Managing risk, enabling trade

July 2019

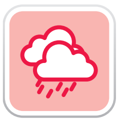
market monitor

Focus on chemicals/pharmaceuticals performance and outlook

In this issue...

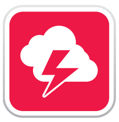
On the following pages we indicate the general outlook for each sector featured using these symbols:

Excellent
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend



Poor
The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend

Good
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend



Bleak
The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend

Fair
The credit risk situation in the sector is average / business performance in the sector is stable

Tougher times ahead?

Globally, the chemicals industry has performed quite well over the last couple of years, with generally robust business financials, good payment records and low insolvency rates compared to other industries. The performance of the chemicals sector in all countries covered in this issue of the Market Monitor is still rated between ‘Good’ and ‘Fair’, but there seem to be tougher times ahead.

The global automotive industry is facing major challenges in the coming years (increasing e-mobility), while sales are deteriorating in many key markets. This has already triggered less demand for chemical products from this key buyer industry. In the plastics subsector the credit risk situation of many businesses could deteriorate in the near-term, as increased environmental awareness and stricter regulations will lead to the ban of everyday items made of plastic in some major economies.

As the chemicals industry is cyclical and highly dependent on global economic performance, the ongoing insecurity over international trade issues has already left its mark. World trade growth stagnated in Q1 of 2019 amid escalating tariffs and ongoing uncertainty, and the expansion is forecast to slow to 2.0% in 2019, before recovering to a still-weak 2.8% in 2020. An escalated and enduring tariff war between China, the largest chemicals consumer in the world, and the US an increasingly important chemicals exporter, would hurt global chemicals prices and negatively impact demand from key end markets.

China

- **The repercussions of the Sino-US trade dispute are limited so far**
- **Payments take between 60 and 90 days on average**
- **Lending conditions remain very tight**

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 Chinese chemicals industry has entered a phase of lower but still solid growth, following the slowdown in GDP expansion, which is forecast to increase 6.3% in 2019 and 6.0% in 2020. Growth rates of both Chinese GDP and chemicals demand remain above the global average. The industry also benefits from infrastructure projects abroad in the context of the “Belt and Road Initiative”.

China’s chemicals export volume accounts for just about 10% of sector output. The direct effect of US import tariffs on the industry is rather limited, as chemical deliveries to the US are low in value and volume terms. However, the impact is higher for suppliers of chemicals to Chinese export-driven industries (e.g. toys, textiles, etc.), which are deeply affected by US punitive tariffs.

Due to higher downstream demand and increased sales prices, net profit in the industry increased 30% in 2018, to CNY 900 billion. However, profit margins of chemicals businesses are expected to deteriorate in the coming months, due to higher oil price volatility and increased prices for commodity imports from the US and other countries.

In order to retaliate to US tariffs, China originally imposed a 10% tariff on liquefied natural gas (LNG) imports from the US, increasing it to 25% in June 2019. The majority of US oil and gas is imported by large state-owned enterprises like Sinopec, PetroChina and CNOOC, which are largely able to cope with increased import costs, and can count on subsidies provided by the government.

In the Chinese chemicals industry both indebtedness and dependence on bank financing are high, while the lending policy of banks is restrictive for private-owned companies. Banks prefer to offer loans to state-owned enterprises or syndicate loans provided by the government.

China: Chemicals

	2018	2019f	2020f
GDP growth (%)	6.6	6.3	6.0
Sector value added growth (%)	4.4	4.6	5.3

Average sector growth over the past 3 years (%)	5.9
Average sector growth over the past 5 years (%)	7.3
Degree of export orientation	low
Degree of competition	average

Sources: Macrobond, Oxford Economics, Atradius

On average, payments in the Chinese chemicals sector take around 60-90 days. The level of payment delays and insolvencies is average compared to other industries, and no major increase in business failures is expected in 2019, as demand for chemical products is relatively stable across all subsectors and among all buyer segments.

However, we can’t rule out the possibility of several US-export dependent SMEs failing should the trade dispute continue or escalate further. At the same time, supply side reforms and stricter environmental policies in China will continue to force inept and weak players out of the market.

