

3Q13 results preview

Pricing Pressures and Recovery Hopes*

- **One step forward, two steps back** — The three main features of the quarter are rising recovery expectations and, hopefully, steady volume growth in industrial markets but a more adverse currency impact – notably for sales into LATAM – and pervasive price pressures with only a few exceptions. Putting this together for the sector, we expect an unweighted average 3Q13 EPS decline of 13%. We estimate fertilizer names will be worst hit, given the scale of destocking and price erosion.
- **FX headwinds** — The Euro appreciated against its broad-based basket in 3Q13 but the main appreciation was versus EM currencies and notably those in LATAM. Most of this is translational. The most exposed to this adverse development are agricultural chemical companies, notably Syngenta, we estimate. However, also Clariant, Lanxess, Symrise and Solvay stand out. The scale of currency moves might have led to some delays in demand into 4Q13 noting that EM currencies have partially recovered recently.
- **Pricing and Margin Pressures** — For 3Q13 we see pressure on downstream profitability except for PVC. The average chemical basket price in EU declined by about 6% QoQ and 7% YoY with pressure on most downstream margins across all chains. In the C3 chain, acrylic acid prices lagged propylene and PMMA is down on an absolute level. This is negative for AKE and EVK. In C4, SBR stands out with margins collapsing which is negative for LXS. In C6, the Benzene price in Europe was down about 5% YoY but weak demand and ample supply led producers to pass on more than raw materials costs to capro and TDI buyers. This is negative for DSM, LXS, and BASF.
- **EPS keeps falling** — On average we expect an unweighted average 3Q13 EPS decline of 13% YoY but with vast differences. For instance, we see Lanxess and Evonik down 67% and 42% respectively while DSM, Akzo and Clariant EPS is seen up about 29%, 16% and 15% respectively. We update our Wacker estimates in this note as wafer market still seems intensely competitive and prices appear still to be falling.
- **We are slightly below consensus** — On simple average basis, we are 3.5% below consensus on the EBITDA level. We are below consensus on Akzo Nobel (8%) and Solvay (7%) and above consensus on Wacker (7.2%) and BASF (3.5%).
- ***Correction:** We amend the consensus data for Solvay and Syngenta in Figure 3.

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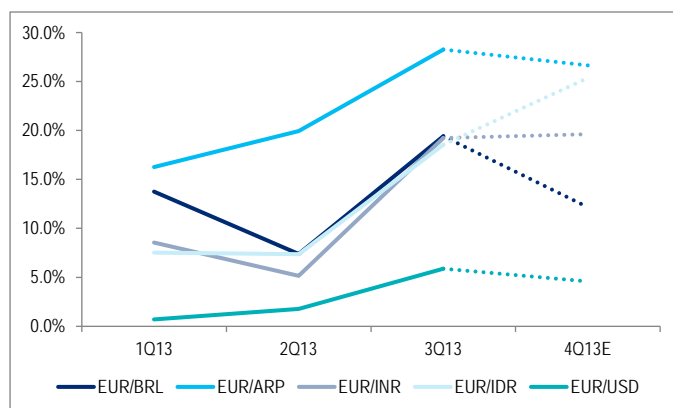
3Q13 – FX and Price Headwinds

Mind the Currencies

FX headwinds mainly due to EM currency woes

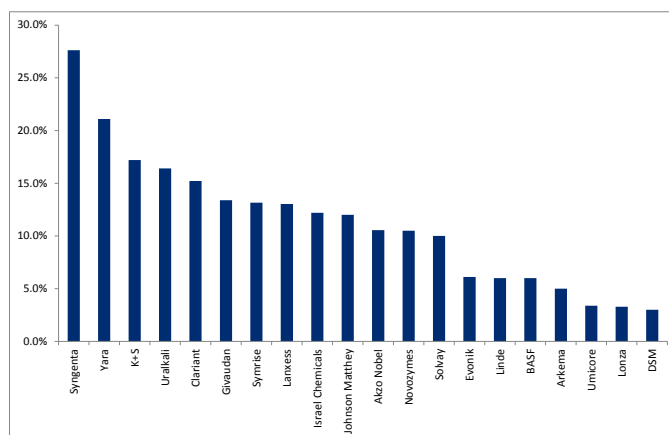
FX was a much more significant headwind this quarter than in 1H13 mainly due to the sharp depreciation of the EM currencies vs. the Euro which ranged from 19% YoY for the Brazilian Real to 26% YoY for the Argentinian Peso. However, even the USD lost against the Euro (c. 6%) given ongoing QE measures and concerns about the debt ceiling.

