



# market monitor

Focus on chemicals performance  
and outlook



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On the following pages we indicate the general outlook for each sector featured using these symbols:



Excellent



Good



Fair



Poor



Bleak



# Is there a change on the horizon?

At first sight, the chemicals sector seems to be a satisfyingly or even well-performing sector, with continued growth in most subsectors, generally robust business financials, good payment performance and low insolvency rates compared to other industries. Indeed, the chemicals sector's performance in all countries covered in this issue of the Market Monitor is rated between 'Excellent' and 'Fair'. While being susceptible to commodity price volatility and the global economic development, businesses in this sector generally benefit from higher entry barriers compared to other industries. Demand for chemical products is high in all subsectors and among all consumer segments.

However, there are signs of a change on the horizon, especially for European chemicals businesses, which still record satisfying results. Some segments are beginning to struggle due to increasing international competition, especially from China and the US. The shale gas boom and the surge of natural gas liquids supply has turned the US chemicals sector into one of the lowest-cost producers globally, benefitting from lower energy prices. Globally, this has already put sales prices under pressure. At the same time, European and other chemicals businesses have to face the fact that the US share of global capital investments in the chemicals industry has constantly increased over the past couple of years. While the US petrochemicals and energy-related chemicals subsector currently face some problems due to the lower oil price, it seems that in the longer-term the US chemicals industry may gain a major competitive edge.

# China

- Further growth, but rising overcapacity
- Payments take 60 to 90 days on average
- Smaller, private-owned businesses pose higher risks



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector			✓		
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)			✓		

Source: Atradius

The chemicals industry is entering a phase of slower but still solid growth, following the slowdown in Chinese GDP growth (forecast 6.5% in 2015 after 7.4% in 2014). Chemicals production in China is expected to increase 8.5% in 2015 following the 8.8% growth rate registered in 2014. Overcapacity in the industry however is a growing issue as demand is weakening in some important buyer industries. At the same time, production continues to expand, leading to domestic supply significantly exceeding demand. For example, overall capacity utilisation in the ethylene production segment was just at around 70% in 2014.

Many subsectors face oversupply because of the investment-led growth model that has resulted in excessive spending on new factories in the past. China is still constructing a large number of production facilities – both mega and medium-scale – undertaken by Sinopec, PetroChina, CNOOC and other state-owned enterprises.

In 2015, certain subsectors are likely to grow more strongly than others, e.g. the robust demand for automobiles will boost the synthetic rubber and polyurethane segment. While plastic production growth was high in recent years, this growth is now affected by the cooling down of the property market and lower consumer spending. The slowdown in building activity has a negative effect on PVC producers, as construction is a major consumer of PVC for windows and polymer tubing. However, there are government plans to reduce surplus capacity in China's PVC feedstock sector. Therefore, the slowdown may not have a major impact on PVC prices.

The performance of the Chinese chemicals industry is still hampered by a lack of advanced technology, despite government efforts to accelerate the acquisition of Western know-how. Many Chinese firms do not invest in research and development and rely primarily on imported technology. Smaller Chinese chemi-

**China: Chemicals sector**

	2013	2014	2015f
GDP growth	7.9	7.4	6.5
Sector value added growth	10.1	9.6	8.3
Sector share in the national economy (%)			4.2
Average sector growth over the past 3 years (%)			10.1
Average sector growth over the past 5 years (%)			12.0
Degree of export orientation			average
Degree of competition			average

Sources: IHS, Atradius

chemicals firms are burdened by low levels of efficiency and poor economies of scale. Most Chinese companies in the sector produce low-end goods, and profit margins remain very low for some producers.

As China badly needs foreign chemicals technology, the government is actively encouraging joint ventures between foreign companies and state-owned enterprises. The benefits for foreign companies investing in China include a growing domestic market in which they can sell their products, and low construction and labour costs when building greenfield projects. In the long term, China's growing industrialisation and urbanisation will provide further growth opportunities for the chemicals industry, and an expanding middle class will require higher-quality chemical products.

As a result of increasing environmental problems, the Chinese government has moved to restrict the construction of small-scale and environmentally risky chemical plants. The ban targets local entrepreneurs, who have built numerous small-scale chemicals units throughout China during the past few years, many of them based on obsolete technology, inefficient and a threat to the environment.