Chinese chemicals sector

Strengths	China is one of largest markets for chemicals in the world
	Chemicals are widely used in various sectors and domestic demand is robust
Weaknesses	Overcapacities still exist, and too many low-end chemical products are produced
	Increasing labour costs have weakened China's international competitiveness
	Repercussions of the Sino-US trade dispute
	Tight lending conditions

Source: Atradius

Our underwriting approach to the Chinese chemicals sector is generally neutral for most main subsectors (basic chemicals, petrochemicals, and fine and specialty chemicals). Their business performance remains steady, with increased use of advanced technology in order to produce higher quality products. In the agrochemical sector the issue of overcapacity has been successfully tackled by government measures to adjust the market and to increase environmental protection.

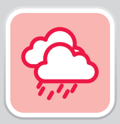
However, downside risks remain, such as an escalation of the trade dispute leading to a serious economic slowdown and poor stock market performance hitting share prices of listed companies. We are more cautious with highly geared private chemicals businesses, as banks are currently restrictive in offering loans to privately owned companies. We are also more conservative in our approach to chemicals commodity traders, due to very low profits in this segment and ongoing price volatility.

Our underwriting stance for the plastics subsector is restrictive, as there are many small players active in this segment, and the majority of products are still low-end. Plastics is the chemicals segment mainly affected by the Sino-US trade dispute, directly or indirectly (as suppliers to businesses dependent on exports to the US). Regarding plastic businesses exporting to the US we scrutinize financial strength, export share and if the goods are on the tariff list or not. The long-term trend for the segment seems to be more positive, as output is moving up the value chain.

Our underwriting stance for pharmaceuticals is open as domestic demand is robust, while most of the players active in the market are state-owned enterprises.

When underwriting the chemicals/pharmaceuticals industry we take into consideration the performance of each subsector, the background of the businesses’ shareholders, the nature of the buyer (seller or manufacturer), their financial performance and funding facilities.

Performance forecast along subsectors

Petrochemicals	Plastics	Pharmaceuticals
		

Source: Atradius

Italy

- **Sluggish growth due to lower demand from key buyer industries**
- **Payments take 60 days on average**
- **Insolvencies expected to increase in 2019**

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

Italian chemicals production increased only 1% in 2018, as exports (accounting for 55% of total revenues) grew 2%, compared to 9% in 2017. Domestic demand even contracted in Q4 of 2018. Demand from key buyer sectors, such as the domestic construction industry and the European automotive industry slowed down last year. Chemicals sales to automotive decreased further in H1 of 2019, and there is no rebound in sight.

Due to the sluggish growth of the Italian economy, domestic demand for chemicals is expected to increase a meagre 0.9% in 2019, while exports are forecast to increase 1.9%. Overall production growth will rise 0.7%. Besides the global slowdown in demand from automotive, the sector's performance is affected by uncertainty about Italian fiscal policy and the trade dispute between the US and China, as well as simmering trade tensions between the US and the EU.

Production of the pharmaceuticals industry in Italy amounted to EUR 32 billion in 2018 (up 3% year-on-year), with Italian-owned producers accounting for 40% of total revenues. Exports accounted for 79% of total revenues, while expenditure for pharmaceuticals in Italy is among the lowest in Europe, and decreasing further.

Despite the more difficult market environment, profit margins of Italian chemicals/pharmaceuticals businesses are expected to remain generally stable over the coming 12 months. On average, payments in the Italian chemicals/pharmaceuticals sector take around 60 days. Payment experience is average, and the level of protracted payments has been stable over the past couple of years.

Italy: Chemicals

	2018	2019f	2020f
GDP growth (%)	0.7	0.1	0.4
Sector value added growth (%)	1.9	1.0	0.8

Average sector growth over the past 3 years (%)	3.1
Average sector growth over the past 5 years (%)	2.3
Degree of export orientation	high
Degree of competition	average

Sources: Macrobond, Oxford Economics, Atradius

While the number of insolvencies in the chemicals sector is the lowest of all Italian industries, we expect a (small) increase in payment delays and business failures over the coming 6 months, triggered by lower demand from all main customer segments and long days sales outstanding (DSO) when delivering to end markets. Access to bank loans could tighten after the European Central Bank´s Quantitative Easing programme ends. However, we expect that the insolvency increase in the chemicals sector will remain below the 6% rise we forecast for all Italian business insolvencies in 2019.

