Industry Top Trends Update

Chemicals

Protracted path to recovery for European chemicals

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What's changed post-COVID?

Weakening financial performance in 2020. EMEA's chemicals industry has been hit by supply chain disruptions and a severe drop in demand in key end-markets such as automotive, manufacturing, oil and gas, and construction caused by the COVID-19 pandemic and the related global recession. We expect revenues for most EMEA chemical companies to decline by 10%-15% and EBITDA by 15%-25% in 2020 compared to 2019. Issuers have responded with credit supportive measures such as cost cutting, reducing capex, and lowering shareholder distributions. Companies have issued new debt and drawn on credit facilities to bolster liquidity.

Deteriorating credit quality. Since February, we have taken rating actions on 35% of the 59 companies we rate in the sector, including nine downgrades. About forty percent of the ratings in our chemicals coverage now carry a negative outlook or are on CreditWatch negative. Still, due to end-market diversity and exposure to some more resilient sectors, the impact on chemicals has been moderate overall compared to other sectors such as the automotive industry.

Speculative-grade chemicals are more vulnerable. Our rating actions were not equally distributed across the portfolio but 70% occurred on speculative-grade rated chemical issuers, many of which had only limited headroom at the start of the pandemic following leveraged buyouts and refinancings.

What is the likely path to recovery?

Recovery will be gradual, with risks to the downside. In line with our macroeconomic scenario we factor in a gradual recovery starting second-half 2020, with risks to the downside. As lockdown measures in many countries are being eased, we note early signs of an economic uptick such as strongly improved business expectations in the German chemical industry.

Credit metrics to recover to 2019 levels only by 2022. We believe the path of recovery will be protracted and in 2021 revenues and EBITDA of EMEA chemicals companies will still be up to 10% below 2019 levels. We believe the pace of the recovery in China as a main growth market for many global chemical companies will be a key driver. We don't foresee a full recovery in chemical companies' revenues, EBITDA, and credit metrics to pre-COVID levels until the second half of 2022, particularly for those issuers more exposed to commodity products.

What are the key risks around the baseline?

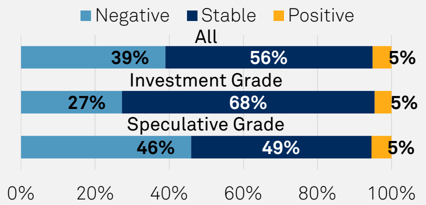
Higher earnings decline and weaker-than-anticipated credit metrics. Our baseline factors in a trough in revenues and earnings in the just-concluded second quarter of 2020. The upcoming reporting season will provide more visibility regarding individual issuers' earnings declines, the extent of pressure on credit metrics, and the size of residual rating headroom.

Delayed recovery if downside risks materialize. Given the evolving pandemic and hard-to-predict future measures to contain the spread of the virus there are clear risks to the downside that could impair demand for chemicals in certain regions or end-markets and could result in a delayed recovery in revenues and earnings.

Latest Related Research

- Q&A: EMEA Chemicals Face A Long Climb Back From COVID-19 Disruption, June 29, 2020

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	22	37	59
Downgrades	2	10	12
Upgrades	0	0	0

Ratings data as of end-June, 2020

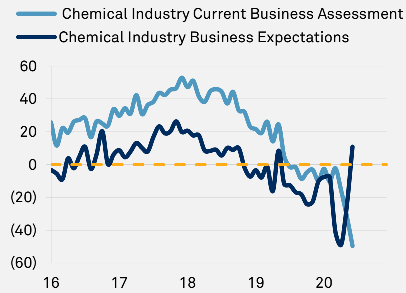
COVID-19 Heat Map

Chemicals	
COVID-19, Recession, and O&G Impact	Moderate
Potential Negative Long-Term Industry Disruption	--

2020 Estimates v. 2019		
Revenue Decline	EBITDA Decline	Incremental Borrowings
10% to 15%	15% to 25%	5% to 10%

2021 Estimates v. 2019	
Revenue Decline	EBITDA Decline
0% to 10%	0% to 10%

IFO Sentiment Survey for German Chemical Industry



Source: Ifo Institute for Economic Research, June 2020