Young & Partners Forum

Chemical Stock Market and Funding - 1st Quarter 2025 and Beyond

Introduction

The chemical industry's prosperity is heavily tied to global economic growth, which is clearly very uncertain and in the decline. The slowing of economic growth globally is a challenge for the industry.

In addition, the dislocations caused by the tariff actions by the U.S. have had negative effects and the future of these actions is very uncertain.

However, there were a number of chemical industry specific challenges that have occurred in terms of market specific demand slowdowns, fluctuating oil and gas prices, and the build-up of capacity, particularly in the Middle East and in China, an important destination for Western produced chemicals in the past.

The future looks particularly difficult for European chemical companies, with weak demand and high costs, and, for commodity chemical companies due to the major increases in capacity in Asia and the Middle East.

The rationale in the Middle East is a desire to have more diversified economies that are less dependent on oil and gas. The rationale in China is hard to justify because China does not have cost advantages in terms of low cost oil and gas like the U.S. or the Middle East.

The expansion, particularly by state owned enterprises, is driven more by government goals to be less dependent on imports. The government is not willing to rely on foreign owned or jointly owned petrochemical plants to satisfy this goal.

There has also been a surge in ESG and sustainability pressures on chemical companies, and in particular around plastics and carbon neutrality. This is forcing changes in business models and spending that are recreating a host of business and financial challenges.

The Stock Market and Funding

By the end of the first quarter of 2025, the S&P 500 had decreased by 4.4% and the S&P Euro 350 had increased by 10.1%. This was a contrast to the positive picture in 2024 where the U.S. stock market was performing better. The performance since the end of the first quarter has been volatile with constant changes in geopolitical and economic announcements, with the tariff changes being the largest factor.

Valuations, however, are still at a discount to the overall market. In terms of P/E valuations, only three of the seven Young & Partners Western chemical indices traded at a premium to their respective overall market indices as of the end of the first quarter of 2025. The European chemicals indices traded at a premium while the U.S. chemical indices traded at a discount.

On an EV/EBITDA basis, only two of the seven Western Young & Partners chemical indices were trading at a premium to the market indices as of the end of the first quarter of 2025.
Even with some selective recovery in the first quarter, the chemical industry has clearly lost the premium valuation position relative to the overall market that it held for many years.

Global non-bank debt financing totaled $17.5 billion in the first quarter of 2025, a huge increase, on an annualized basis, from the $54.0 billion issued in 2024. Investment grade debt was $14.3 billion of the total in the first quarter of 2025. High yield debt volume continued to recover with $3.2 billion issued in the first quarter of 2025. This is a vast improvement compared to the near zero level in 2022 and the $4.3 billion issued in 2023.

In terms of equity financings, $5.0 billion of equity was issued via 15 offerings in the first quarter of 2025. This was an improvement on an annualized dollar basis compared to the $9.1 billion of equity issued in 2024 and greater in terms of the number of offerings compared to the 54 in 2024.

However, this was a decline compared to previous years such as 2023 when there were 84 issues of equity. Disruptions to the equity markets and the drop in valuations contributed to the slower pace of equity issuance. IPO volume continues to fall. In the first quarter of 2025, only 2 IPOs were completed worth $0.5 billion compared to 14 IPOs completed worth $1.7 billion in 2024.

This was an even greater decline when compared to 2022 when 41 IPOs were completed worth $9.4 billion. All of the IPOs were completed by Asian companies issuing in Asia. Clearly, the overall IPO market has to recover before the chemical industry sector will see a recovery in IPO volume.

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Young & Partners

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