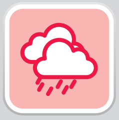
Italian chemicals sector

Strengths	High degree of internationalisation
	The sector has above average solvency and profit margins compared to Italian manufacturing
	The industry has the lowest bank bad debt ratio in Italy
Weaknesses	High energy and labour costs affect margins
	The oil/fuel downstream segment is affected by low margins and increased fiscal crimes
	Increasing competition, especially from Asia
	Flat domestic demand

Source: Atradius

Considering the still low level of bank bad debt and the above-average solvency of many businesses, our underwriting approach to the Italian chemicals/pharmaceuticals sector remains positive to neutral. Nevertheless, our approach is restrictive for the petrochemicals segment, which is impacted by price volatility and fierce competition, combined with a weak financial structure of many businesses. Especially petrochemicals wholesalers show very low margins, with low prices and fiscal crimes being an issue. Pharmaceuticals wholesalers generally have low solvency and high gearing ratios. Bank support is crucial for working capital requirements due to long DSO from end customers.

Performance forecast along subsectors

Petrochemicals	Basic chemicals	Pharmaceuticals
		

Source: Atradius

United States

- **The Sino-US trade dispute has started to impact the industry**
- **Businesses continue to enjoy the cost advantage of shale gas**
- **Payments normally take between 30 and 90 days.**

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 has continued to perform well in 2018, benefiting from cheap and abundant energy and feedstock supplies. The recent corporate tax reform has led to an influx of repatriated cash, used to repay company debt, fuel new business development activities or reinvest in US-based projects. According to the American Chemistry Council, total chemical production volume (excluding pharmaceuticals) increased 3.1% in 2018 and is expected to grow 3.6% in 2019, before easing to 3.1% in 2020 and 2.2% in 2021.

Basic chemicals production is expected to increase 4.8% in 2019 and 4.3% in 2020. In the specialty chemicals segment, production is forecast to increase 2.2% in 2019 following 3.7% growth in 2018. Gains in this segment were driven by growth in oilfield chemicals, electronic chemicals, coatings, adhesives, cosmetic chemicals, flavours and fragrances. In the coming years, demand is expected to grow in line with US industrial and construction sector expansion.

The US chemicals industry is expected to record a USD 38 billion trade surplus in 2019 as exports rise 10% (to USD 143 billion) while imports increase 7.8% (to USD 105 billion). Assuming there are no major trade disruptions, a USD 69 billion surplus in chemicals trade is expected by 2023. Access to export markets will be critical, since export growth will drive industry gains over the next decade (expanding global demand would be met by shale-advantaged chemicals sourced from the US).

However, there is the downside risk that the current trade disputes escalate further, with retaliatory measures by trade partners hitting the US chemicals industry with its substantial trade surplus. At the same time, additional US tariffs on chemicals-related imports would mean that US chemicals businesses pay more for feedstocks, negatively impacting their supply chains.

In the ongoing Sino-US trade dispute tariffs have already been imposed on many chemical and plastics products (petrochem-

USA: Chemicals

	2018	2019f	2020f
GDP growth (%)	2.9	2.6	1.7
Sector value added growth (%)	5.1	2.9	3.0

Average sector growth over the past 3 years (%)	2.5
Average sector growth over the past 5 years (%)	1.1
Degree of export orientation	average
Degree of competition	average

Sources: Macrobond, Oxford Economics, Atradius

icals, lastics, fertilizers, inorganic/organic chemicals). The US chemicals sector is already affected by the higher cost of materials imported from China, as well as by Chinese retaliatory tariffs on US exports. In 2018 US chemical exports to China rose only 2.7% after double-digit increases in 2016 and 2017.

