ICIS Chemical Business asks key industry figures to look at the year ahead and at what could be in store for the petrochemical sector

Bold predictions

Alamy

ANDY BRICE LONDON

There can be no argument that 2010, punctuated by pricing volatility and uncertainty, has proven a pretty tricky year for the petrochemical industry. Belt-tightening has been necessary and tough decisions have had to be made – although for some, they have emerged from the gloom far better than had been expected. Many will be extremely satisfied with their latest financial results and remain upbeat for the months ahead.

Nevertheless, the threat of a double-dip recession sill looms, unstable economies teeter, and threats and opportunities posed by the Middle East and Asia still suggest plenty of change in the year ahead. Here, the great and the good of the industry offer their predictions as to what 2011 will hold.

TOM CROTTY
GROUP DIRECTOR
INEOS

"2011 is probably one of the most difficult years to forecast for some time, particularly following the marked recovery in the industry's fortunes in 2010. Concerns remain about the so-called tsunami of low-cost Middle Eastern product into Europe which has, so far, failed to materialize. This is due to a combination of lower-than-forecast supply, thanks to the global recession and higher-than-forecast demand, particularly in China. While both of these factors could change in 2011, the indications at this stage are that supply/demand in 2011 should remain in reasonable balance and thus create a degree of business stability."

KEVIN SWIFT
CHIEF ECONOMIST,
AMERICAN CHEMISTRY COUNCIL

"Favorable dollar exchange rates, growth in emerging markets and abundant shale gas will drive US chemical exports up by almost 10% in 2011. And China will overtake the US as the largest market for chemistry."

HENRIETTA WALKER
CORPORATE PARTNER
MAYER BROWN

"We expect an increase in deal volume and deal value to continue throughout 2011. Many of our clients spent 2009 and 2010 focusing on efficiencies and disposing of noncore business units. They consequently have substantially increased levels of cash on their balance sheet. They are indicating to us that this, combined with the limited capacity for organic growth within the sector, will drive M&A [mergers and acquisitions], particularly in the BRIC [Brazil, Russia, India and China] countries. We do not, however, anticipate a return to 2007 deal levels. We are seeing buyers being much more focused on strategic fit and more cautious, particularly as the regulatory burden on the industry grows (such as [European chemical legislation] Reach and carbon reduction policies). This has, in our experience, led to a trend away from competitive auction sales towards more privately negotiated deals. We believe that private equity houses will be more active in 2011, both in terms of the pressure to divest assets and return funds to investors and the need to invest."

HANS-JOERG BERTSCHI
PRESIDENT AND CEO
BERTSCHI

"Volatility of demand will be the major challenge in 2011, as cash remains king and customers of the chemical industry will continue to keep inventories low. Winners in this environment will be chemical producers with a most responsive supply chain. The integration of innovative logistics service providers with efficient volatility management solutions in their offering will help producers to generate maximum flexibility of supply at controlled cost levels. Leveraging this competitive advantage in the market will also be an answer to the threat of imports from new overseas productions in 2011."

PATRICK THOMAS
CHAIRMAN AND CEO, BAYER MATERIALSCIENCE

"Demand on raw materials and volatile pricing are unlikely to halt the dramatic growth in the Chinese market. China is likely to continue to lead the BRIC [Brazil, Russia, India and China] economies as they continue to grow at levels well above GDP. Should the capital markets remain calm, we expect continued growth in the mature markets of Western Europe and North America as well, so there will be continued pressure on the supply of both polyurethane [PU] raw materials and polycarbonate [PC]. Following a year of rapid profitable recovery for many chemical producers, 2011 will likely see a continuation of profitable growth with some risks from currency exchange and higher raw material pricing."

SEIFI GHASEMI
CHAIRMAN AND CEO, ROCKWOOD HOLDINGS

"Barring any unexpected geopolitical developments, we remain positive on the outlook for the Americas and Europe for 2011. In addition we expect double-digit growth rates for the BRIC [Brazil, Russia, India and China] countries next year, although it is more challenging to predict the course of economic development in those areas. Specifically, given our diverse portfolio of specialty chemicals and advanced materials, we are optimistic about market developments for Rockwood's businesses."

STEVE HOLLAND
CHIEF OPERATING OFFICER BRENNTAG

"The unprecedented growth in real-time transactional data will see 2011 as a year which will be a step change in customer satisfaction and channel management. From a truly global perspective, markets, products and services will continue to emerge, making the world of chemical distribution a much smaller place."

