Industry Top Trends Update

Chemicals

Recovering to pre-pandemic credit metrics

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What's changed?

Demand is rebounding. Chemical companies are benefiting from a broad-based recovery in global demand, with strong momentum in Asia, followed by the U.S. and Europe. On the back of strong GDP and industrial production growth worldwide, many commodity chemical products are seeing pricing and volumes develop favorably.

Higher input costs are manageable. Raw material price inflation seems manageable for most companies we rate, since strong demand allows for the pass-through to customers. For some downstream specialty chemical businesses, we expect a typical quarterly lag in pass-through, with a potential impact on margins.

Fertilizers are experiencing strong momentum. Fertilizer companies should benefit from peak cycle conditions in potash, phosphate, and nitrogen markets in 2021, driven by healthy farm economics due to strong pricing for agricultural commodities and limited capacity additions. We will monitor Chinese exports of phosphate and nitrogen, and capacity additions in the near term though.

How is recovery taking shape?

EBITDA levels should recover this year. Given robust macroeconomic recovery and healthy demand from key end markets, we forecast many European chemical companies will report EBITDA close to 2019 levels already this year.

Credit metrics should also reach 2019 levels in 2021. Since 2020 was less severe than we anticipated for many European chemical companies, and given robust demand leading to solid EBITDA growth, we forecast that companies will restore their credit metrics already by year-end 2021 to pre-pandemic levels.

Most companies carry stable outlooks. Our outlook distribution reflects our view that the improvement in credit metrics is sustainable. Of the European chemical companies we rate, 81% carry a stable outlook, and we have slightly more positive outlooks (11%) than negative (8% down from 39% at mid-2020).

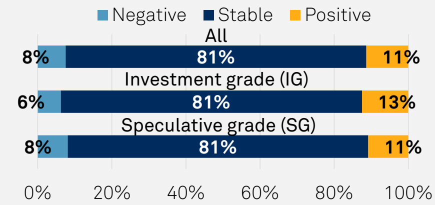
What are the key risks around the baseline?

A shift to more aggressive financial policies. Chemical companies reduced capital expenditure and paused mergers and acquisitions (M&A) in 2020 to preserve cash. This may change in light of favorable industry conditions and still-low financing costs. While M&A activity is high in the sector in 2021, many companies have indicated an appetite for organic growth as well as bolt-on and midsized acquisitions rather than transformational deals.

Supply-demand imbalances after 2021. Following the strong rebound in demand in 2021, we see a risk that capacity additions in certain commodity chemicals, such as olefins and intermediates, may exceed demand growth in the coming years, putting pressure on these products' operating rates and pricing.

A slowdown in China. Any slowdown in China, the growth engine of the world's chemical industry, would weigh on many European chemicals companies.

Outlook Distribution



Ratings Statistics*

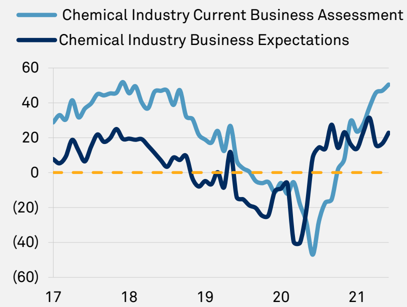
	IG	SG	All
Ratings	16	37	53
Downgrades	0	2	2
Upgrades	0	4	4

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Chemicals		
Estimated recovery to 2019 credit metrics	2H 2021	
Potential negative long-term industry disruption	No	
2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
5%-10%	10%-15%	5%-10%
2021 Estimates Versus 2019		
Revenue decline	EBITDA decline	
0%-10%	0%-10%	

IFO Sentiment Survey for German Chemical Industry



Source: Ifo Institute for Economic Research, June 2021

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