Chemical financing activity mixed

Debt issuance in the first quarter recovered from a depressed 2023 and financing remains available at a cost. Meanwhile, equity issuance has been flat in dollar terms

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Chemical industry financing activity is driven by a number of factors: the performance of the stock market, interest rates, how much funding is needed by chemical companies, the condition of the equity financing markets, and the willingness of lenders to lend.

These factors were generally positive for debt and secondary equity issuance in Q1, but initial public offering (IPO) volume continued to decline. The performance of chemical stock prices was mixed and less robust versus the general stock market in Q1.

In Q1 2024, the US benchmark S&P 500 index increased by 10.8% and the S&P Euro 350 by 5.7%. This was a continuation of the positive trend in 2023.

With the exception of the Young & Partners (Y&P) European Basics Index, the Y&P US and European Chemical indices underperformed the market, although five of the seven indices did increase by 3-5%.

In terms of price/earnings (P/E) valuations, only three of the seven Young & Partners Western chemical indices traded at a premium to the overall market indices as of the end of Q1 2024.

Similarly, on an EV/EBITDA (enterprise value/earnings before interest, tax, depreciation and amortization) basis, only three of the seven Western Young & Partners chemical indices traded at a premium to the market indices as of the end of Q1 2024.

The chemical industry has lost the premium valuation position it held for many years relative to the overall market.

Debt financing trends

Global non-bank debt financing totaled $20.6 billion in Q1 2024, on an annualized basis well above the $31.6 billion issued in 2023.

In 2022 and 2023, as interest rates went up, the drive to refinance disappeared and lower mergers and acquisitions (M&A) volumes reduced the amount of M&A debt financing required. However, more recently a number of commodity chemical companies have raised debt for acquisitions.

Investment grade debt issuance was $16.0 billion of the total in Q1 2024. High yield debt volume continued to recover modestly with $4.6 billion issued in Q1 2024. This is a vast improvement compared to the near zero level in 2022 and the $4.3 billion of high yield debt issued in all of 2023.

Debt issuance will continue to be healthy but moderate in 2024, driven by forced refinancings and M&A funding. Volume will be driven by issuer needs rather than investor demand

Equity financing trends

Around $3.4 billion of equity was issued via 11 offerings in Q1 2024. On an annualized basis, this was flat on a dollar basis compared to the $13.7 billion of equity issued in 2023, but a dramatic decline in the number of offerings compared to 84 in 2023.

Disruptions to the equity markets and the drop in valuations have contributed to the slower pace of equity issuance.

IPO volume has fallen dramatically. In Q1 2024, only three IPOs were completed worth $0.2 billion compared to 23 IPOs completed worth $3.9 billion in 2023. This is an even greater decline when compared to 2022 when 41 IPOs were completed worth $9.4 billion. All three IPOs in Q1 2024 were completed by Asian companies issuing in Asia.

Debt and equity financing outlook

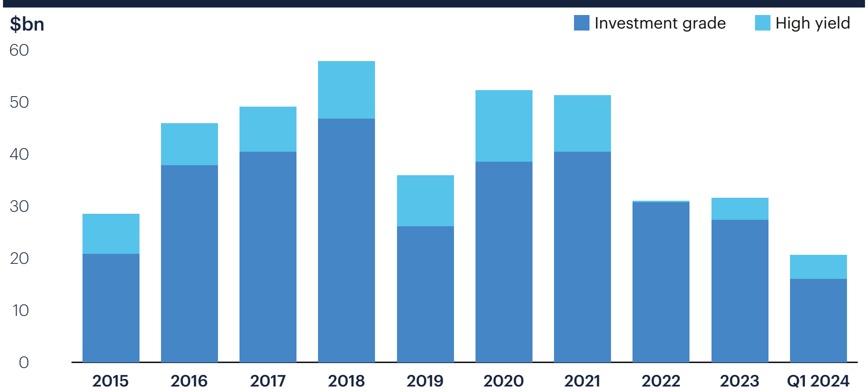
Debt issuance will continue to be healthy but moderate in 2024, driven by forced refinancings and M&A funding. Volume will continue to be driven by issuer needs, not investor demand.

Equity financing overall will continue to be subdued. Asian IPOs and secondary offerings will be subdued and dominated by Chinese and Indian companies. The weakness in the Chinese equity markets has contributed to the drop in volume. Western IPOs will continue to be modest to non-existent.

For chemical companies, debt will be available, but expensive. Existing public chemical companies will continue to have access to secondary offerings, but private Western companies will continue to find it difficult to do IPOs. ■

Peter Young is CEO of Young & Partners, an international strategy and investment banking firm that focuses on the chemical and life science industries. The firm provides execution of corporate and financial advisory projects, integrated corporate and investment banking advice, M&A, private placements of debt and equity, and financial restructuring projects. *Email pyoung@youngandpartners.com, www.youngandpartners.com*

Global chemical nonbank debt financing



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