ALEXANDER KELLER
GLOBAL HEAD OF CHEMICALS /OIL PRACTICE GROUP, ROLAND BERGER STRATEGY CONSULTANTS

"Listening to record profit announcements of the chemical industry around the globe, the economic crisis seems to be overcome faster than anybody… imagined only one year ago – but what is the real outlook? Certainly 2011 will become a year of "calming down," seeing some growth on a lower basis. What's more interesting – and threatening – is 2012 and further on. With basically no manager in the chemical industry not being asked to put investment plans in place to keep pace with the demand, mid- to long-term thinkers see the next slump ahead, this time caused by… overcapacities and not economic indicators."

MARK ADAMS
CORPORATE FINANCE ADVISORY PARTNER DELOITTE

"Buyers are expected to continue to be relatively cautious, with deals taking longer to complete as more time is being taken to check credentials and prospects for businesses. Volumes of chemical M&A [merger and acquisition] activity should increase through 2011 as confidence increases. However, there continue to be risks: the recovery is somewhat fragile and uncertain, with lingering concerns over sovereign debt and the effect of reduced government spending. Some private equity players will be looking to find an exit for assets in 2011.

The outlook for private equity is improving, although it remains difficult to get decent leverage at a good price. The improvement we saw in 2010 should continue to 2011, but the days of 70:30 debt to equity ratios are over. Now you need more like 50:50."

ANDREW WALBERER
PRINCIPAL, A.T. KEARNEY

"2011 will continue a period of uncertainty on many fronts – unsteady demand recovery, volatile feedstock prices, currencies, regulation, and wild-card disruptive events. To cope, companies, especially the biggest ones, will focus their business models and product portfolios to better align resources and capabilities with core market segments and customers. In addition, risk management will move to, or stay on, the front burner as companies look to improve their risk resilience to external and internal events. For example, supplier relationship management will get renewed attention for its unique ability to support both growth and risk reduction."

MIKE CLEMENTS
DIRECTOR, TRANSACTION SERVICES, PRICEWATERHOUSECOOPERS

"Increased M&A [merger and acquisition] activity will continue, fueled by available debt, private equity backlog, desire to control natural resources and move up the value chain in developing countries and focus on core businesses in developed. Fears of a double dip and cautious lending will lead to a two-speed market, with assets regarded as safe or strategic selling quickly for high multiples and others not selling at all. Corporate spin-offs will increase as private equity refocuses on entries, and pricing stabilizes. Businesses distressed in 2008–2009, some now bank-owned, will come to the market as the debt becomes due and results improve."

THEO JAN SIMONS
DIRECTOR, ARTHUR D. LITTLE

"In 2011, many priorities for the chemical industry will be continued: further expansion of basic chemicals in the Middle East, continuous growth of demand of chemicals in Asia, the likely increase and continued volatility of crude oil, the newfound competitiveness of the North American industry, a continuation of [European chemical legislation] Reach…. We also see emergence of a new agenda – with a focus on growth through portfolio review, M&A [merger and acquisition] and new business models, embedding of sustainability and innovation, and emphasis on commercial and operational functions linked to improved intelligence and insight, the ability to effectively balance global and local interests and address talent management."

LUCA RAFFELLINI
PRINCIPAL, BOOZ & COMPANY

"As chemical executives become entirely comfortable with the fundamentals of high crude prices and China-driven growth, overall demand in 2011 is set to trend gently upward after the anomalies of the last two years. Alas, that will not translate into a repeat of this year's fantastically convergent performance for most major chemical players: 2011 will be about divergence. Those companies that took the opportunity to reshape their operations and business portfolios during the crisis will be rewarded with much higher earnings and valuations compared with those that didn't. M&A [merger and acquisition] activity and emboldened [private equity] firms will arbitrage the rest."

PAUL BJACEK
CHEMICAL AND NATURAL RESOURCES INDUSTRY GLOBAL RESEARCH LEAD, ACCENTURE

"While there is some continued uncertainty for capital expansions and M&A [merger and acquisition] going into 2011, we can be certain that productivity and innovation will be key themes in the next two years.

Productivity has historically increased, even during up-cycles, and this trend should continue in the still-anxious chemical industry, especially in China, which continues to migrate towards scale production. Therefore, operations excellence, from order to product delivery, will be critical for all producers.