Regarding the pharmaceuticals sector, China remains a key emerging market for multinationals, with double-digit rates of sales growth. In 2015, pharmaceuticals spending is expected to increase 11.7% year-on-year in USD terms, to USD 110.26 billion, while healthcare is expected to grow 13.5%, to USD 686.7 billion. We expect pharmaceuticals expenditure in China to continue recording high growth rates in the coming years, as growing development and prosperity will lead to higher spending for medical services.

Overall, the equity strength of Chinese chemicals / pharmaceuticals businesses is still relatively good, as the major players are large corporations (usually with a state-owned background) or

large joint-ventures with multinationals. Compared to other industries like steel and textiles, chemicals companies, in general, appear to have better solvency and liquidity ratios. On average, payments take 60 to 90 days, and payment delays and defaults are not expected to increase in 2015.

However, small privately-owned chemicals producers, with a low value-added contribution, often suffer from squeezed profitability, leading to solvency and liquidity problems. Moreover, they will be mostly affected by environmental protection actions, i.e. when sub-standard factories will be suspended or shut down.

Our underwriting stance on the Chinese chemicals sector remains neutral, and we assess buyers on a case-by-case basis. In general, the credit risks associated with buyers that have a strong background (state-owned or with a parent company that is a key player) are always lower than for small privately-owned businesses. Therefore, our underwriting stance on smaller private businesses (both producers and traders / distributors) in the basic chemicals sector is relatively restrictive because of slim margins and the fierce competition caused by low barriers to entry. Many small-scale Chinese petrochemicals firms are burdened by poor efficiency and little opportunity to derive economies of scale.

Due to strong growth rates and high profitability, our underwriting stance is more open for pharmaceuticals than for chemicals. Again, for many small privately-owned pharmaceutical distributors we maintain a stricter strategy because of limited transparency and a lack of insight into buyers' real strength. Official financial information often does not reflect businesses' real financial situation, and therefore obtaining internal accounts is vital in order to accurately assess creditworthiness.

**Chinese ICT sector**

Strengths

World's largest producer of synthetic fibres

Domestic demand continues to grow in the long term

Technology upgrade via mega joint venture projects



Weaknesses

Chinese firms lack investment in R&amp;D

Profit margins remain slim for some producers due to inefficient production systems

Many small-scale chemicals firms are burdened by low levels of efficiency and poor economies of scale

Source: Atradius

# France

- Growth continues while international competition increases
- Modest insolvency decrease expected in 2015
- The refinery segment suffers from overcapacity



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months		✓			
General demand situation (sales)		✓			

Source: Atradius

The French chemicals sector has proved to be resilient in recent years, despite the feeble growth rates of the French economy. According to the French chemicals association UIC, French chemicals production is expected to grow 2% in 2015 after a 2.9% increase in 2014. Looking at subsectors, mineral chemicals, which is linked to the industrial gas and fertilizer industry, grew 0.9% in 2014 and is forecast to increase 1.2% in 2015. Soap and perfumes, which are niche markets and benefit from the experience of French businesses, grew 3.9% in 2014 and are forecast to increase 3.5% in 2015.

Organic chemicals, one of the most important segments of the French chemicals industry, grew 5.6% in 2014, mainly due to a rebound in the French automotive sector and robust demand from packaging, while demand from construction remained subdued. In 2015, production in this segment is expected to grow 1%. Specialty chemicals are expected to increase 1.3% in 2015 after registering 1.8% growth in 2014.

Given that the chemicals sector's export share (mainly in Europe) amounts to more than two thirds of overall sales, French businesses are in strong competition with other international players, especially with US chemicals businesses that benefit from lower energy prices. The current gains from lower oil prices are partly offset by this competition, as decreases in raw material prices have to be rapidly passed on to lower sales prices in order to maintain market shares. However, those lower sales prices for chemicals products should further stimulate demand and provide more financial flexibility for chemicals businesses as working capital requirements should deflate. The currently lower exchange rate of the euro against the dollar also helps French chemicals exporters for the time being.

In the long term, the high level of investment in the US chemicals industry seen in recent years clearly provides the US competition with a strategic advantage against their French peers. Basic chemical products are most affected, as this segment's profita-

**France: Chemicals sector**

	2013	2014	2015f
GDP growth	0.5	0.7	1.0
Sector value added growth	1.1	1.1	1.3

Sector share in the national economy (%)	4.7
Average sector growth over the past 3 years (%)	1.0
Average sector growth over the past 5 years (%)	1.9
Degree of export orientation	very high
Degree of competition	average

Sources: IHS, Atradius

bility depends mainly on volumes, which makes it more sensitive to energy costs. On the contrary, the specialty chemicals segment maintains a competitive advantage as it is less price-sensitive, but depends on innovation.

