Chemical debt financing perks up

Chemicals stock market and financing activity was mixed in 2024 and the trend is set to continue in 2025. Debt financing should continue to be a bright spot

Peter Young Young & Partners

While overall financing activity was mixed in 2024, debt financing was a positive standout. Healthy debt market conditions should continue into 2025 with financing available but still expensive.

The performance of the chemical industry in the stock market and the financing market was decidedly mixed in 2024 and the outlook is somewhat uncertain given the major economic and geopolitical unknowns today.

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, as well as secondary equity issuance in 2024, but the initial public offering (IPO) volume continued to decline.

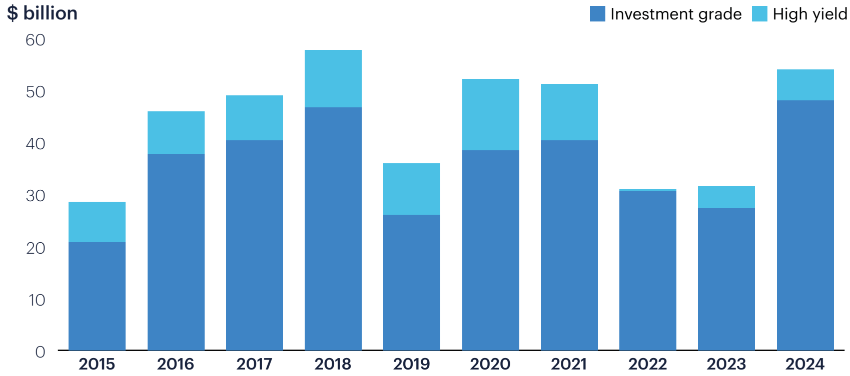
Stocks versus benchmarks

In 2024, the US equities benchmark S&P 500 increased by 24.0% and the S&P Euro 350 by 0.3%. This was a continuation of the positive picture in 2023, although the US is clearly doing better.

The Young & Partners (Y&P) US and European Chemical indices performed poorly,

Shutterstock

Global chemical nonbank debt financing



Source: Young & Partners

with 7 out of 7 of the Y&P Chemical indices underperforming their respective overall market indexes.

The Y&P US Basic Chemicals Index decreased by 9.7%, the Y&P US Diversified Chemicals Index increased by 7.3% and the Y&P US Specialties Index increased, but only by 1.4%. The Y&P US/Canada Fertilizers Index decreased by 14.9%.

In Europe, the Y&P European Basic Chemicals Index decreased by 1.3%, our European Diversifieds Index decreased by 17.4%, and our European Specialties Index decreased by 4.9%.

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 at the end of 2024.

On an EV/EBITDA (enterprise value/earnings before interest, tax, depreciation and amortization) basis, only two of the seven Western Y&P chemical indices were trading at a premium to the market at the end of 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 $54.0 billion in 2024, a huge increase versus the $31.6 billion issued in 2023.

In 2022 and 2023, as interest rates went up, the drive to refinance disappeared and lower 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.

Investment grade debt was $48.1 billion of the total in 2024.

High yield debt volume continued to recover with $5.9 billion issued in 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 trends

In 2024, $9.1 billion of equity was issued via 53 offerings. This was lower on a dollar basis compared to the $13.7 billion of equity issued in 2023, and a significant decline in terms of the number of offerings compared to the 84 in 2023.

IPO volume continued to fall. In 2024, only 14 IPOs were completed worth $1.7 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. A portion of this weakness can be attributed to a weak overall IPO market globally.

All of the IPOs were completed by Asian companies issuing in Asia.

Debt and equity financing outlook

Debt issuance will continue to be healthy in 2025, driven by forced refinancings and M&A funding. Interest rate changes are no longer synchronized globally, with US interest rates unlikely to go down unless inflation is contained and interest rates elsewhere driven by country specific economic goals and financial conditions. 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, but less so for secondary offerings versus IPOs.

IPOs will continue to be dominated by Chinese and Indian companies. There has been speculation that there will be a recovery of the IPO market, but much of that speculation is focused more on the technology sector rather than industrials.

What does this mean for chemical companies? Debt will be available, but still 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. ■

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 strategy and financial advisory projects, integrated corporate and investment banking advice, M&A, private placements of debt and equity, and execution of financial restructuring projects.
pyoung@youngandpartners.com
www.youngandpartners.com