In the petrochemical segment companies have made major investments in building petrochemical plants, in order to take advantage of cheap supplies of natural gas and access to international markets via the Houston Ship Channel. Many of those major investment decisions were based on the expectation that Chinese demand for US chemicals would further increase.

Should the trade dispute continue, and Chinese demand not materialise, petrochemical businesses could face an unfriendly market with rising global supply and falling prices. While US chemical companies are still making profits due to the low cost of natural gas, a persisting trade war with China would challenge them to sell to a more fragmented and competitive global market and to find new buyers (e.g. Latin America and Europe) in order to offset the lack of Chinese demand.

US chemicals sector

Strengths	Strong international competitive advantage due to low energy prices in the US
	Stable profit margins and low level of protracted payments
Weaknesses	Stronger USD hampers export performance
	Sector is vulnerable to global protectionism

Source: Atradius

The US pharmaceuticals sector is expected to record value added growth of 2.4% in 2019 and 2.2% in 2020. Plans by the US administration to lower the price of prescription drugs have not yet materialised. The aging "baby boomer" generation and a subsequent surge in demand for pharmaceutical/health care products should sustain continued production and sales growth.

Profit margins of US chemicals and pharmaceuticals businesses are generally stable and the amount of protracted payments is low. Normally, payments in the industry take between 30 and 90 days. The number of insolvencies is low compared to other sectors and is expected to remain so in 2019, consistent with improving demand for chemicals and pharmaceuticals. Our underwriting approach to the chemicals and pharmaceuticals sector remains generally positive to neutral for the time being.

As the sector is highly fragmented and dependent on the broader economy and input costs, we scrutinise single subsector trends and end-markets. We also closely monitor US chemicals companies that do business in countries where the local currency has significantly devalued against the USD.

We are more restrictive when underwriting the fertilizer segment, which is negatively affected by a more challenging market environment for agriculture (commodity crop price weakness, adverse weather conditions and ongoing trade disputes).

Performance forecast along subsectors

Petrochemicals	Basic chemicals	Pharmaceuticals

Source: Atradius

Market performance at a glance

Brazil

- Despite a sluggish recovery of the Brazilian economy, both chemicals and pharmaceuticals businesses are expected to improve their results and margins further this year. However, the level of competition in both the chemicals and pharmaceuticals sectors is high and industry consolidation is ongoing - in particular among medium-sized and large players.
- Value added in the pharmaceuticals subsector grew by more than 7% in 2018 and is expected to increase about 3% in 2019. The segment remains robust, despite the downside risk of less public health spending due to austerity policies. Demand for innovative medicines/specialised drugs will continue to grow, driven by urbanisation and an ageing population, which will provide pharmaceutical businesses with good revenue-generating opportunities. Demand for healthcare services, medicines and elderly care will increase further in the mid- and long-term. Larger drugstore chains continue to expand and to open new stores, increasingly offering over-the counter (OTC) products like cosmetics and selling natural healthy foods.
- Apart from a few large players, most Brazilian chemicals and pharmaceuticals businesses are still highly leveraged, which is also the result of previous expansion activities before the recession started in late 2014. While being highly dependent on bank financing, financial institutions are generally willing to provide loans to chemicals and pharmaceutical businesses, as business opportunities for distributors and investors are good.
- Payments take up to 120 days in the chemicals sector and average 90 days in the pharmaceuticals industry, with payment behaviour influenced by consumer spending capacity and public sector spending behaviour. Payment experience has been good over the past two years, and we expect chemicals/pharmaceuticals insolvencies to decrease by about 5% in 2019.
- Our underwriting stance on the pharmaceuticals sector is generally open, as the main market players have rebounded. The market mainly consists of resilient distributors and retailers. However, we are more cautious with players depending on sales to public bodies, as austerity measures could lead to further curbs in public health spending.