Figure 1. Euro vs. BRL, ARP, INR, IDR, USD (YoY)



Source: Citi Research; Datastream

Figure 2. % of sales generated in LatAm (2012)



Source: Citi Research; company reports

Expect average FX impact at about -3-4% in 3Q13 vs. c. -1-2% in 1H13

We think on average companies will report a negative FX impact of about -3-4% after about -1-2% in 1H13. Most of this is translational as the majority of companies in the sector have very natural hedges in place.

FX impact could be up to -5% for companies with high LatAm exposure

Companies with an above average exposure to LatAm however could see an even bigger FX headwind of up to 5% we estimate.

We would highlight the following companies with the biggest LatAm exposure: SYNN (28%), Clariant (15%), Symrise (13%), Lanxess (13%), and Solvay (10%). While SYNN has the highest LatAm exposure in the sector, the company “dollarises” some of its local sales via a number of tools including barter agreements – that is it exchanges its products for a proportion of the farmer’s production, which is sold forward in US dollars. Fertilizer companies like Yara (21%) and K+S (17%) sell in USD and hence the high LatAm exposure is less relevant for them – although actual sales are only referenced in dollars. The others could see some material headwinds which should ease a little going into 4Q13.

Summary expectations for 3Q13 – Citi vs. Consensus

Figure 3. Citi vs Consensus - for 3Q13E Sales, adj. EBITDA, adj. EBIT, and adj. EPS

Company name	Date 3Q 2013	Sales (in m)			adj. EBITDA (in m)			adj. EBIT (in m)			adj. EPS		
		Citi	Con	% dif	Citi	Con	% dif	Citi	Con	% dif	Citi	Con	% dif
Syngenta*	17-Oct-13	2,755	2,684	+2.6%	na	na	na	na	na	na	na	na	na
Yara	18-Oct-13	19,220	20,395	-5.8%	2,957	3,065	-3.5%	2,078	2,204	-5.7%	5.32	6.34	-16.1%
AkzoNobel	21-Oct-13	3873	3755	3.1%	454	494	-8.1%	287	318	-9.8%	0.86	0.83	3.9%
Air Liquide*	24-Oct-13	3,952	3,923	0.7%	na	na	na	na	na	na	na	na	na
Umicore*	24-Oct-13	na	Na	na	na	na	na	na	na	na	na	na	na
BASF	25-Oct-13	17,899	17,812	0.5%	2,313	2,234	3.5%	1,501	1,556	-3.5%	1.14	1.32	-14.0%
Novozymes	25-Oct-13	3,003	3,031	-0.9%	931	962	-3.2%	727	755	-3.7%	1.69	1.83	-7.7%
Solvay	25-Oct-13	3,098	3,098	0%	460	495	-6.9%	311	308	0.9%	1.48	1.88	-21.5%
Linde	29-Oct-13	4,320	4,249	1.7%	1,016	1,011	0.5%	638	587	8.6%	2.09	2.06	1.6%
Clariant	30-Oct-13	1,476	1,526	-3.3%	200	205	-2.6%	129	127	1.4%	0.22	0.27	-20.2%
Croda	31-Oct-13	268	275	-2.6%	na	na	na	65	68	-4.5%	31.44	34.00	-7.5%
Lonza*	31-Oct-13	na	na	na	na	na	na	na	na	na	na	na	na
Wacker	31-Oct-13	1,177	1,190	-1.1%	186	174	7.2%	52	47	8.9%	0.24	0.31	-22.9%
Evonik	4-Nov-13	3,415	3,242	5.3%	495	507	-2.4%	353	331	6.8%	0.44	0.44	-0.5%
DSM	5-Nov-13	2,566	2,536	1.2%	331	347	-4.5%	199	212	-6.1%	0.78	0.88	-11.4%
Symrise	5-Nov-13	473	472	0.2%	100	100	0.1%	88	80	9.9%	0.48	0.45	6.3%
Arkema	7-Nov-13	1,569	1,592	-1.4%	230	242	-4.9%	154	164	-6.1%	1.61	1.68	-4.1%
Lanxess	13-Nov-13	1,916	2,081	-7.9%	177	185	-4.5%	74	50	47.6%	0.38	0.40	-4.8%
K+S	14-Nov-13	860	813	5.7%	132	165	-19.9%	73	94	-22.9%	0.20	0.23	-11.2%
Johnson Matthey**	21-Nov-13	5,060	5,137	-1.5%	301	na	na	221	226	-2.1%	81.40	80.00	1.7%
Average				-2.3%			-3.5%			1.2%			-8.0%