The danger of losing competitiveness has clearly led to some strategic restructuring measures by French chemicals businesses, such as focusing on core business activities and diversification of activities towards specific segments with higher margins (painting, ink, glue, herbal-pharmaceutical products, essential oil). In order to improve their margins, smaller companies continue to focus on niche markets, invest in research and development and develop additional services for technical support of customers.

Despite growing competitive issues, businesses in the French chemicals sector generally show satisfying margins with good cash generation. The volume of protracted payments and

non-payments is expected to remain low. The industry is characterised by a low level of insolvencies. It is expected that the number of insolvencies will decrease further in 2015, although this decrease will probably be below 2%. However, given the value chain structure of the sector, insolvency of a major player would have a severe impact on suppliers.

Due to the overall good performance and the low frequency and value of credit insurance claims, our underwriting approach is positive. That said, we scrutinize the refinery subsector more closely, which suffers from overcapacity in France and Europe. The French petroleum industry association UFIP estimates that the average refining margin was EUR 22 / tonne in 2014, while variable and overhead expenses amounted to EUR 30 / tonne, leading to large losses. When underwriting chemicals businesses, it is also still important to identify end-markets (for instance the French construction sector as one of the major chemicals buyer industries still shows no comprehensive rebound).

**French chemicals sector**

Strengths

High share of export sales

Concentration of a few global players

Electricity cost lower than the European average



Weaknesses

High labour cost

Burdensome legislation

Source: Atradius



# Germany

- Growing production, but decreasing sales prices
- Payments take 45 days on average
- Robust solvency and liquidity



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector	✓				
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months		✓			
General demand situation (sales)		✓			

Source: Atradius

The German chemicals industry (including pharmaceuticals) is the largest chemicals industry in Europe and the fourth largest in the world. Of the about 2,000 companies that produce chemical products, more than 90% are small and medium-sized enterprises (SMEs) with less than 500 staff members. SMEs employ one third of the workforce and account for almost one third of total chemicals industry sales. Unlike in other industries, chemicals SMEs are often customers, not suppliers of large chemicals companies.

According to the German chemicals association VCI, production increased 0.6% and turnover rose 0.1% in 2014. In 2015, the VCI expects production to increase 1.5% and turnover to decrease 0.5% (including pharmaceuticals). Excluding pharmaceuticals, production is expected to increase 1.0% and turnover to decrease 1.5%. The decrease in turnover is due to the increased international competition which forces chemicals businesses to immediately pass on lower commodity prices to customers.

Chemicals sales prices are expected to decrease by more than 2% in 2015.

In Q1 of 2015 organic basic chemicals accounted for 45% of the production value, followed by petrochemicals (22%), fine and specialty chemicals (20%), polymers (13%), inorganic basic chemicals (10%) and detergents and personal care products (7%). The pharmaceuticals sector accounted for 30% of production value. German chemicals / pharmaceuticals businesses generally have a strong market position, and many are highly specialised. In addition, the industry's considerable investment in research and development has given it a well-deserved reputation for innovation and a consequent competitive edge.

Generally, German chemicals and pharmaceuticals businesses have robust equity, solvency and liquidity. Profit margins in the chemicals sector are stable overall, although they are influenced

### Germany: Chemicals sector

	2013	2014	2015f
GDP growth	0.4	1.6	2.2
Sector value added growth	3.1	1.2	2.7
Sector share in the national economy (%)			2.4
Average sector growth over the past 3 years (%)			2.6
Average sector growth over the past 5 years (%)			4.1
Degree of export orientation			very high
Degree of competition			high

Sources: IHS, Atradius

by global oil prices. Profit margins in the pharmaceuticals sector are still satisfactory but are shrinking in the domestic market because of the health regulations introduced in 2010. Since then, a number of patents have expired leading to a decline in both turnover and profits from these products. However, pharmaceutical research based manufacturers compensated for this with intensified research and mergers and acquisitions.

