Banker: Big uptick in chemical debt financing

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The first half of this year saw a large increase in debt financing by chemical companies to $11.6 billion compared with $5.8 billion in the first half of 2011, according to data compiled by Young & Partners (Y&P; New York), an investment bank. The increase was driven by the high-yield debt market, which saw issuance more than triple from last year to $6.8 billion. Investment grade issuance also posted a year-on-year increase to $4.7 billion from $3.7 billion, Y&P says.

“Although there have been concerns around the global economy and the financial environment, the search for yield on the part of investors has overwhelmed the calibration of risks as it relates to corporate issuers,” says Peter Young, president of Y&P. The one exception to this has been Europe, where the economic and financial crisis has dragged down the corporate debt market.

Chemicals equity financing totaled $1.5 billion in the first half, with seven offerings coming to the market, according to Y&P. This compares with $9.48 billion in the first half of 2011. Most of this year's IPO offerings are related to fertilizers and emerging markets, two themes in which investors have significant interest, Young notes. Four chemical IPOs were completed in the first half of the year, including two – PetroLogistics and U.S. Silica – that did not involve fertilizers or emerging market exposure.

Still, big IPOs are unlikely for the foreseeable future, Young says. One big chemical IPO, that of Momentive Performance Materials, was recently pulled. Smaller IPOs with a good story can attract investor interest, however, Young says. “The market is clearly more accommodating when it comes to medium-sized chemical IPOs with particular themes,” he adds.

While “equity financing volume will likely be modest” for the balance of the year, Young says, the debt markets should remain strong. Investor demand is high, and while investment-grade companies have limited need for debt, lower rated firms will continue to tap the market when able. “High yield debt issuance overall is strong, but will continue to be volatile and more depressed in Europe,” Young says.

“In Europe, the search for yield has not been able to counterbalancing the sovereign deficit and debt problems in the euro zone, fears about another economic slowdown, and concerns about high levels of government debt globally,” Young says.