S&P Global Ratings

Chemicals

Signs of recovery but challenges remain

This report does not constitute a rating action.

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What's changed?

Chemical output improves. Chemical production volumes rose globally, including in North America for the first quarter. We see indications that the improvement might sustain into the first half of 2025, at least.

Demand is holding up. Underlying demand for many chemicals has support from positive GDP growth and stable to improved demand from key end markets, including housing, auto, and general industrial.

Greater prospects for trade disruptions. Tariffs imposed by the U.S. on certain products produced in China and retaliatory tariffs by China have increased the odds of trade disruptions between them--two of the largest global chemical producers.

What to look out for?

Improvements in earnings. We anticipate EBITDA will improve this year as destocking challenges ease. The improvement is likely to be more pronounced in the second half of this year.

Supply reductions. Although some petrochemical capacity in Europe is shutting down because of the high cost of energy in that part of the world, we expect petrochemicals will remain oversupplied. However, further shutdowns could limit the credit downside for North American petrochemicals.

Economic shocks. Stable to slightly improving demand prospects provide a bedrock of credit quality, offsetting risks of high interest rates, supply additions in some subsectors, and trade disruptions. Still, economic shocks could slow down or reverse our anticipated demand improvement.

What are the key risks around the baseline?

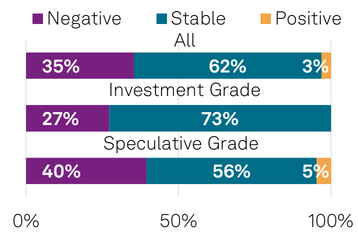
Destocking persists. Delays in our anticipated recovery from destocking or a weaker-than-expected recovery would weaken earnings and credit metrics against our expectation for improvements in many instances.

Demand weakens. Extraneous shocks or weaker consumer spending would deteriorate underlying demand and stall a recovery in the sector. This would likely hurt credit quality, especially for credits at the lower end of the rating scale.

Raw material costs rise sharply. A spike in input costs could offset benefits to earnings from improved demand. However, we do not account for this in our base case because we consider the likelihood of such increases to be low. Shipping challenges in the Red Sea related to the Israel-Hamas war have not had a widespread or deep impact on input costs in general, but such events highlight an ongoing vulnerability of portions of the sector to input cost increases.

Rating Trends

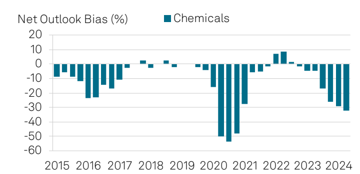
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	22	43	65
Downgrades	1	4	5
Upgrades	1	2	3

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	2.3	4.1
EBITDA growth (Y/Y%)	5.6	10.2
EBITDA margin (%)	19.9	18.3
Capex growth (Y/Y%)	1.7	9.6
Debt/EBITDA (x)	2.4	5.0
FFO/Debt (%)	32.2	12.3
FOCF/Debt (%)	15.9	3.1

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

Related Research

CreditWeek: Is The Slumping Chemicals Sector Set For An Earnings Rebound? May 23, 2024