Brazil: Chemicals

	2018	2019f	2020f
GDP growth (%)	1.1	1.2	2.2
Sector value added growth (%)	0.6	1.7	2.8

Average sector growth over the past 3 years (%)	0.3
Average sector growth over the past 5 years (%)	-1.3
Degree of export orientation	medium
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Petrochemicals	Basic chemicals	Pharmaceuticals
		

Source: Atradius

- Our underwriting stance on the chemicals sector is neutral. Chemicals has been affected by lower demand from China, but the 2019 outlook is more promising. The agrichemicals sector remains susceptible to sudden changes in important exogenous factors like climate, market prices and exchange rate fluctuations. In the basic chemicals subsector most raw materials have to be imported, and production costs are exposed to exchange rate volatility and the looming threat of trade restrictions. Petrochemicals performance could be impacted by increased oil price volatility, e.g. triggered by the current US-Iran conflict.

France

- Demand for French chemical products is still growing, although at a slower pace since H2 of 2018, due to weaker demand from key buyer industries (e.g. automotive and construction in Europe), lower growth in China and increased uncertainty over trade disputes. The industry is highly export-oriented and benefits from a diversification of end-markets and high R&D spending. That said, high labour costs and regulatory burdens are competitive disadvantages.
- Most French chemicals businesses have elevated profit margins. However, margins deteriorated over the past 12 months due to higher input prices (notably naphtha). That said, margins will remain stable over the coming six months as input prices are not expected to increase sharply in this period and gas prices in Europe are decreasing. While the gearing of businesses is generally high in this capital-intensive sector, it benefits from the willingness of banks to lend and currently low interest rates.
- Payment experience has been good over the last couple of years, and the level of protracted payments is low. High dependency on suppliers along the value chain usually prevents buyers from paying late. The number of non-payment and insolvency cases was low in 2018 and H1 of 2019. This trend should remain unchanged over the coming 12 months, despite higher input prices and decreasing global demand for chemicals. This is somehow bucking the trend of French business insolvencies development, which we forecast to increase 3% in 2019.
- Due to the stable business performance and good credit risk situation our underwriting approach is very open to almost all major subsectors (petrochemicals, basic chemicals, pharmaceuticals).
- We are more cautious when underwriting the plastics (packaging) segment. This subsector has recorded an (albeit modest) increase in non-payment notifications over the past 12 months, and is impacted by oil price volatility, increased environmental awareness and stricter regulation (e.g. EU plans to ban the use of single-use plastics by 2021).
- In the long-term the French basic chemicals subsector performance could be impacted by deteriorating international competitiveness and the fact that investments have decreased.

France: Chemicals

	2018	2019f	2020f
GDP growth (%)	1.6	1.4	1.5
Sector value added growth (%)	1.0	1.8	1.7

Average sector growth over the past 3 years (%)	2.1
Average sector growth over the past 5 years (%)	2.6
Degree of export orientation	very high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Petrochemicals	Plastics	Pharmaceuticals

Source: Atradius

Germany

- 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 excluding pharmaceuticals decreased 2.2% in 2018 (including pharmaceuticals: up 3.6%), while turnover decreased 3.8%, to EUR 203 billion. VCI expects both production and turnover to deteriorate again in 2019, by 4.0% and 3.0% respectively.
- This forecast decline is mainly due to lower economic growth in Europe, coupled with less demand from key buyer industries (such as automotive). Additionally the sector is affected by higher insecurity in the global economy over the repercussions of protectionism (e.g. the Sino-US trade dispute and the threat of potential US tariffs on car imports from the EU). At the same time, international competition is increasing for German chemical businesses, mainly from Asian producers constantly climbing up the value chain (e.g. higher knowledge in the special chemicals segment).
- Generally, German chemicals and pharmaceuticals businesses have robust equity, solvency and liquidity. However, pressure on profit margins of German chemical businesses is expected to increase, due to a more volatile economic cycle and increasing international competition. In global comparison labour, energy, commodity costs and regulatory standards are high.
- The German chemicals sector's payment behaviour has always been better than average with no notable payment delays. Payments take 45 days on average, even fewer for domestic payments, as most chemical products are exported to destinations with longer payment terms than the domestic market. We have seen no major change in payment behaviour or increase in notifications of non-payment in the last six months, and this trend is expected to continue in the coming months. The insolvency environment is stable, with insolvencies expected to remain at a low level.
- Due to the still benign credit risk situation our underwriting stance for this sector remains generally relaxed, with normal external monitoring and buyer reviews. However, due to the more difficult market environment we have recently downgraded the sector performance outlook from "Excellent" to "Good".