The German chemicals and pharmaceuticals sector's payment behaviour has always been better than average with no notable payment delays, even during the 2008 / 2009 economic crisis. In our experience payments take, on average, 45 days – even fewer for domestic payments, as most chemical and pharmaceutical products are exported to destinations with longer payment

terms than the domestic market. We have seen no change in payment behaviour or increase in notifications of non-payment in the last six months and expect this pattern to continue in the coming months. This should be accompanied by fewer insolvencies in the sector: both chemicals and pharmaceuticals have a lower insolvency rate than other German industries.

Our underwriting stance for this sector remains generally relaxed, with normal external monitoring and buyer reviews. However, we pay additional attention to buyers who depend on more critical sectors, such as photovoltaic, which has been affected by insolvencies and restructurings because of reduced public subsidies and strong competition from China.

### German chemicals sector



Strengths

Motor for innovations / high R&D investments / high expertise

Restructuring and concentration process well advanced

Strong market position / large number of highly specialised businesses



Weaknesses

Dependency on oil and energy prices

High dependency on global economy due to high export rates

Competition especially from China and the US

Source: Atradius

# Spain

- Increasing exports, but margins remain tight
- Modest recovery of the pharmaceuticals subsector
- Payments take 60 days on average



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months		✓			
Trend in insolvencies over the last 6 months		✓			
Development of insolvencies over the coming 6 months		✓			
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector				✓	
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)		✓			

Source: Atradius

The Spanish chemicals sector consists of more than 3,000 companies and generates more than 12% of industrial GDP. During the years of negative economic growth the industry has proved to be relatively resilient, mainly due to its export orientation. The Spanish chemicals sector obtains 57% of revenues from export markets, amounting to EUR 32 billion turnover and 14.7% of the total Spanish industry exports. Since 2000, the sector has increased its exports by more than 170%, demonstrating its competitive edge in the global market.

The Spanish chemicals sector mainly consists of small and medium-sized businesses, with 85% of the companies employing less than 50 people. However, the hydrocarbons subsector is represented by large groups such as Repsol and Cepsa.

According to Feique (the business federation of the Spanish chemicals industry), in 2014 the Spanish chemicals sector re-

corded moderate turnover growth of 2%, rising to EUR 56,386 million. Exports increased 3.6% following 8.2% growth in 2013. The sector is forecast to grow further in 2015 due to the more positive domestic and international economic environment. Although exports will continue boosting overall sales, it is likely that internal demand will start playing an important role again, given the economic rebound in Spain. That said, many businesses are operating with very tight margins as a result of higher prices for raw materials and growing global competition.

The pharmaceuticals subsector has experienced a gradual recovery since the second quarter of 2013. According to Farmaindustria (the Spanish pharmaceuticals trade association), accumulated public expenditure on pharmaceuticals decreased 30% from 2010 to Q1 of 2013. However, this trend started to slowly revert in Q2 of 2013, with year-on-year growth of 1% between January 2014 and January 2015. The demand side of prescriptions is also

**Spain: Chemicals sector**

	2013	2014	2015f
GDP growth	-1.0	1.3	2.5
Sector value added growth	0.3	1.5	2.9
Sector share in the national economy (%)			1.3
Average sector growth over the past 3 years (%)			-1.7
Average sector growth over the past 5 years (%)			0.1
Degree of export orientation			high
Degree of competition			average

Sources: IHS, Atradius

increasing moderately. Regarding the payment delays previously suffered by the sector, it is worth mentioning that the Spanish government has taken significant steps in order to mitigate the situation, as well as to rationalise medicine consumption.

Payment behaviour in the chemicals industry depends on company size, sector activity and even the company's location. On average, payments in the industry take around 60 days: better than most Spanish industries overall, where more than 50% of companies take more than 75 days to pay.

We have seen no increase in notifications of non-payment and subsequent credit insurance claims in 2014 and in Q1 of 2015. The claims trend in the chemicals industry is better than the Spanish industry average and we expect insolvencies to remain

low in 2015. Thanks to its high degree of internationalisation and the improvement of domestic demand, our underwriting approach to the chemicals sector is rather relaxed. However, we are still cautious about poorly rated buyers and those who cannot provide up-to-date financial information or trading experience.

Even in the case of subsectors with a generally lower credit quality – for example pharmaceuticals and fuel – we have made every effort to optimize our exposure, seeking the most recent financial information, enabling us to maintain or even increase our credit approval. However, for small and medium-sized companies with high leverage and low margins we pursue a cautious underwriting approach, monitoring that liquid resources and cash generation are sufficient to meet businesses' financial commitments.

