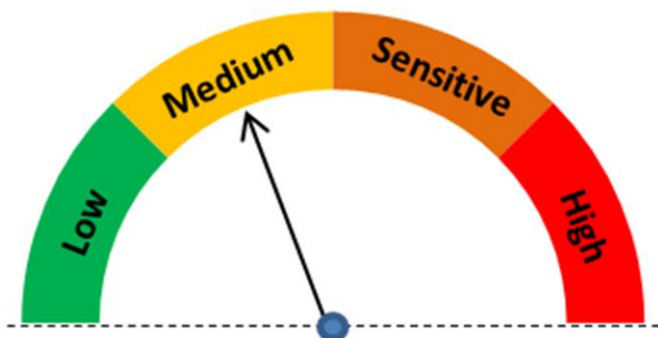


## Sector Risk Rating



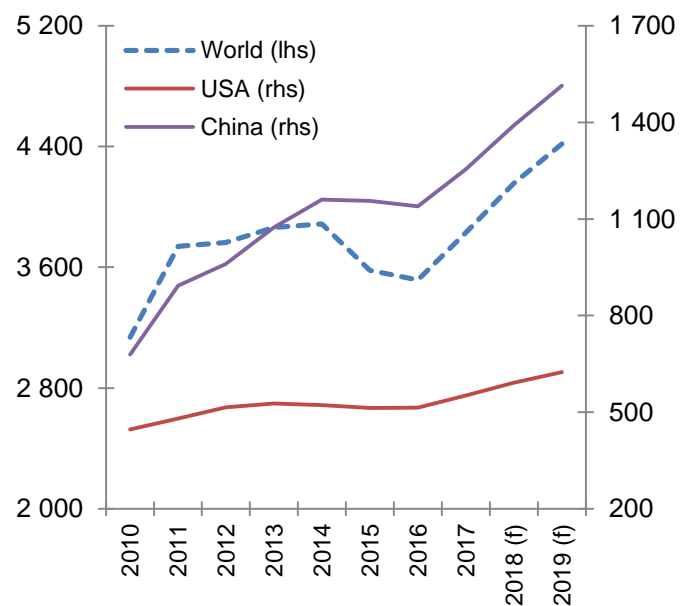
## What to Watch?

- Turnaround in output on the back of an upturn in emerging markets demand
- Impact of rising fossil fuel prices on feedstock costs, especially petrochemical
- Level of R&D spend required in order to support/expand margins
- Sustained M&A activity in intensifying battle for market share

## Stable growth driven by Asia-Pacific

Chemicals is a cyclical business closely to GDP as many chemical products are used up in early stages of the manufacturing supply chain. Upstream chemicals like petrochemicals usually depend upon the dynamics of their respective main end market (e.g. manufacturing) while downstream chemicals like cosmetics are driven by on big trends in consumer spending. Driven by global economic growth and pass-through of rising naphtha prices onto downstream chemical product prices, global chemical sales went up by 9% y/y in 2017, to reach USD3.8tn. We expect continued sales growth around 6%-8% (CAGR 2018-19). European chemical players closed the margin gap to US peers due to a focus on specialties enjoying higher margins; yet the sustained economic growth across Asia (particularly China) and in the U.S. is the prime volume and price driver. Only agrochemicals may continue to face headwinds, from weak crop prices which have led to revenue decline in farming as the most important end market.

Chemical sales (nominal billions of USD)



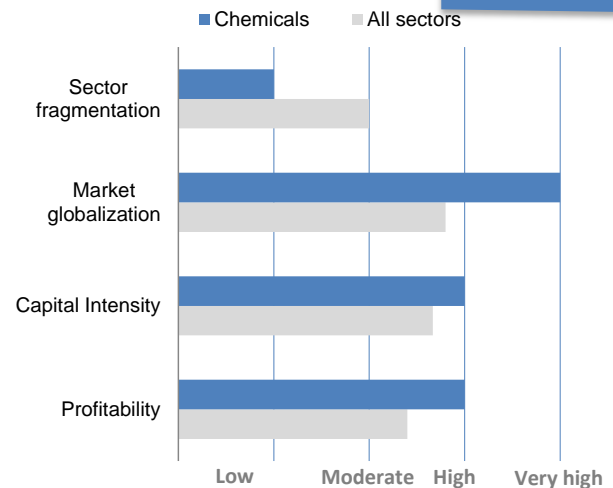
Sources: Oxford Economics, Euler Hermes

Sector Value:  
**3,800bn**  
USD

## Key Players

Country	Role	Sector Risk
<b>United States</b>	#2 importer #2 producer #1 exporter	●
<b>Germany</b>	#2 exporter #4 producer	●
<b>China</b>	#1 producer #1 importer	●

## ID Card



## Strengths

- Innovative sector with upmarket positioning
- Very diversified end markets softening the impact of external shocks on firms' revenues
- Sound operating profitability enabling chemical companies to cope with high capital requirements

## Weaknesses

- Cyclicity
- High capital intensity combined with high level of indebtedness
- Poor public image in terms of environmental issues
- Volatility in the agrochemical sector

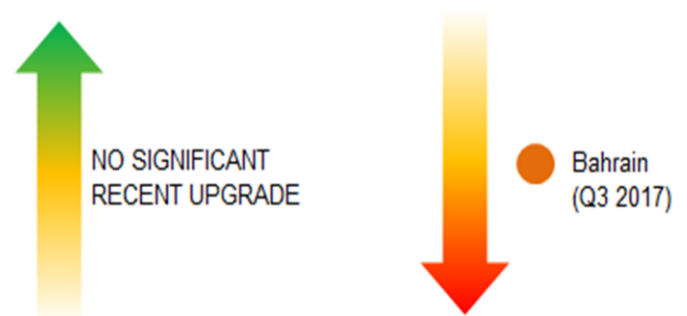
## Subsectors Insights

**Basic chemicals:** It has a close relationship with the cycle of industrial production as its products are used further down the supply chain

**Soaps, detergents, cosmetics:** All attached to chemical products, they are affected by trends in consumer spending

**Agrochemicals:** It is closely tied to global food prices and to farming revenues

## Recent Sector Risk Changes



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