Germany: Chemicals

	2018	2019f	2020f
GDP growth (%)	1.5	1.1	1.6
Sector value added growth (%)	-1.6	-1.4	1.1

Average sector growth over the past 3 years (%)	1.0
Average sector growth over the past 5 years (%)	1.0
Degree of export orientation	high
Degree of competition	high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Specialty chemicals	Basic chemicals	Pharmaceuticals

Source: Atradius

Japan

- The demand situation for Japanese chemical products is expected to remain stable. However, a sharp slowdown in Chinese economic growth could seriously impact the export performance. Domestic demand for pharmaceuticals is good, as the sector benefits from solid per capita spending for drugs and an ageing population.
- In the basic chemicals segment competition is high with players from overseas, while in the Asian market Japanese pharmaceutical firms increasingly struggle with providers of generic drugs. That said, most Japanese chemical/pharmaceutical manufacturers are focusing on high-end products with higher margins and less market competition.
- Profit margins are generally high. However, chemical businesses profitability is expected to deteriorate in the coming 12 months due to lower demand from China and increased commodity prices (oil and naphtha). Pharmaceutical businesses are also affected by increasing pressure on profit margins, as the Japanese government recently imposed a drug price revision and promotes the sales of generic products.
- Financial gearing among Japanese chemicals/pharmaceutical businesses varies, but is generally below 100%. Especially manufacturers require funds for large investments, and obtaining bank loans is usually no issue. The government is very supportive of bank lending, putting pressure on banks to even lend to weaker businesses in order to achieve inflation targets and to avoid bankruptcies.
- On average, payments in the Japanese chemicals sector take between 45 days and 90 days, with payment duration in the pharmaceuticals sector even longer. Payment experience has been very good over the past couple of years, and the level of protracted payments is low. The number of non-payment and insolvency cases was low in 2018 and H1 of 2019, and this trend should largely remain unchanged over the coming 12 months. This is somehow bucking the trend of Japanese business insolvencies, which we forecast to increase 2% in 2019.
- Due to the stable business performance and good credit risk situation our underwriting approach is open to all major subsectors. While oil price volatility significantly affects the profitability of chemical businesses, Japanese players generally have strong balance sheets, which dampen the impact of higher input prices.

Japan: Chemicals

	2018	2019f	2020f
GDP growth (%)	0.8	0.5	0.4
Sector value added growth (%)	0.8	1.7	-1.5

Average sector growth over the past 3 years (%)	1.8
Average sector growth over the past 5 years (%)	2.4
Degree of export orientation	high
Degree of competition	average

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Petrochemicals	Plastics	Pharmaceuticals
		

Source: Atradius

Singapore

- With major investments in infrastructure and support of large-scale projects the government has encouraged large multinational chemical and pharmaceuticals companies to set up branches in the city-state. Therefore, large international groups dominate the market, while Singapore has the world's third largest refining centre.
- Demand for Singaporean chemical products in Asia is expected to grow further, but a further escalation of the Sino-US trade dispute could disrupt regional and global supply lines. Demand for pharmaceuticals in Singapore remains stable for the time being.
- Profit margins of chemical businesses have remained stable over the past 12 months, with no change expected in H2 of 2019 and in 2020. However, as petrochemical businesses rely on oil imports they could face some pressure on their margins in the coming six months due to rising crude oil prices.
- On average, payments in the Singaporean chemicals sector take between 30 days and 60 days. Payment experience has been very good over the last couple of years, and the level of protracted payments is low. The number of non-payment and insolvency cases was low in 2018 and H1 of 2019, and this trend should largely remain unchanged over the coming 12 months.
- For the time being, our underwriting approach to the basic chemicals as well as the fine and specialty chemicals segments remains generally positive. The same accounts for the pharmaceuticals industry. However, due to the impact of higher oil prices we take a neutral approach to plastics and petrochemicals, especially on trading companies.
- An immediate downside risk to the sector performance is any repercussions on exports should the trade dispute between the US and China escalate. In the medium- to long-term low-cost competitors from other Asian countries and the Middle East could seriously challenge Singapore's export-oriented chemicals industry.