Source: Citi Research, Bloomberg & Factset estimates as of Oct 10 2013, * Trading Update, **1H results

Figure 4. 3Q13 Earnings Momentum – YoY change in EBITDA, EBIT and EPS (Citi estimates)

Company name	Reporting Date 3Q 2013	adj. EBITDA (in mn)			adj. EBIT (in m)			adj. EPS		
		3Q13e	3Q12	YoY	3Q13e	3Q12	YoY	3Q13e	3Q12	YoY
Syngenta*	17-Oct-13	na	na	na	na	na	na	na	na	na
Yara	18-Oct-13	2,957	4,187	-29.4%	2,078	3,270	-36.4%	5.3	8.7	-38.9%
AkzoNobel	21-Oct-13	454	428	6.1%	287	272	5.5%	0.86	0.74	16.1%
Air Liquide*	24-Oct-13	na	na	na	na	na	na	na	na	na
Umicore*	24-Oct-13	na	na	na	na	na	na	na	na	na
BASF	25-Oct-13	2,313	2,209	4.7%	1,501	1,471	2.0%	1.14	1.16	-2.1%
Novozymes	25-Oct-13	931	886	5.1%	727	720	0.9%	1.69	1.64	3.0%
Solvay	25-Oct-13	460	553	-16.7%	311	391	-20.5%	1.48	2.24	-34.0%
Linde	29-Oct-13	1,016	949	7.0%	638	569	12.1%	2.09	1.87	11.9%
Clariant	30-Oct-13	200	178	12.3%	129	109	18.5%	0.22	0.19	14.7%
Croda	31-Oct-13	na	na	na	65	60	8.9%	31.44	24.22	29.8%
Lonza*	31-Oct-13	na	na	na	na	na	na	na	na	na
Wacker	31-Oct-13	186	204	-8.9%	52	71	-27.1%	0.24	0.50	-52.3%
Evonik	4-Nov-13	495	689	-28.2%	353	538	-34.4%	0.44	0.76	-42.2%
DSM	5-Nov-13	331	270	22.7%	199	147	35.4%	0.78	0.61	28.6%
Symrise	5-Nov-13	100	90	10.5%	88	80	9.4%	0.48	0.45	6.0%
Arkema	7-Nov-13	230	266	-13.4%	154	189	-18.6%	1.61	1.96	-17.9%
Lanxess	13-Nov-13	177	255	-30.7%	74	160	-53.9%	0.38	1.17	-67.4%
K+S	14-Nov-13	132	225	-41.4%	73	168	-56.9%	0.20	0.74	-72.5%
Johnson Matthey**	21-Nov-13	301	288	4.3%	221	215	3.0%	81.40	71.19	14.3%
Average				-6.4%			-9.5%			-12.7%

Source: Citi Research, Bloomberg estimates as of Oct 10 2013, * Trading Update, **1H results