Just as important, innovation will be demanded to compete in developed nations and for joint ventures in emerging markets. Consequently, firms must stay near customers to discover new solutions. One major solution theme will be sustainability. Our customer preferences study revealed that, on average, industrial consumers mostly desire sustainable product characteristics for pure economic reasons, such as materials, energy, and water efficiency. As sustainability standards improve, these attributes will also begin to approach the marketing value enjoyed by renewable and biodegradable materials."

BILL STRINGER
DIRECTOR, CHEMICALS, MATERIALS AND FOOD INGREDIENTS FROST & SULLIVAN

"2010 has been a year of transition for the chemical industry. The sector showed far-better-than-expected resilience to the downturn, due in part to government interventions such as short-time working, car scrappage schemes, and also as a result of the responsiveness of the sector when the downturn hit.

Following a period of intense internal focus on cost management and restructuring, we are seeing clients start to look towards growth again. As well as BRIC [Brazil, Russia, India and China] countries, Central and Eastern Europe, Turkey and opportunities in Africa seem to be a focus for geographic expansion opportunities.

Chemical companies are also becoming pioneers in the leverage of megatrends to generate long-term growth opportunities, which is not surprising, considering the long investment cycles involved in plant construction and the often long and complex value chain between chemicals and OEMs [original equipment manufacturers]/consumers. In addition to issues related to sustainability, the key trends – globalization and health and wellness are two of the top megatrends currently of interest.

Chemical companies will remain cautious going into 2011, ready to respond to any double dip that may happen but with an increasing eye on future growth."

CHRIS STIRLING
EUROPEAN HEAD OF CHEMICALS AND PHARMACEUTICALS KPMG

"Looking ahead, we certainly foresee an increase in M&A [merger and acquisition] activity across the sector, as chemicals businesses around the world look to optimize their portfolios.

On the one hand, we have US, European and Japanese chemical majors that are seeking to rationalize their portfolios by exiting legacy commodity chemical areas, while simultaneously acquiring specialty chemical businesses to move them up the value chain, away from low-cost emerging market competition.

Meanwhile, Middle Eastern, Indian and Chinese buyers are keen to pick up mature chemical assets – tapping into their more advanced intellectual property – and they have the cash to go shopping.

We're also seeing increased interest in the chemical sector from those in the private equity community. Firstly, a significant number of chemical assets have remained in private equity ownership through the downturn, so these [private equity] backers will be looking to exit as the market recovers. Secondly, private equity is catching on to the opportunity presented by chemicals as fund managers recognize the industry is at the bottom of the cycle. We saw a number of private equity players complete deals in the sector during 2010, and we expect the volume of deals, certainly at the smaller end of the spectrum, to pick up the pace into the new year.

Finally, cross-border joint ventures will become a prominent feature of the M&A market as companies seek to spread risk and benefit from inherent synergies. In particular, we anticipate strategic alliances forming between Middle Eastern companies, which have access to cheap feedstock, and Western players, which boast more advanced technology and established customer relationships." ■

RETROSPECTIVE

WHO GOT IT RIGHT IN 2010?

AXEL HEITMANN
CHAIRMAN AND CEO LANXESS

"2010 will be a year of recovery for the industry, although a return to the 'good old days' of the precrisis era will remain elusive. One shining light in 2009 was China, which I believe will continue to play a vital role in influencing the global economy in 2010. The growing affluence of its middle class, coupled with an increase in megatrends such as mobility and urbanization, will fuel this influence. This will benefit the chemical industry and its products."

ANTONIO TRIUS
EX CEO COGNIS

"The economic situation remains volatile. Against this background, it is important not to lose sight of what is most crucial to our business – our customers. To address their current and future needs, we need to be quick in developing innovative solutions that meet the specific requirements of markets and consumers."

BERNARDO GRADIN
CEO BRASKEM

"The challenges for the petrochemical industry in the coming years will be operational excellence with competitiveness in a surplus scenario, cash flow management, and the development of concrete solutions to meet the principles of a sustainable low-carbon economy. Companies able to overcome those challenges will be best positioned after the downturn."

FEIKE SIJBESMA
CEO DSM

"There will be uncertainty but definitely also opportunities in 2010. While government debts increase, stimulus programs taper off and unemployment rises, the extent to which mature-economy businesses and consumer expenditures pick up the slack is difficult to predict. Emerging markets will, however, continue to grow at healthy rates and especially post-Copenhagen, sustainability and bio-based production and products will become increasingly important."