Singapore: Chemicals

	2018	2019f	2020f
GDP growth (%)	3.2	2.3	2.6
Sector value added growth (%)	5.4	1.9	4.2

Average sector growth over the past 3 years (%)	3.7
Average sector growth over the past 5 years (%)	4.5
Degree of export orientation	high
Degree of competition	average

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Petrochemicals	Basic chemicals	Pharmaceuticals
		

Source: Atradius

Spain

- Turnover in the Spanish chemicals sector increased 4% in 2018, to EUR 66 billion, with 58% of production sold abroad. Profit margins are expected to remain stable in the coming 12 months, supported by domestic economic growth, further rising exports and the ability to pass on any price increases to end-customers.
- Access to bank financing has improved in recent years, both for short-term financing (working capital management) and long-term facilities (i.e. capital expenditure financing).
- On average, payments in the Spanish chemicals sector take 60 days and payment experience has been good over the last two years. The number of non-payment notifications and insolvencies was low in 2018 and no substantial increase is expected in 2019.
- Our underwriting stance for the basic chemicals and petrochemical subsectors is open due to the good business performance and credit risk situation. The same accounts for pharmaceutical businesses, which generally have shown sound operating margins and excellent payment behaviour in recent years.
- That said, we take a neutral stance when underwriting the plastics segment, which is impacted by increased environmental awareness and stricter regulation (e.g. the EU plans to ban the use of single-use plastics by 2021). This could negatively affect businesses in the near future.
- When underwriting the chemicals industry it is important to assess for every single company how the evolution of commodity (mainly oil) prices could affect cash flow generation and to look at the ability to pass on any input price increases.
- We pay special attention to highly geared businesses, assessing the evolution of the debt burden and the final use of any significant debt increase. We also pay special attention to the existence of unused committed credit lines and the maturity profile of long-term debt.

Spain: Chemicals

	2018	2019f	2020f
GDP growth (%)	2.6	2.3	2.0
Sector value added growth (%)	1.3	1.8	1.7

Average sector growth over the past 3 years (%)	2.6
Average sector growth over the past 5 years (%)	2.7
Degree of export orientation	high
Degree of competition	medium

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Basic chemicals	Plastics	Pharmaceuticals
		

Source: Atradius

United Kingdom

- The British chemicals and pharmaceuticals industries add about GBP 18 billion of value to the UK economy every year, and combined they are the largest exporter of manufactured goods. Chemical products account for about 4.5% of exported goods, while pharmaceutical products represent about 8% of goods exported. The pharmaceutical sector is part of a global industry in which the UK is a leading European market and producer.
- The chemicals and pharmaceuticals industries mainly comprise small to medium Enterprises (SMEs) and microbusinesses, while a number of major firms are headquartered in the UK. The majority of businesses are mature with a stable customer base, as high entry barriers protect the industries (regulatory requirements and required high capital expenditure).
- Profitability of businesses is generally high in this sector and the profit margin outlook for the coming 12 months is stable. A large number of chemicals businesses rely on asset-based finance for financing. Bank financing facilities are adequate and business refinancing does not appear to be a problem.
- On average, payments in the British chemicals sector take between 60 days and 90 days. Payment experience has been very good over the past couple of years and the level of protracted payments is very low. The number of non-payment and insolvency cases was low in 2018 and H1 of 2019. This trend should remain unchanged in H2 of 2019. This means that the industry is bucking the overall trend in British business insolvencies, which we expect to increase 7% this year.
- For the time being our underwriting approach to the chemicals sector remains generally positive for all major subsectors (basic chemicals, petrochemicals, and fine and specialty chemicals). The same accounts for the pharmaceuticals industry.
- However, the potential repercussions of Brexit pose a downside risk for businesses profitability and payment behaviour in the mid-term. Both chemicals and pharmaceuticals are part of a tightly integrated EU supply chain that relies on friction-free transfer of ingredients and finished products. At the same time, the EU accounts for 60% of British chemicals and pharmaceuticals exports.
- In case of a hard Brexit the main impact would be tariff increases, with both exports and imports susceptible to WTO tariffs. Additionally, exchange rate losses for businesses could pose a serious risk. The agricultural/farming sector could be severely impacted in the event of a hard Brexit due to major changes in the subsidy system (with the expiry of EU subsidies there is the need to replace them with a national scheme). This could negatively impact the agricultural chemicals subsector.