**Spanish chemicals sector**

Strengths

High degree of internationalisation

Large investments in research and development and innovation

Modern and well-structured industry

Product diversification



Weaknesses

Domestic demand set to improve, but the long-term effect on sales is not evident yet

Low margins

Growing international competition

Source: Atradius

# United States

- Growing competitive edge and increasing investments
- Insolvencies expected to decrease further
- Some caution advised for the energy sector



## Overview

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months		✓			
Development of insolvencies over the coming 6 months		✓			
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months			✓		
General demand situation (sales)		✓			

Source: Atradius

The US chemicals industry accounts for about 15% of global chemicals output and employs more than 800,000 people. In 2014, it contributed about 12% to US merchandise exports. Chemicals is a broad ranging sector and an ingredient in a variety of products, touching around 95% of manufactured goods in the US, and is therefore highly exposed to the broader economy and manufacturing activity. Growth in the chemicals sector typically follows GDP expansion or contraction.

The Chemicals sector is benefiting from the on-going US economic growth, which is forecast to increase 2.5% in 2015 and 2.8% in 2016. US chemicals production growth is expected to increase 3.7% in 2015 and 3.9% in 2016 (after growing 2% in 2014).

The development of shale gas and the surge of natural gas liquids supply has changed the status of the US, from being a high-

cost producer to one of the lowest-cost producers globally. This shift in competitiveness has boosted export demand, despite the strong US dollar (the dollar has risen 25% relative to the euro since May 2014). It also drives significant flows of new capital investment in the US chemicals sector. Since 2011, the US share of global chemicals industry investment has increased, and this trend will continue. Capital spending has surged since 2011 and amounted to USD 36.28 billion in 2014. It is forecast to reach USD 49 billion by 2019, more than double the level of spending in 2009.

The credit quality of US chemicals companies remained stable in 2014. The availability of low-cost natural gas, a key input for many chemicals companies, has led to favourable performance for petrochemicals and downstream sectors (such as the refining and fertilizer subsectors). The US petrochemicals industry

**USA: Chemicals sector**

	2013	2014	2015f
GDP growth	1.9	2.8	2.5
Sector value added growth	-0.6	2.0	3.4
Sector share in the national economy (%)			1.6
Average sector growth over the past 3 years (%)			-0.9
Average sector growth over the past 5 years (%)			-0.4
Degree of export orientation			high
Degree of competition			average

Sources: IHS, Atradius

retains advantages in the global market even as oil prices, and oil-based feedstock prices, decline. Petrochemicals prices have some correlation to oil prices, meaning the current low oil prices will hurt revenues for certain products and companies, but the US industry's use of natural gas-based feedstock will remain positive.

Besides that, the industry as a whole benefits from lower operating costs resulting from cost restructuring, generally high cash balances, and improved debt maturities profiles compared to a few years ago. More than 85% of companies rated within the US chemicals sector have stable outlooks from Standard & Poor's with a median rating of 'BB'.

US chemicals businesses' profit margins are generally stable, and the amount of protracted payments in this sector is low. On average, payments in the chemicals industry take between

30 and 90 days. After decreasing in 2014, chemicals insolvencies are expected to decrease further in 2015.

Our underwriting approach to the chemicals sector remains generally positive to neutral. As the sector is highly fragmented and dependent on the broader economy and input costs, we scrutinise single subsector trends and end-markets. While being more relaxed on the plastics subsector, the energy subsector generally requires a more cautious underwriting approach due to the lower oil price.

Access to financial information is difficult, but is essential when considering large deals. We continue to review distressed risks on a quarterly or bi-annual basis and use both third party credit agency information and confidential credit sources to support our assessment of the appropriate level of cover.

**US chemicals**

Strengths

Reduced competitiveness from China's coal-to-chemicals operations

Decrease in oil prices is benefitting US manufacturers and consumers

Growth in key-end use markets including light vehicles and housing



Weaknesses

Due to lower oil prices more layoffs in oilfield services

European cracking has become more competitive with the drop in oil prices

Source: Atradius

# Market performance snapshots

## Belgium

- Payments take 30 days on average
- Growth expected to continue in 2015
- Weakening competitiveness due to high labour costs



In international comparison, the Belgian chemicals sector benefits from a very high degree of specialisation. It includes a wide range of segments, from basic organic and inorganic products to pharmaceuticals, biotechnology, products for agriculture, paints, glues, detergents, cosmetics, rubber and plastics processing and many other specialty products such as chemicals for the photography industry. Chemicals (including pharmaceuticals) account for about 23% of the Belgian manufacturing sector, employing about 87,000 people directly and 144,000 people indirectly. More than 75% of the production is exported, and chemicals account for more than 30% of Belgian exports.

