

Chemicals

Chronic overcapacity raises credit risk

This report does not constitute a rating action.

What do we expect over the next 12 months?

Profitability is likely to stay weak beyond 2024, for longer than we previously anticipated, because of tepid demand growth and high oil prices.

It could take longer for excess capacity to be absorbed, despite slowing capacity additions.

Leverage should stay high amid weak cash flows.

What are the key risks around the baseline?

Stalling market demand. Ongoing weakness in China's property market could prevent a significant rebound in demand growth, despite recovering exports from the region.

A weaker ability to pass through costs. High crude oil prices could constrain the ability of commodity chemical companies to pass through product costs if demand does not pick up sufficiently to support higher chemical prices.

Persistent overcapacity. Aggressive capacity additions in China in combination with weak demand could keep utilization low for longer, adding additional pricing and cost pressures to Asia's chemical companies.

What do they mean for the sector?

Depressed profitability. A recovery in chemical companies' profitability could stall in 2024, keeping the level of profitability below the average of past cycles.

Higher leverage. Leverage could stay elevated without significant improvement in profitability over the next 12 months.

Rising credit risk. Chronic oversupply and low profitability could raise business risk and erode financial buffers for commodity chemical makers. Credit risk rises without a quick fix to significant supply and demand imbalances in sight.

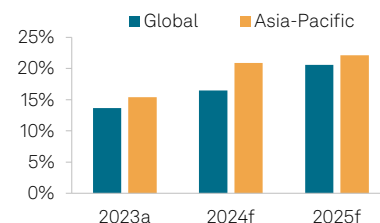
Raymond Hsu, CFA

Taipei
+886-2-2175-6827
raymond.hsu
@spglobal.com

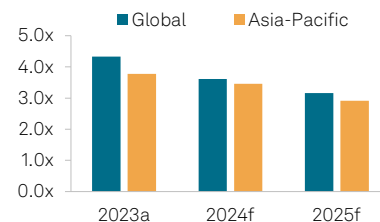


Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.