MARKET INSIGHT: GERMANY

GERMAN CHEMICAL MAJORS SHARE GREAT EXPECTATIONS
Despite the uncertainty stemming from tough trading conditions globally, fraught election campaigns and the ongoing Brexit negotiations, little appears to have dampened the mood of the leading chemical players in Germany so far this year.

In fact, the first three months of 2017 have proven pretty positive for producers within Europe’s largest economy.

Production, sales and capacity utilisation have all shown signs of improvement, with the consensus suggesting a positive performance is likely for the year overall.

Martin Wansleben, director general of Germany’s chamber of commerce (DIHK), says several factors contributed to the 0.6% GDP growth in the first quarter – including low interest rates and oil prices, as well as favourable exchange rates that were a boon for German exporters.

Trade group VCI adds that production showed a 2.1% improvement on the previous quarter, and was 1.1% above a similarly strong period this time last year. Capacity utilisation during these past few months had ramped up to 87.7%.

“Business sentiment is good in the industry,” said VCI president Kurt Bock in early May. “But, speaking in metaphors, one swallow does not make a summer. After the encouraging start of the year, it remains to be seen whether the positive development lasts in chemistry. Many economic uncertainties and political risks can dampen the upswing.”

The VCI expects chemicals production to grow by a modest 1% in 2017. Prices are expected to be 2.5% higher year on year and the industry’s sales up 3.5% to reach a value of €191.2bn.

Strong Q1 For BASF

Bock – speaking this time in his role as chairman of BASF – acknowledged the producer had indeed enjoyed a strong first quarter, and confirmed that demand had continued to follow the trends seen through 2016.

First-quarter net profit grew 23% year on year to €1.71bn on the back of higher sales volumes, particularly in its chemicals division, he said.

BASF’s sales for the three months to March 2017 leapt 19% to €16.9bn – compared with €14.2bn
during the same period last year. This was supported by an 8% growth in both volumes and prices. Operating income was up 31% at €2.45bn.

“We had a good start to the year and finished the first quarter 2017 with considerable growth in sales and earnings compared to the prior-year quarter. We were able to further increase our sales volumes,” added Bock.

“From a regional perspective, we significantly improved sales and earnings in Asia Pacific, where we succeeded in growing volumes strongly in all segments; China was the main contributor to this development.”

Sales in its chemicals segment rose 36% year on year to €4.1bn, largely because of higher prices seen in the petrochemicals and monomers divisions, and an increase in volumes.

Monomers showed a 44% improvement on Q1 2016 with sales of €1.70bn, followed by petrochemicals (up 38%) at €1.65bn, and intermediates (up 16%) at €752m. Market tightness helped boost margins, particularly for iso-cyanates, cracker products and acrylates.

Bock went on to confirm the forecasts made by the company at the end of February, and said he was optimistic moving forward.

“We expect BASF Group sales to grow considerably in 2017, which means an increase of at least 6%. Based on the good start to the year our outlook may seem cautious, but we see some elevated risks with regard to macro- economic developments and the political environment. Therefore, we confirm our full-year outlook at this time.”

As part of its strategy to have a more diversified and structured portfolio, April saw the completion, ahead of schedule, of its €2.4bn acquisition of US-based Chemtura – the largest purchase in its history.

Other highlights from the first quarter included strong growth across each of its business segments, with the significant increase in sales fuelled by higher prices and volumes.

Sales for the three months ending March 2017 were up 25% at €2.40bn from €1.92bn during the same period a year earlier. Earnings before interest, tax, depreciation and amortisation (EBITDA) rose 26% to €316m. Net profit during the period rose by 47.2% year on year to €78m. Operating profits, meanwhile, leapt 47% to €192m.

ARLANXEO, the JV with Saudi Aramco, saw a 48% year on year surge in sales to €948m – up from €640m.

Following a particularly strong first quarter, LANXESS said it was hoping to post record earnings for the full year and expected EBITDA of between €1.23bn-1.3bn.

“LANXESS got off to a very strong start to the new fiscal year. We recorded an increase in demand in all of our business segments and generated higher sales in all regions. This clearly shows that we have the right positioning,” said Matthias Zachert, chairman of the board of management.

“Good order flow and a dynamic business environment appear to continue in the second quarter,” he added. “For the full year, we are even expecting record earnings. This is a clear indication of our operational strength, which will be further enhanced by the Chemtura acquisition. Our job now is to ensure the swift and smooth integration of the new businesses.”

**Landmark 2017 for LANXESS**

Rubber and specialty chemicals producer LANXESS headlined its Q1 results briefing with the bold declaration that despite challenges facing the markets, “2017 could therefore be the most successful fiscal year in the company’s history”.

**Covestro bullish**

Covestro’s chairman of the board of management, Patrick Thomas, was in an equally bullish mood at the company’s annual general meeting in early May, noting that “2016 was an excellent year for Covestro” and that all key financial targets had been reached or exceeded.
The record year, he said, had seen a strong performance driven by robust demand across its portfolio. He specifically highlighted higher capacity utilisation, higher volumes and a positive pricing delta.

“In 2016, we once again pushed the boundaries of what is possible. We brought several innovations to the market, often revolutionising established processes and procedures,” he said. “Our key financials are proof that our strategy is paying off.”

It displayed a strong performance in the first quarter results thanks to improved consumption in the global construction sector, as well as from the furniture and mattress industries in North America and Asia Pacific.

Covestro’s first-quarter net profit soared to €468m, up from €182m during the same period last year, as earnings from its polyurethanes segment more than tripled.