Mixed trends upstream, but generally weak downstream

Prices and Margins – The Pressure stays on

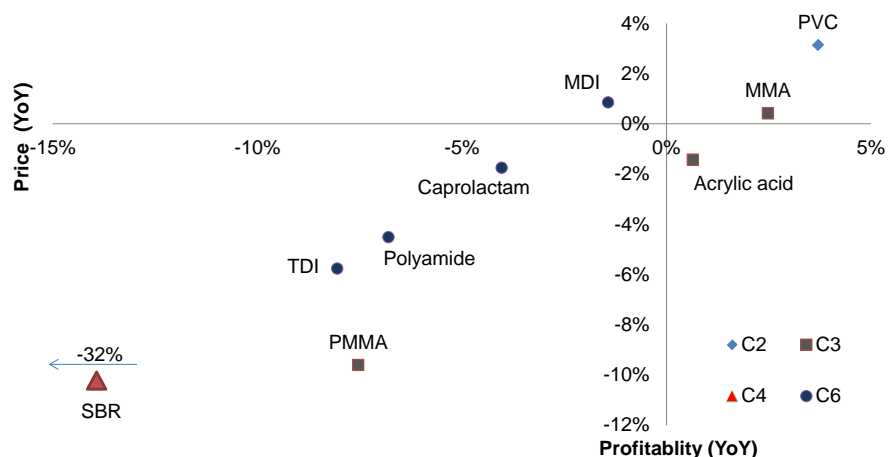
For 3Q13, we saw mixed pricing trends for upstream with benzene and BD prices down 5% and 45% respectively while ethylene and propylene prices rose about 4%. However the downstream trend was generally weak with the exception of PVC (supportive for Solvay) and to some extent MMA (positive for Evonik). We see this attributable to sluggish demand growth (we are expecting volume improvement) but a stronger pace of supply expansions driving increased competitive pressures (For more on supply trends, please refer our note on [European Chemicals - Co-Products 2.0 - Competing in a better supplied market; Buy CLN & DSM; Sell LXS & EVK](#)).

To gauge the profitability trend (and not just margins as declining sales base may show higher margins even for lower absolute profitability), we have done a generic sort of check where we subtract 50% of upstream price movement from downstream price change.

Key points are:

- **SBR profitability down 10%** – BD prices in 3Q13 were down 45% and this had a negative impact on profitability for the entire C4 chain. For SBR, we calculate that this means about 10% decline in profitability q-on-q. This is clearly negative for Lanxess.
- **Margin pressure on C3 chain** – Downstream demand remains sluggish as acrylic prices have lagged propylene costs and PMMA prices were down even on absolute levels. We see this as negative for Arkema and Evonik.
- **Margin pressure on capro continues** – Benzene prices were down about 5% in 3Q13 but weak demand and ample supply led capro suppliers to pass on more than raw material cost to buyers. We see capro profitability down a further 2%. This is negative for DSM.
- **PVC margins are improving** – PVC price has moved up by 6% in 3Q13 and has outperformed ethylene. Our calculation shows that absolute profitability of PVC producers should be up slightly on this price movement. This should help Solvay and might indicate something of an uptick in European construction activity, though favorable weather has probably been more help than cyclical recovery.

Figure 5. Downstream products price and profitability YoY



Source: Citi Research

Figure 6. Change in prices in 3Q13 versus 2Q13 and last year (units as shown)

