Adieu, crisis!

Global chemical companies have emerged from the economic crisis of 2008-2009 in great shape and have the wind at their backs

THORSTEN BUG GERMANY TRADE AND INVEST

Chemical companies worldwide have the wind in their sails again – turnover and profits are growing. With double-digit operating margins and remarkable levels of consumption in China, all the signs point toward continued growth in profits.

The nuclear disaster in Fukushima, Japan, the Arab Spring in north Africa and on the Arabian Peninsula as well as the ongoing sovereign debt crisis in the eurozone have posed significant challenges for the global and networked chemical industry. This is what modern crisis scenarios look like.

Shareholders certainly have had a different experience in recent years considering the dividends paid by the ICIS Top 100 Chemical Companies. Likewise, stock indices such as the US S&P 500 and Germany's DAX have achieved all-time highs in 2014 and show that investors continue to expect rising profits.

This effect is reinforced by the low interest rate policies of the most influential central banks – the Bank of Japan (BoJ), the European Central Bank (ECB) and the US Federal Reserve (Fed). These policies enable companies with good credit ratings to refinance at lower interest rates and take out new loans more easily.

This excellent situation is reflected primarily in the huge increase in global turnover. Global chemical sales grew in the decade from 2002 to 2012 from €1.363 trillion to €3.127 trillion – an average annual growth rate of nearly 9%. In retrospect, the global chemical industry appears not to have been affected seriously by the financial crisis.

The situation is similar with regard to Europe. Although the European market share of global turnover halved between 1992 and 2012, turnover doubled in the same period with an average annual growth rate of around 3.3%.

The profits generated by the companies can be attributed, among other things, to the moderate 2.8% annual rise in labour costs between 2001 and 2012, and to productivity in-

GERMANY-BASED CHEMICAL COMPANIES, 2013

	Sales (€M)	Change	Operating margin*	Change	Net profit	Change	Net margin, %
BASF	73,973	3%	10%	-1%	5,173	2%	7
Bayer	40,157	1%	12%	2%	3,189	33%	8
Henkel	16,355	-1%	14%	0%	1,625	7%	10
Evonik	12,874	-4%	11%	-3%	2,054	76%	16
Merck	11,095	-1%	15%	6%	1,202	15%	11
LANXESS	8,300	-9%	-1%	-10%	-159	NA	-2
Wacker	4,479	-3%	3%	-3%	6	-94%	0
Altana	1,765	4%	13%	0%	152	-2%	9

*Earnings before interest and tax (EBIT) relative to sales

Improving profits show the industry has put the financial crisis in the rear-view mirror

Rex Features

The effects of the financial crisis were felt at different times. US and Japanese companies had to face this challenge about a year before European enterprises

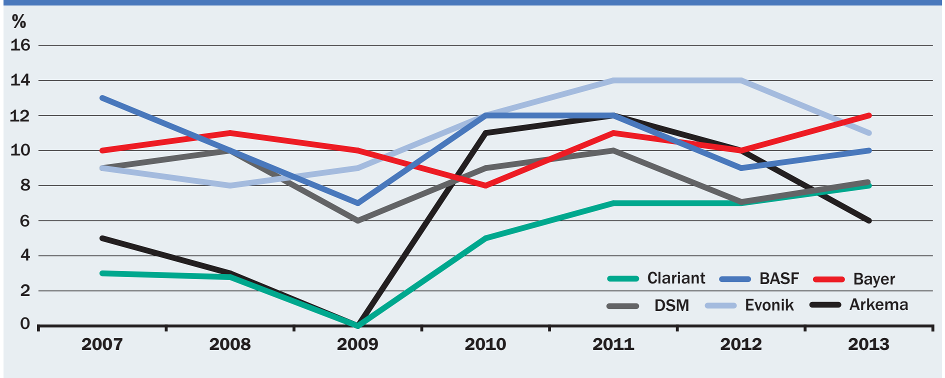
creasing by 2.4% in addition to the growth in turnover in the same period.

CHINA ON THE RISE

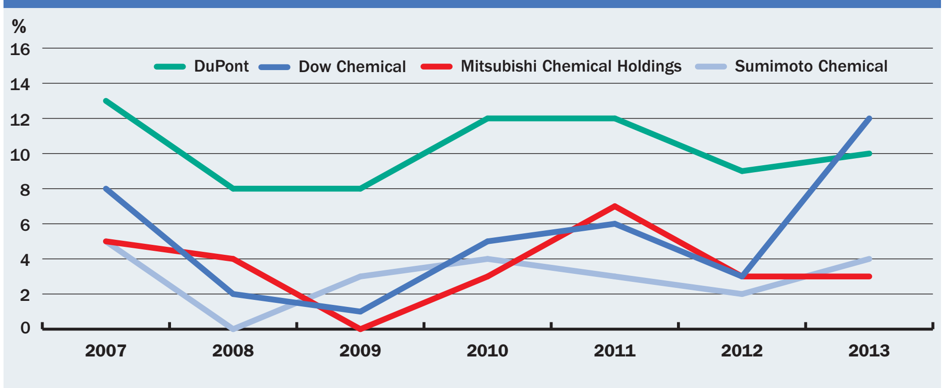
In contrast with Europe, growth in China's chemical market appears to be limitless. The increase in turnover from 2011 to 2012 by €218bn, to around €953bn, corresponded approximately to the combined annual turnover of Germany and Russia in 2012.

In line with this, investments in China are developing rapidly. The investment volume in China increased fivefold from 2006 to 2012 to more than €130bn, thus surpassing the entire chemical investment from the "Rest of the World" in 2012 almost twice over.

EUROPE EBIT MARGINS



US AND JAPAN EBIT MARGINS



The Germany-based chemical companies posted largely stable revenues in the 2013 financial year with a positive trend in annual profit for most. The exceptions were LANXESS and Wacker, which faced strong international competition in individual business units in 2013. Operating margins were also strong, showing double-digit growth in all cases apart from the aforementioned companies.

OPERATIONALLY SHIPSHAPE

Regardless of geographical base, almost all of the chemical companies discussed here suffered under the financial crisis with a decline in their operating margins.

Strikingly, the effects were felt at different times. US and Japanese companies had to face this challenge about a year before European enterprises, which is surprising, since all of the companies illustrated here operate globally.

A comparison of US and Japanese companies reveals an exceptional development in operating profitability. Near parallel progress can be seen, which suggests they behaved similarly in the crisis.

It is noteworthy that of this quartet, DuPont, with an average operating margin of about 10%, faired around 5 percentage points better than its competitors in each financial year.

The effects of the US housing bubble took a large toll in Europe in 2009. Among the companies presented here, this was especially true for France's Arkema and Switzerland's Clariant. Both enterprises had to absorb a decline in operating margins to about 0%.

It is striking that European companies, in comparison with those from Japan and the US, were able to catapult their profitability back to familiar levels rapidly. This was achieved with flying colours by Evonik and in particular Arkema, which succeeded in increasing its operating margins by up to 11 percentage points from 2009 to 2010.

Currently, all of the European companies listed here have healthy operating margins oscillating around the 9% mark with a swing of 3 percentage points. The German chemical companies follow this pattern and have been operating with double-digit margins since 2011.

About a year ago, the author stated: "Because of its specific strengths, particularly in innovation, productivity and resource efficiency, Germany, alongside the US and Japan, will remain an attractive production location for the chemical industry."

The statement still rings true. ■

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