S&P Global
Ratings

Industry Top Trends Update

Chemicals

Rating actions likely to remain mixed through 2019

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What's changed?

Higher risk of a U.S. recession. We have raised the odds of a recession in the U.S. over the next 12 months to 25% to 30%.

U.S. agriculture market challenges. Severe weather in the first half led to weaker-than-expected performance among U.S. agricultural chemical companies. The wet spring shortened the planting season, and we believe the bushels of corn produced in 2019 will be moderately below 2018 levels. Additionally, ongoing trade tensions with China have weighed on soybean prices.

What to look for

Capacity changes in the U.S. and China. New capacity in the U.S. Gulf Coast for olefins and polyolefins will contribute to weakening prices and margins. Meanwhile, China's push to improve its environmental footprint could impact its domestic capacity and benefit some U.S.-based chemicals producers.

Increased focus on ESG. Companies will increase their disclosure of ESG topics, in part on their own accord to address rising investor interest, but in some cases driven by activists or regulators.

Activist investor pressure. Companies sitting on a hoard of cash, an underleveraged balance sheet, or a portfolio ripe for rationalization, have been popular targets by activists. While rating activity regarding activists in 2019 has thus far been muted, we expect a greater potential for negative rating actions triggered by activist ownership and agitation.

What are the key credit drivers?

Mixed rating actions through the balance of 2019. Thus far, positive rating actions outpace negative ones, driven by a mix of improved operating performance, prudent financial policies, and being acquired by a higher rated entity. Negative actions have primarily been at the lower end of the ratings spectrum and were driven by increasing liquidity and refinancing risk.

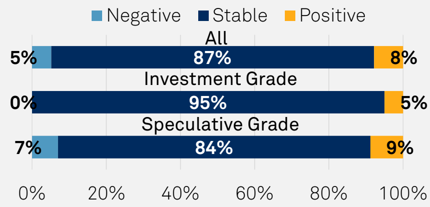
M&A likely to remain a key theme. Companies will continue to supplement slowing organic growth with acquisitions, particularly while interest rates are low; and will continue to divest noncore businesses and focus on a company's core competencies.

Trade with China. The ongoing trade war with China, the world's largest chemicals consumer, could hurt global chemical prices. Additionally, tariffs on key raw materials could squeeze EBITDA margins and impact demand.

Latest Related Research

- Is Targeting U.S. Chemical Companies A Successful Formula For Activist Investors?, June 25, 2019
- ESG Industry Report Card: Chemicals, June 3, 2019
- The Potential For Speculative-Grade/Investment-Grade Crossovers In The North American Chemical Sector In 2019, January 16, 2019

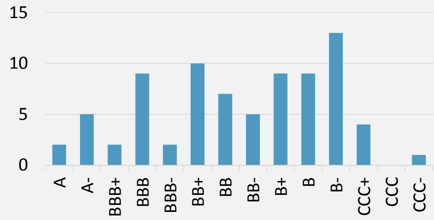
Outlook Distribution



Ratings Statistics (Last 12 months)

	IG	SG	All
Ratings	20	58	78
Downgrades	0	6	6
Upgrades	1	9	10

Rating Distribution



Sector Forecasts (2019)

	IG	SG	All
Rev. CAGR '19-21	2.8%	2.3%	2.7%
EBITDA Margin	22.6%	16.6%	21.2%
EBITDA CAGR '19-21	5.0%	3.3%	4.7%
Debt/EBITDA	2.4x	3.8x	2.7x
FFO/Debt	32%	17%	28%

Key Macro Drivers (U.S.)

	2018	2019f	2020f
Real GDP (year % ch.)	2.9%	2.5%	1.8%
Real consumer spending (year % ch.)	2.6%	2.5%	2.0%
Housing starts (mil.)	1.2	1.3	1.3
Light vehicle sales (mil.)	17.2	16.7	16.5