# Chemicals M&A update

## Asian interest in European firms

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### Chemical M&A buoyant after a record year in Asia

The chemical industry is a highly international sector with activity dominated by cross border transactions. Chinese and other Asian firms have been particularly busy expanding their global footprint and taking advantage of the quality assets for sale.

Globally, Mergermarket shows that deal value more than tripled to $31 billion in Q3 2018 compared to the same period in 2017, while the average deal size for Q3 2018 increased by more than 10% from its two-year historical average of $216 million. North America continued to be the main target region although Asian companies are beginning to shift their attention to Europe.

### Chinese interest in European chemical companies

Chinese companies—active buyers in the sector for the past few years— are increasingly looking to Europe to offset the trade disputes with the US. Overall, from the beginning of 2018 through mid-October, there were 61 Chinese outbound M&A deals in Western Europe, worth $45 billion—up from $35.93 billion in the whole of 2017, according to figures from Mergermarket. Chemicals and Industrials have topped the chart with 23 transactions compared to ten in Consumer or a respective seven in Business Services and Energy, Mining & Utilities.

The motives, however, behind European transactions are the same as those driving other global purchases—to close the gap through acquiring technological prowess as well as expertise, proprietary formulations & products. One example is Alantra's October 2018 transaction, the c. €200m sale of European engineering plastics specialist Elix Polymers by Sun European Partners to Beijing-based Sinochem International. The deal supports the ABS producer's strategy to expand its activities in Asia, a region in which it is currently underrepresented. At the same time, it will boost Sinochem's presence in the plastics industry beyond chemicals trading and fertilizer production. Sinochem is rumoured to be in discussions to merge domestically and consolidate with ChemChina in order to create a global giant in the chemicals industry.

It is expected that Chinese companies will continue to look for opportunities in these traditional chemical segments, but they are also interested in buying organisations involved in pollution, water and waste treatment solutions as well as green and sustainable chemicals & plastics. This is being driven by the government's new environmentally-friendly laws under the 12th Five-Year Plan (5YP) which aims to clamp down on unsustainable industries and incentivize clean and green energy businesses.

### Chinese government influence

While the flow of deals has mainly been from China to the West, the tide has not been just one way: Global conglomerates are divesting Chinese operations as well. As always, high quality assets are constantly in demand, such as the Hovione/IMAX deal. But it is tighter government regulations that have increased costs for companies and spurred divestment discussions.

The Chinese government has clearly stated it intends to standardize chemical parks along the lines of global industry best practice. Currently, only about half of the chemical production plants in China are in dedicated chemical parks, but is expected to increase drastically by 2020, with some provinces having set targets of 90% or more. Western companies, especially those who do not obtain a permit to increase capacity, are increasingly exploring all options for their assets instead of moving to one of the new parks.

**Figure 1:** Transactions in the chemical sector 2017/2018

| | 2017 Q1-Q3 | 2017 Q3 | 2018 Q1-Q3 | 2018 Q3 |
|---|---|---|---|---|
| Number of deals | ▪ 352 | ▪ 103 | ▪ 367 | ▪ 126 |
| Deal Value | ▪ €87.8bn | ▪ €9.6bn | ▪ €122.1bn | ▪ €31.1bn |

*Source: Mergermarket*

2019 probably won't be a record year for chemical M&A when it comes to cumulative value, but it should still be a healthy year. Certain subsectors, such as compounding, will be in demand, with good assets commanding high multiples. Composites, however, will be the star in the age of lightweighting and electric mobility, buoyed by the Chinese government strongly supporting the change from the fossil age towards electromobility and sustainable development.

BERND SCHNEIDER,
HEAD OF CHEMICALS