

Industry match-ups



Spain versus Czech Republic
European football championship 2016



Sector playing field: chemicals industry
Match preview



4:3*

* Comparison of Atradius credit risk situation/business performance outlook for the industry
(Ranking from one ball (very poor) to five balls (very good))



Squad performance for the tournament – check

Spanish chemicals industry

2015	2016f	2017f
3.2	2.7	2.3
3.4	3.4	2.6

1.7
high

Czech chemicals industry

2015	2016f	2017f
4.3	2.4	2.7
3.3	3.6	3.7

3.2
high

Country
GDP growth

Chemicals sector value
added growth (%)

Average chemicals sector growth
over the past 3 years (%)

Level of competition

Sources: IHS, Atradius

A solid team performance

The demand situation for the Spanish chemicals sector is solid, with turnover growing 3% in 2015, to EUR 56.4 billion, bolstered by a rebound in domestic demand, lower oil prices and the USD appreciation against the euro, boosting exports.

Businesses' profitability have generally increased over the past 12 months due to lower prices paid for various petrochemicals products. In the coming months profits are expected to level off due to a more stable evolution of oil prices. It remains to be seen how the expected stabilisation or increase in commodity prices will affect the cash flow generation of Spanish chemicals businesses.

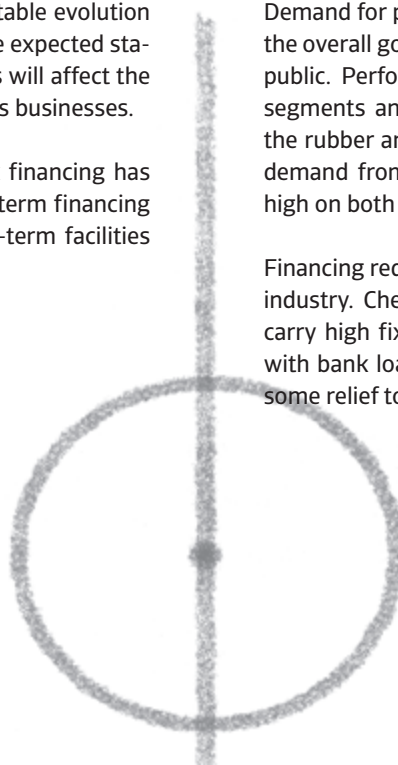
In general the industry's access to bank financing has improved in recent years, for both short-term financing (working capital management) and long-term facilities (i.e. capital expenditure financing).

Competition is high in the market

Overall the Czech chemicals industry registers increasing demand, but this effect is somehow offset due to a decrease in producers' prices, leading to a decrease in nominal revenues. Businesses with higher fixed costs are not always able to transfer these to market prices. After increasing profit margins in 2015 profitability of chemicals businesses is expected to level off in H1 of 2016.

Demand for petrochemical business is increasing due to the overall good economic performance in the Czech Republic. Performance of agribusiness-related chemicals segments and pharmaceuticals has been stable, while the rubber and plastics subsectors are benefitting from demand from the automotive industry. Competition is high on both the domestic and international markets.

Financing requirements and gearing are both high in the industry. Chemical producing companies are forced to carry high fixed assets, which are quite often financed with bank loans. The current low interest rates provide some relief to those companies.





Players to watch

Spain

- All Spanish chemicals subsectors show, in total, a cohesive team performance: The credit risk and business performance of all major subsectors like petrochemicals, basic chemicals and fine and specialty chemicals are expected to remain good in 2016.



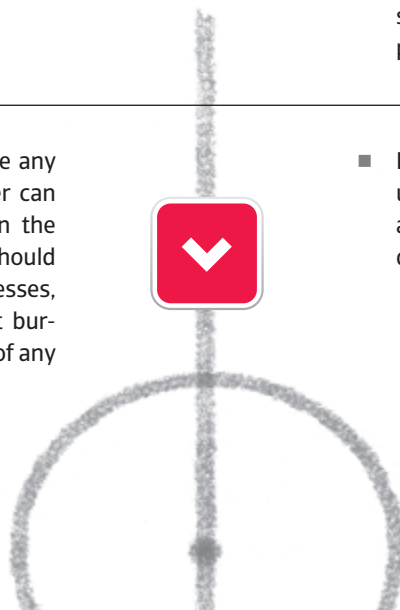
Czech Republic

- The Czech petrochemicals segment has recorded positive results in 2015. Given that oil prices are forecast to remain rather low in 2016 this will continue to benefit margins of petrochemicals businesses.
- At the same time the specialty chemicals subsector has higher added value and faces less competition in the market than other segments. Lower raw material prices should help to influence the performance positively.

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- Even with a strong team performance any mistake made by an individual player can result in a negative outcome. Within the chemicals sector special attention should be paid to highly geared single businesses, assessing the evolution of their debt burden and looking at what the final use of any significant debt increase will be.



- In the basic chemicals segment an individual assessment of businesses is necessary, as many face capacity problems and subdued demand is an issue.





Major strengths and weaknesses

Spanish chemicals industry

- High degree of internationalisation
- Large investments in research and development and innovation
- Modern and well-structured industry
- Important sector in the Spanish economy that has shown resilience during the previous economic downturn
- Good payment track record



Czech chemicals industry

- Closeness to core buyers (e.g. automotive industry)
- Stable business relationships
- Some segments were able to improve margins following decrease in input costs

- High competition in international markets
- Results are highly dependent on the development of certain commodity prices (petrochemical products and oil derivatives)



- High investments in research and development are necessary
- Dependence on external financing
- Decreased producer prices
- Increasing competition from Asia



Fair play ranking: payment behaviour and insolvencies

Spanish chemicals industry

- On average, payments in the Spanish chemicals sector take around 60 days.
- Payment experience is very good, and the level of protracted payments has been low over the past couple of years.
- The number of non-payment cases was low in 2015, and this positive trend is expected to continue in 2016 due to the rebound of the Spanish economy and still low commodity prices.
- The level of chemicals sector insolvencies is low, and this is expected to remain unchanged in H2 of 2016, sustained by further economic growth in Spain.

Czech chemicals industry

- Payment duration in the chemicals sector ranges between 30 days and 60 days. In some particular wholesale segments the payment terms are shorter, starting at 14 days.
- Payment behaviour is generally stable, and non-payment notifications are not expected to increase in the coming months.
- Chemicals sector insolvencies have decreased over the past six months, and are expected to remain stable in the coming six months.



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