Chemicals

Glimmers of light yet no sustained recovery

This report does not constitute a rating action.

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What's changed?

Volume recovery. Following the severe downcycle amplified by massive destocking between the second half of 2022 and the end of 2023, global chemical production volumes started to recover in first-half 2024, including for European chemical producers. However, this increase was very modest compared with other regions. At the same time, lower prices caused chemicals sales to decline slightly.

Demand still sluggish. While the significant destocking by chemicals customers ended in first-half 2024, demand trends remain muted, with no solid signs for sustained recovery. Our base case factors in a gradual recovery and a slightly stronger second half of 2024.

Industry sentiment remains cautious. Issuers have noted the pickup in demand, an upturn in stock levels, and somewhat fuller order books, albeit these are still at low levels. At the same time, recovery is burdened by the prolonged economic uncertainty that has kept raw materials and energy prices high.

What to look out for?

Modest sales growth and improved earnings. We forecast 5%-9% growth in EBITDA and flat-to-small rises in EBITDA margins for European chemical producers in 2024. This derives from lower energy and raw material costs compared with the previous year. It also encompasses companies' credit-supportive measures, such as extensive cost cutting.

Capacity rationalization. Many petrochemical chains are oversupplied, resulting in low operating rates and weaker margins. We expect this to last until 2025. In Europe, however, we note early signs of permanent capacity shutdowns, largely due to structural disadvantages for producing commodity chemicals, such as higher regional energy costs.

Outlook bias remains negative. Despite negative rating actions in 2023 and so far in 2024, 24% of the European portfolio remains on a negative outlook. The outlooks for investment-grade names have stabilized, with only 6% on a negative outlook. Negative outlooks are predominantly concentrated on speculative-grade chemicals names, representing 33%, reflecting weak free cash flows in a tough industry environment and still-high interest rates.

What are the key risks around the baseline?

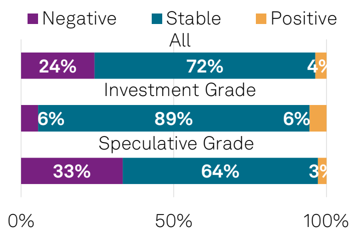
Demand weakened. Ongoing depressed demand for chemical products instead of a gradual recovery could hit credit quality, especially for speculative-grade chemicals issuers.

Geopolitical risks. Challenges to global trade and chemical supply chains, which rely on timely and efficient flow of critical materials, remain a key risk.

Financial policy. A shift to more aggressive financial policies--alongside deviation from well-controlled capital expenditure and disciplined mergers and acquisitions and shareholder remuneration--could reduce already weakened headroom after some challenging years, and pressure the ratings.

Rating Trends

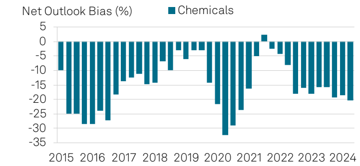
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	18	36	54
Downgrades	0	5	5
Upgrades	0	3	3

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	0.3	4.4
EBITDA growth (Y/Y%)	2.5	19.3
EBITDA margin (%)	16.6	14.0
Capex growth (Y/Y%)	10.5	1.8
Debt/EBITDA (x)	2.1	5.8
FFO/Debt (%)	38.4	7.1
FOCF/Debt (%)	11.2	0.5

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Credit FAQ: Europe's Chemical Sector: Spotting Signs Of Recovery, April 11, 2024

Global Chemical Companies: Strongest To Weakest, Feb. 13, 2024