After growing in 2013, the Belgian chemicals sector continued its good performance in 2014. According to the Belgian chemicals association Essenscia, turnover increased 2.4% year-on-year in 2014, to EUR 64.2 billion, due to an increase in volumes as well as higher sales prices. In general, the chemicals sector was able to pass on higher raw materials and energy prices to end-customers. Investments amounted to EUR 1.78 billion (30% of total industrial investments in Belgium). Persistently high investments and high research and development spending are core strengths of this industry.

Compared to other Belgian sectors, the general equity, solvency and liquidity strengths of chemicals and pharmaceuticals companies continue to remain above average. Payments in the Belgian chemicals sector take 30 days on average. The number

of payment delays is low, and expected to remain so in 2015. Insolvencies are expected to decrease further in 2015, however below the 6% decline forecast for all Belgian business insolvencies, given the already low number of insolvencies in the chemicals sector. Growth is expected to continue in 2015, helped by a weaker euro, lower oil prices and a eurozone rebound.

However, despite its structural resilience, the Belgian chemicals sector also has some weaknesses: competitiveness is weakening due to the fact that labour costs are among the highest in Europe and competition from China has increased. At the same time, the high export-dependency makes the Belgian chemicals sector susceptible to international risks, such as a potential further escalation of the crisis in Ukraine and the Middle East, a hard landing in China, or a return of the eurozone crisis (e.g. either by Greece leaving the eurozone or a deflationary spiral and liquidity trap).

That said, given the currently robust performance, financial health and low insolvency rate, our underwriting stance remains relaxed for the time being. Buyers are reviewed at least once a year on the basis of new accounts or when new information is received. The latest balance sheet is always requested and we also seek to obtain interim results from more sensitive buyers.



## Italy

- Further growth expected in 2015
- Payments take 85 days on average
- Businesses dependent on construction still face higher risks



The Italian chemicals sector is the third largest in Europe (after Germany and France) and accounts for 1.3% of Italian GDP. Production value amounted to more than EUR 52 billion in 2014 (EUR 81 billion including pharmaceuticals). The industry consists of more than 2,800 businesses, of which 36% have foreign shareholders, 25% are Italian medium-large companies (with sales above EUR 100 million) and 39% are small and medium-sized businesses.

Italian chemicals production increased 1% in 2014, more than Italian manufacturing as a whole. In terms of subsectors, these showed different trends, with satisfying growth for fine and specialty chemicals (up 2.3%), compensating for a moderate decrease in basic chemicals (down 0.9%). Exports grew 1.4% and amounted to EUR 26.2 billion in 2014. This growth was mainly driven by demand from the European market (up 2.8%) while exports outside Europe decreased 0.9%.

In 2015 Italian chemicals production is forecast to grow 1.4%, due to increasing exports (up 3.2% in volume) and the first signs of improving domestic demand (up 1.3%) after four years of contraction. Profit margins are expected to improve in 2015.

Payments in the Italian chemicals sector take 85 days on average. The level of payment delays and insolvencies has been low

in 2014, and this is expected to remain the case in 2015. The volume of notified non-payments is by far better than the Italian business average. The sector's businesses generally show low levels of indebtedness, and banks are willing to provide loans.

Generally, our underwriting approach to the Italian chemicals / pharmaceuticals sector remains relaxed: especially for pharmaceutical manufacturers, because of better payment history. We continue to monitor the chemicals sector closely, anticipating possible defaults and identifying the better performing subsectors. However, subsectors and businesses dependent on construction, construction materials, consumer durables, and furniture require particular attention, as the expected rebound of the Italian economy is still modest. Subdued demand and the risk of overcapacity could lead to higher insolvency risks.

To assess a company's creditworthiness accurately we look for: the most updated financial accounts, including interim accounts, the age of the company, its capacity for absorbing decreasing sales and margins through self-funding and / or a healthy financial structure, its ability to absorb or pass on raw material increases, and its pattern of payments. On those occasions when we have to be restrictive in our underwriting decisions, we will explain our stance fully to our customers to help them plan their sales strategy.