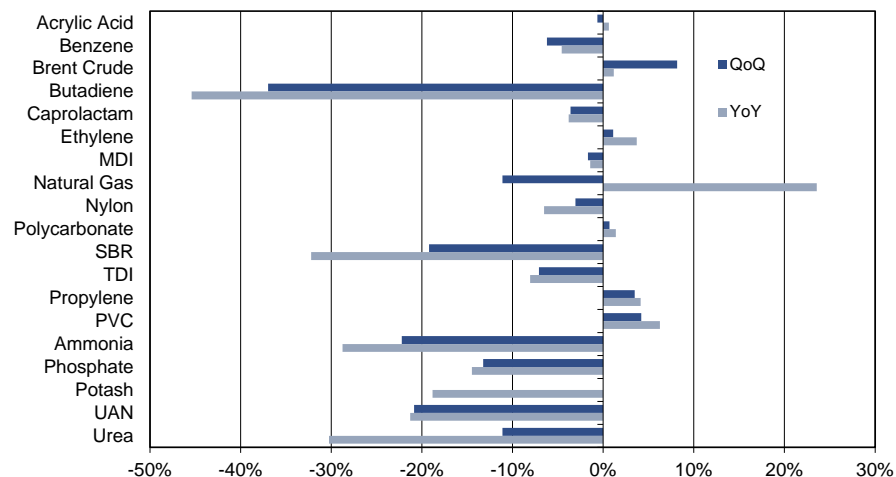
	3Q13	2Q13	QoQ	3Q12	YoY	Comments
Raw Material/Energy						
Brent Crude Oil (\$/bbl)	111	103	8.2%	110	1.2%	Price inflation on the back of political concerns in the Middle East
Natural Gas (€/mmbtu)	3.56	4.00	-11.1%	2.88	23.6%	Seasonally weaker pricing but still up strongly YoY
Energy Price Average						
			-1.5%		12.4%	
Chemical Prices						
Acrylic Acid (€/t)	1,842	1,853	-0.6%	1,830	0.6%	Stable prices given sluggish construction markets. Arkema, BASF and Dow main suppliers
Benzene (€/t)	967	1,031	-6.2%	1,013	-4.6%	Improved supply/demand balance led to some price erosion. Important raw material for BASF and DSM
Butadiene (€/mt)	842	1,335	-37.0%	1,542	-45.4%	Down sharply due to weak demand trends and ample supply. Bearish trend for Lanxess
Caprolactam (€/t)	1,780	1,847	-3.6%	1,850	-3.8%	Prices continue to weaken due to weak demand from textile. Margin squeeze for DSM and BASF
Ethylene (€/mt)	1,213	1,200	1.1%	1,170	3.7%	Prices unchanged despite rising crude oil prices put cracker margins under pressure
MDI (€/mt)	2,060	2,095	-1.7%	2,090	-1.4%	Price erosion lower than upstream benzene; margin expansion likely; positive for BASF
Nylon (€/mt)	2,458	2,536	-3.1%	2,630	-6.5%	Weak automobile sector demand and ample supply conditions
Polycarbonate (€/mt)	2,400	2,383	0.7%	2,367	1.4%	Supply and demand are balanced
SBR (€/mt)	1,522	1,883	-19.2%	2,245	-32.2%	Fall in line with weak demand and lower input cost, butadiene
TDI (€/mt)	2,055	2,212	-7.1%	2,235	-8.1%	Price weakness due to sluggish demand, ample supply and falling benzene costs
Propylene (€/mt)	1,093	1,057	3.5%	1,050	4.1%	Trending higher following higher cracker input costs
PVC (€/t)	811	778	4.2%	763	6.3%	Benefitting from good weather conditions helping construction sector
Chemical Price Average						
			-5.7%		-7.2%	
Fertilizer Prices						
Ammonia (\$/st)	467	600	-22.2%	655	-28.8%	Poor DAP demand into India; less supply constraints in Trinidad
Phosphate (\$/st)	433	498	-13.2%	506	-14.5%	Concerns due to weak Indian demand amid depreciating Indian rupee
Potash (\$/st)	410	410	0.0%	505	-18.8%	Significant uncertainty following BPC break up
US Nola Barge UAN (\$/st)	242	306	-20.9%	308	-21.3%	Price decline in line with weak urea prices
Urea (\$/st)	311	349	-11.1%	445	-30.3%	Weakness due to ample Chinese supply
Fertilizer Price Average						
			-13.5%		-22.7%	

Source: Citi Research; CMAI; ICIS

The notable features are:

- **Weakening in the C3 and C4 chain.** These are important for BASF (MDI, TDI), DSM (capro), Solvay (benzene/nylon chain), and Lanxess (butadiene). Margins are likely to be down in the C4 chain as producers passed on more than the raw material decline. This is negative for Lanxess. The C3 chain is under some pressure as well due to higher propylene cost vs. flattish acrylic prices. This is negative for Arkema.
- **C6 chain remains difficult** – It was another challenging quarter for caprolactam and nylon 6 producers like DSM, Lanxess and BASF. Capro prices fell by 4% and Nylon prices by 6.5% YoY suggesting some margin pressure as upstream benzene fell by 4.5% YoY.
- **Fertilizer prices** were lower in 3Q13. Urea capacity expansion in China and exports, weak demand due to lower grain price, collapse in Indian rupee and Uralkali's decision to exit BPC lead to decline in fertilizer prices all around. As such we expect sharp earnings decline for fertilizer names such as Yara (down 39% YoY) and K+S (down 73% YoY)

