Chemical Sector Debt Could Trigger Global Restructuring

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A new analysis by global consulting firm A.T. Kearney, *Refinancing Will Drive Chemicals Consolidation*, finds that the large number of deals that occurred in the global chemical sector between 2006 and 2008 are now driving a wave of debt repayments that will come due between 2013 and 2016. This comes at the same time that increased U.S. shale gas is leading industry players to seek project financing for up to 10 world-scale cracker and derivative plants. A.T. Kearney analyzed more than 200 companies, both public and private, spanning different industry sectors in all regions. These companies have debt of roughly $380 billion, with the top 27 most indebted companies with revenues of more than $1 billion globally, having debt of roughly $170 billion.

In a release promoting the report, the firm states, "measured against the period from 2000 to 2005, the debt buildup that occurred in the chemicals industry from 2006 to 2008 was extraordinary. The industry conducted deals worth more than $330 billion over that period, with the majority of deals valued at more than $5 billion. One result is that debt repayment is concentrated over the next few years, with levels of $22 billion to $26 billion through 2015 leading to a peak of $33 billion due in 2016. Adding to this large-scale refinancing, there will be a major pull on project finances driven by a new round of billion dollar level investments in U.S. shale-related expansion and new construction. The large round of project investments may be followed by a cyclical low in commodity markets driven by over-building in the United States and globally in select markets.

"Many of the original lenders in the sector have suffered through painful write-downs over the last few years, and as a result, industry consolidation is inevitable as lenders and the industry move to strengthen companies prior to refinancing. These developments are likely to open up opportunities for new entrants and companies from Asia and the Middle East to acquire or merge with established western chemical companies."

A.T. Kearney partner and study co-author Andy Walberer noted, “The landscape for deals in the chemicals industry is shifting. As the industry’s debt situation reaches an important stretch with a wave of repayments due, financing capability will become an important M&A driver both for sellers and buyers. That trend, combined with shale gas-driven investments and strategies, will create new catalysts for deals in the chemicals sector in the coming years.”

For a copy of the study, email Meir Kahtan at mkahtan@rcn.com.

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