United Kingdom: Chemicals

	2018	2019f	2020f
GDP growth (%)	1.4	1.5	1.7
Sector value added growth (%)	2.1	1.9	1.7

Average sector growth over the past 3 years (%)	0.5
Average sector growth over the past 5 years (%)	1.7
Degree of export orientation	high
Degree of competition	very high

Sources: Macrobond, Oxford Economics, Atradius

Performance forecast along subsectors

Petrochemicals	Basic chemicals	Pharmaceuticals

Source: Atradius

Industries performance forecast per country

July 2019

	Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	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	☁	☁	☁	☁	☁	⛅	⛅
India	☁	☁	⛅	🌧	☁	☁	☁
Indonesia	☁	☁	☁	☁	☁	☁	⛅
Japan	⛅	☁	⛅	☁	☁	⛅	⛅
New Zealand	⛅	🌧	⛅	⛅	🌧	⛅	⛅
Singapore	⛅	🌧	☁	🌧	☁	☁	⛅
Taiwan	☁	🌧	☁	☁	⛅	⛅	☁
Thailand	☁	⛅	☁	☁	☁	☁	⛅
United Arab Emirates	⛅	☁	☁	🌧	🌧	🌧	⛅

Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles
Good	Good	Fair	Fair	Good	Poor	Poor
Good	Fair	Fair	Fair	Poor	Good	Poor
Good	Good	Fair	Fair	Fair	Fair	Poor
Good	Fair	Fair	Bleak	Fair	Poor	Poor
Fair	Fair	Fair	Poor	Fair	Fair	Poor
Fair	Good	Fair	Poor	Good	Fair	Poor
Fair	Good	Poor	Fair	Good	Poor	Poor
Good	Fair	Fair	Bleak	Fair	Fair	Poor
Fair	Good	Fair	Fair	Fair	Fair	Poor
Excellent	Good	Good	Fair	Good	Fair	Fair
Fair	Poor	Fair	Fair	Good	Fair	Fair
Fair	Fair	Poor	Poor	Good	Poor	Poor
Fair	Bleak	Fair	Fair	Poor	Fair	Fair
Good	Good	Fair	Fair	Fair	Fair	Poor
Good	Fair	Fair	Poor	Good	Fair	Poor
Good	Good	Poor	Fair	Fair	Poor	Poor
Good	Good	Fair	Fair	Good	Poor	Poor
Good	Fair	Bleak	Poor	Poor	Fair	Poor
Poor	Fair	Poor	Poor	Poor	Fair	Poor
Good	Poor	Poor	Fair	Fair	Poor	Poor
Good	Fair	Fair	Poor	Good	Fair	Bleak
Good	Fair	Poor	Good	Good	Poor	Poor
Fair	Fair	Fair	Poor	Good	Fair	Fair
Good	Fair	Poor	Poor	Fair	Poor	Poor
Good	Fair	Bleak	Poor	Good	Bleak	Poor
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Poor	Good	Good	Poor	Fair
Good	Fair	Poor	Fair	Fair	Poor	Fair
Good	Fair	Fair	Fair	Good	Fair	Poor
Fair	Fair	Fair	Poor	Poor	Poor	Poor
Good	Fair	Fair	Fair	Good	Poor	Fair
Excellent	Fair	Poor	Fair	Good	Poor	Fair
Good	Fair	Fair	Fair	Fair	Poor	Bleak
Poor	Fair	Poor	Fair	Good	Poor	Poor

Excellent

Good

Fair

Poor

Bleak

Industry performance

No changes since June 2019

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