Chemical debt financing rebounds

Shutterstock

Global non-bank debt financing for chemical companies totaled $25.8 billion in H1 2024 – on an annualized basis well above the $31.6 billion issued in all of 2023

Peter Young Young & Partners

The performance of the chemical equity and debt financing markets was decidedly mixed in H1 2024.

Although the general stock market did well, the chemical industry underperformed as the industry continues to be somewhat out of favor with investors.

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 positive for investment grade and high yield debt and secondary equity issuance in Q1, but initial public offering (IPO) volume continued to decline.

Chemical equities underperform

In H1 2024, the S&P 500 increased by 15.1% and the S&P Euro 350 by 4.8%. This was a continuation of the positive picture in 2023, although the US is clearly doing better.

Apart from the Young & Partners (Y&P) European Specialty Index, the Y&P US and European Chemical indices performed poorly and underperformed their respective overall markets.

As a result, the chemical industry's relative valuation multiples continued to slip.

In terms of price/earnings (P/E) valuations, only three of the seven Y&P Western chemical indices traded at a premium to the overall market indices as of the end of H1 2024.

Similarly, on an EV/EBITDA (enterprise value/earnings before intereest, tax, depreciation and amortization) basis, only two of the seven Y&P Western chemical indices were trading at a premium to the market indices as of the end of H1 2024.

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

Debt financing rebounds

Global non-bank debt financing for chemical companies totaled $25.8 billion in H1 2024 – on an annualized basis well above the $31.6 billion issued in all of 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 chemical companies have raised debt for acquisitions.

Debt issuance will continue to be healthy but moderate in 2024, driven by forced refinancings and M&A funding

Investment grade debt was $21.1 billion of the total in H1 2024.

High yield debt volume continued to recover modestly with $4.7 billion issued in H1 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 2023.

Equity financing challenged

In H1 2024, $6.8 billion of equity was issued via 31 offerings. On an annualized basis, this was flat on a dollar basis compared to the $13.7 billion of equity issued in 2023, but a decline in the number of offerings compared to the 84 offerings in 2023.

Disruptions to the equity markets and the drop in valuations have contributed to the

In H1 2024, only 6 IPOs were completed worth $0.5 billion compared to 23 IPOs completed worth $3.9 billion in 2023

slower pace of equity offerings.

IPO volumes fell dramatically. In H1 2024, only 6 IPOs were completed worth $0.5 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 of the IPOs were completed by Asian companies issuing in Asia.

Western companies have been shut out of the IPO market and the dismal performance of the Chinese equity markets has dramatically dampened Chinese chemical company IPOs.

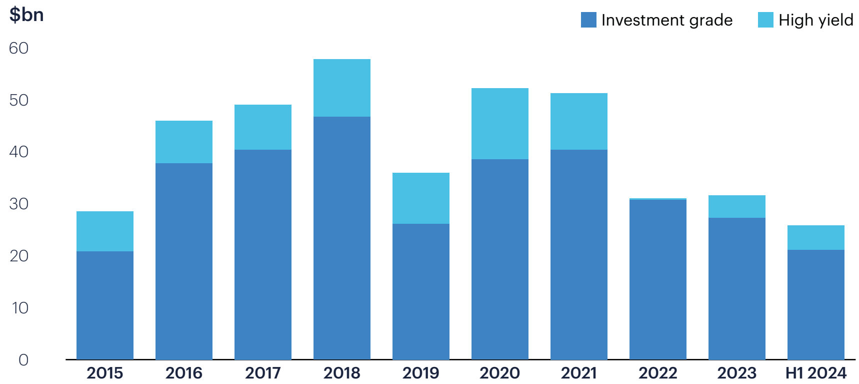
Debt and equity financing outlook

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 rather than investor demand.

Equity financing overall will continue to be subdued in terms of the number of offerings. IPOs and secondary equity offerings will be subdued, and continue to be dominated by the Chinese and Indian companies.

Debt will be available, but expensive. Existing public chemical companies will continue to have access to secondary equity offerings, but all chemical companies will continue to find it difficult to do IPOs. ■

Global chemical non-bank debt financing



Source: Young & Partners

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.
www.youngandpartners.com, pyoung@youngandpartners.com