Sales for the three months to March 2017 rose 24.7% year on year to €3.59bn, with EBITDA climbing by 66.5% to €846m

Operating profit for the quarter stood at €688m, more than double the €340m profit recorded in the same period last year.

The polyurethanes segment saw sales climb 35% in the first three months to €1.89bn, up from €1.40bn the year before. Operating profit for the period soared to €396m – compared with €117m in Q1 2016.

Strong demand from the automotive and electronics sectors helped boost polycarbonates results too, with a 44.9% increase in operating profit reported at €184m. Sales totalled €954m – marking a 21.4% rise year on year.

The coatings, adhesives and specialties business, meanwhile, saw a 10.2% improvement in sales (€564m) and a 3.4% rise in operating profit to €123m.

**Strong showing for Evonik**

Echoing the successes of other major German producers these past few months, Evonik reported a 19% sales increase to €3.68bn. EBITDA was also up by 8% at €612m, driven by improved results in the resource efficiency and performance materials segments.

The former segment posted a 24% year-on-year increase in sales to €1.39bn, with the performance materials business seeing the biggest increase in sales of 26% to €972m.

Demand for specialty chemicals such as silica, coating additives and pharmaceutical ingredients helped boost quarterly earnings.

Net income, however, fell 33% (€80m) for the period to €160m because of one-off costs related to the purchase of Air Products’ specialty additives business at the start of the year.

Evonik said integration of the new acquisition has been smooth, with the company on course to achieve synergies of around €70m by the end of the decade. It is also looking to finalise the purchase of the silica business of US-based J. M. Huber in the second half of the year.

It remained confident of achieving its forecast to grow sales and operating earnings in 2017 and expects adjusted EBITDA to increase to between €2.2bn-2.4bn.

“The successful start to the year shows that we are on the right track with our growth strategy,” said Klaus Engel, then-chairman at Evonik.

**Wacker sees 2017 gains**

Despite the “somewhat challenging environment”, Wacker CEO Rudolf Staudigl said the company had also started the year well. First-quarter net profit still jumped to €665.9m from €16.1m from the same period the year before.

The chemical divisions fuelled the gains, amid strong sales and decent customer demand. First quarter sales rose by 7.6% year on year to €1.22bn due to higher volumes of silicones and polymer products. EBITDA, meanwhile, saw an increase of 11.7% to €229.3m, with operating profit up 14.2% at €73.2m.

Since the start of the year, Wacker has sold shares in its semiconductor subsidiary Siltronic, reducing its stake in the silicon wafers producer.
“By reducing our stake in Siltronic to just under 31%, we have now achieved the strategic goals we pursued with a non-controlling position in the company: we have put Wacker on a less capital-intensive footing and are focusing investments on strengthening our chemical divisions’ supply chains,” Staudigl said.

Wacker has revised its full-year forecast following the deconsolidation of Siltronic. It now expects 2017 sales to increase by mid-single-digit percentage from last year, while EBITDA excluding special income would fall by a mid-single-digit percentage.

Solid start for Linde
Linde CEO Aldo Belloni, meanwhile, said the company had made “a proper start to the new financial year, in line with our forecast”.

Both revenue and earnings saw increases for the industrial gases company in the first quarter. Group operating profit from continuing operations increased by 5.7% to €1.04bn. Sales for the three months to March 2017 rose 6.6% to €4.39bn – thanks to the positive trends in the EMEA and Asia Pacific segments and higher revenue in its engineering division.

“Our positive business performance is testament to our solid business model,” he said.

The company says it will remain focused on implementing efficiency improvement measures as part of its Focus programme and LIFT programme.

Speculation continues over the potential merger with US firm Praxair, the companies having agreed terms in December 2016.

Solid growth in the Europe, Middle East and Africa (EMEA) and Asia Pacific meant a strong start to the year for distributor Brenntag, according to CEO Steven Holland. Demand in North America had also stabilised as expected, he said – all helping to offset falling earnings in Latin America.

Sales of €2.97bn in the first quarter represented a 15.2% increase on the previous year, with gross profit up 7.7% year on year at €631.8m. Post tax profit leapt to €94.7m from €66m during the same period in 2016.

Volumes and prices rise
by Nigel Davis
Germany’s chemical producers benefited in the first quarter from stronger year-on-year volume growth and higher prices.

Higher prices offset raw material costs to a greater extent and margins improved. Leading companies in the sector reported considerably higher year-on-year profits. The uptick was sentiment and price driven. The rising oil price late last year began to lift chemical prices globally while demand pull remained steady. In some petrochemical markets, prices rose markedly as supply tightened due to outages. Buyers were keen to secure volumes in times of price and volume uncertainty.

That sentiment persisted in 2017, particularly ahead of the Lunar New Year. Buyers built stock at most points in the value chain. There was underlying uncertainty but, as long as the oil output agreement between OPEC and non-OPEC nations held, then slow but steady demand growth was expected to continue to drive markets. Stocks built earlier in the quarter but towards the quarter’s end, stock drawdown in the important northeast Asia and China markets was beginning to signal a slowing volume and price momentum.

Looked at across the board, this was a strong quarter for the sector. BASF reported stronger group sales and profits. This was driven to a great extent by a strong performance from the company’s chemicals businesses where prices were up 24% and volumes up 10%. Margins improved for steam cracker products in all regions. Earnings increased significantly from the BASF-YPC Company Ltd joint venture in Nanjing, China.

The quarterly financial results show that growth was not confined to the upstream. Evonik’s speciality chemicals businesses delivered strong sales and profits performance. Sales and profits growth in the quarter were the strongest from polycarbonate and polyurethanes producer Covestro and from LANXESS. Demand for intermediates and materials was rising in the quarter in Europe and globally.
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