the debt side is the timing of interest rate cuts. If there is a need to refinance, the timing will be dictated to you. To the extent that there is timing flexibility, companies should weigh the timing against the likely interest rates if they need to raise debt.

Secondary equity offerings will be attractive only for those companies in favored sectors where the valuation multiples are high or acceptable. It will be far harder for commodity chemical and depressed sector chemical companies to tap the equity markets relative to using debt.

IPOs, on the other hand, are not available for the vast majority of Western chemical companies but only sporadically for Asian chemical companies.

Regards,
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Young & Partners

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