## The Netherlands

- Growth expected to pick up again in 2015
- Higher investments than in previous years
- Growing competition from the US and China



Chemicals is one of the leading business sectors in the Netherlands and is part of one of the strongest chemical clusters in the world: the interconnected Antwerp-Rotterdam-Rhine-Ruhr Area (ARRRA). About two thirds of sales account for basic chemicals (such as petrochemicals, fertilizers and polymers). Due to its economic importance, the Dutch government has named the industry one of the national long-term growth champions.

According to the Dutch chemicals association VNCI, in 2014 chemicals businesses benefited from a weaker euro exchange rate and the lower energy prices. The chemicals industry recorded modest growth in the first three quarters of 2014, as production increased by more than 2%. However, Q4 of 2014 was not that positive, especially due to several maintenance stops in December. Turnover, production and margins decreased in the last three months of 2014. Overall production decreased 0.5% and turnover declined 3% in 2014.

However, in Q1 2015 the chemicals sector recorded a turnaround, as production increased by more than 4% compared to Q4 of 2014 and exports increased again. As a consequence, business confidence has improved, and more chemicals companies expect higher production and increased sales prices in 2015. Additionally, it is expected that Dutch chemicals businesses' investments will increase in 2015 compared to 2014. This is a positive sign, as investments made in the last couple of years were considered to be insufficient. In 2013 and the previous years, the chemicals industry invested maximum EUR 1.5 billion per year, while the necessary level of investments should have been EUR 2 billion in order to tackle necessary innovations.

At the end of 2014, the Dutch Minister of Economic Affairs and representatives from the major Dutch chemicals companies agreed on measures to strengthen the sector's competitiveness. The package includes measures to reduce governmental regulatory burdens and further strengthen regional chemical clusters.

Dutch chemicals companies have diversified their exports to overseas growth markets, which makes them less dependent on economic developments in Europe. The sector also benefits from previous cost saving measures, and lower energy prices.

All this makes the Dutch chemicals industry moderately optimistic about their future foothold in the global market. However, competition especially from Chinese and Middle East chemicals businesses is growing, and strongly oil-based segments feel the competitive disadvantage to their US competitors, which benefit from lower production costs due to cheap shale gas and oil. This hampers further investment in Dutch facilities and continues to add pressure on businesses' margins.

The level of payment delays and insolvencies has been low in 2014, and this is expected to remain the case in 2015. Businesses in the sector generally show low levels of indebtedness, and banks are willing to provide loans. Therefore, and due to the improved business outlook for 2015, our underwriting stance remains generally open for this sector. We monitor business performance by seeking the most recent financial information from buyers and asking our customers to notify us of their trading experience, orders on hand and outstanding payments.



## Market performance at a glance

### Mexico



- Lower economic growth in Mexico (forecast 2.6% in 2015) will affect the domestic chemicals sector, which is expected to show only modest growth.
- The positive effects expected by the comprehensive energy reform in 2014 to liberalise the Mexican energy sector remain uncertain due to current low oil prices.
- Lower oil prices have a negative effect on the oil, fuels and plastics subsectors, e.g. high inventory against low prices of oil derivative products. This might imply losses and higher costs that could not be easy to pass on to customers, while margins are already thin.
- The volatility of the Mexican peso affects chemicals importers. For some businesses, sales are made in Mexican pesos but nevertheless converted into US dollars, which might result in foreign exchange losses and slow payments.
- The average payment duration in the chemicals industry is 60 to 90 days. Currently the number of payment delays is high, and expected to increase further. However, an increase in insolvencies is not expected.
- Due to the problems mentioned above, our underwriting stance on subsectors like oil and fuels, plastics and fertilizers is currently more restricted.

### Singapore



- The chemicals sector contributes to over 30% of Singapore's manufacturing output. The island state is one of the leading petrochemical hubs in the region, and home to over 90 multinational chemicals corporations.
- In 2015, Singapore's GDP is forecast to grow a modest 3%, and chemicals' production is expected to grow at the same rate. Profit margins are expected to remain stable.
- There are some government initiatives aimed at attracting investments in this sector, particularly in the petrochemicals and specialty chemicals segments.
- The overall indebtedness of businesses in this sector is not too high, and banks are generally willing to provide loans.
- The average payment duration in the chemicals industry is 60 to 90 days. Payment delays and default cases are low, and expected to remain so in the coming months.
- Due to the general positive indicators, our underwriting stance is relaxed for the chemicals sector.
- However, we are more restrictive on the bunkering / fuel trading segment, as companies in this subsector have shown lower margins and high debt levels in the past couple of years. The market exit of OW Bunker at the end of 2014 has resulted in many unpaid creditors.

## Switzerland



- The performance of the Swiss chemicals / pharmaceuticals industry has been strong for years, with most businesses showing good financial health. Businesses' gearing is generally low, while banks are very willing to provide loans.
- Many Swiss companies in this sector benefit from a geographically well diversified customer portfolio, which ensures a good risk distribution of their trade receivables.
- As many Swiss chemicals / pharmaceuticals businesses have diversified their production sites outside Switzerland, they are among the Swiss export-driven sectors that are least affected by the appreciation of the Swiss franc.
- Demand and profit margins in this industry are expected to remain stable in 2015.
- The average payment duration in the Swiss chemicals / pharmaceuticals industry is 45 to 60 days. The number of protracted payments, non-payments and insolvency cases is traditionally low, and it is expected that there will be no change in the coming months.
- Due to the general positive indicators, our underwriting stance continues to be relaxed for all segments of this industry.

## Turkey



- The Turkish chemicals sector is expected to grow in 2015, driven by increasing demand. Lower oil prices have a positive effect on industry performance.
- However, the sector is structurally vulnerable due to its dependency on export markets and foreign exchange volatility.
- The overall indebtedness of businesses is high in this sector, but banks are generally willing to provide loans to the chemicals industry.
- The average payment duration in the Turkish chemicals industry is 120 days. The number of payment delays and insolvency cases is low, and no increase is expected in the coming months.
- Due to the general positive indicators, our underwriting stance for the Turkish chemicals sector is currently relaxed.

## United Kingdom



- The UK chemicals sector has recorded growth in sales and exports in Q1 of 2015, despite the rather modest performance of the UK manufacturing sector in this period. Growth is forecast to continue in 2015, on the back of robust UK economic performance.
- While concerns remain in relation to energy and commodity costs, the sector benefits from high entry barriers. Therefore, the majority of chemicals businesses are well established, with stable profit margins and sufficient equity strength, despite high research and development expenditures.
- Only the petroleum subsector shows some weaknesses, as the market suffers from oversupply, leading to intense price competition while fixed costs are high.
- The average payment duration in the UK chemicals industry is 90 days. The number of protracted payments, non-payments and insolvency cases is very low, and it is expected that there will be no change in the coming months.
- Due to the general positive indicators, our underwriting stance for the British chemicals sector is currently relaxed.

# Industries performance forecast per country

June 2015

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrl	Consumer Durables	Electronics/ ICT	Financial Services
Austria							
Belgium							
Czech Rep.							
Denmark							
France							
Germany							
Hungary							
Ireland							
Italy							
The Netherlands							
Poland							
Portugal							
Russia							
Slovakia							
Spain							
Sweden							
Switzerland							
Turkey							
UK							
Brazil							
Canada							
Mexico							
USA							
Australia							
China							
Hong Kong	N/A						
India							
Indonesia							
Japan							
New Zealand							
Singapore							
Taiwan	N/A						
Thailand							
United Arab Emirates							

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Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Excellent

Good

Fair

Poor

Bleak

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# Industry performance

## Changes since May 2015

### Europe

#### Belgium

##### Automotive / Transport



Up from Fair to Good

This sector's performance has improved and credit insurance claims have decreased.

##### Metals



Down from Good to Fair

There have been some insolvencies of medium and large businesses in the metal manufacturing subsector related to construction activities. This specific subsector is closely monitored.

#### Czech Republic

##### Agriculture



Up from Fair to Good

The sector benefits from lower oil prices and good financial conditions (increased access to bank loans).

##### Automotive / Transport



Up from Good to Excellent

Demand is strong and local production is reaching record levels.

##### Construction / Construction materials



Up from Bleak to Poor

Demand and output are both increasing, while businesses' default frequency has lowered.

#### Poland

##### Transport



Down from Fair to Poor

Decreased trade with Russia has reduced demand for transport services. We also observe intensified competition between Polish transport businesses and Ukrainian transport companies registered in Poland.



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