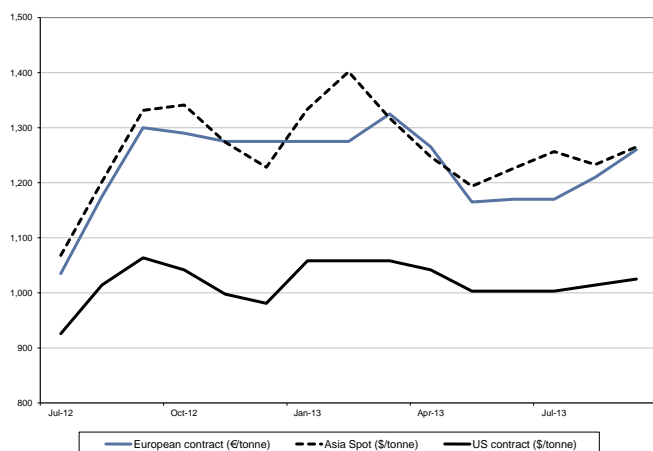
Figure 7. European 3Q13 price change for key materials impacting chemicals and ag sector (%)



Source: Citi Research; CMAI; ICIS

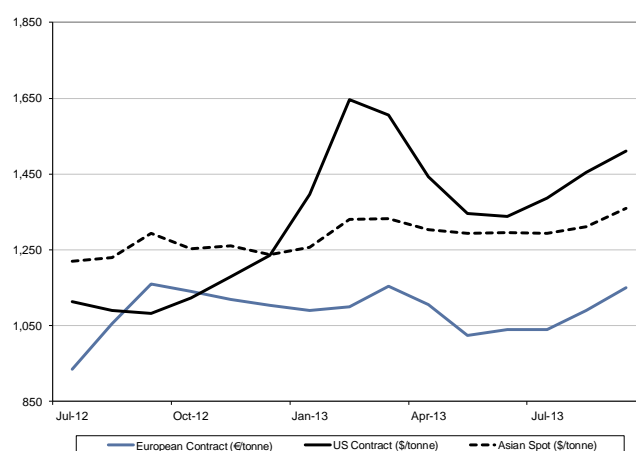
Building Blocks – Some recovery except for BD

Figure 8. Global Ethylene prices (\$/tonne)



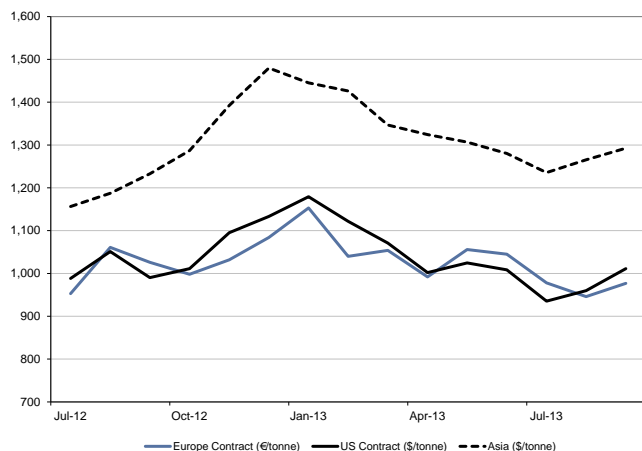
Source: dataCentral, Citi Research

Figure 9. Global Propylene prices (\$/tonne)



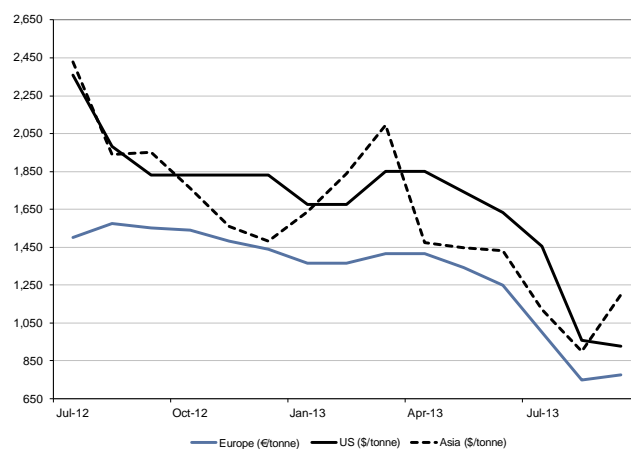
Source: dataCentral, Citi Research

Figure 10. Global Benzene prices (\$/tonne)



Source: dataCentral, Citi Research

Figure 11. Global Butadiene prices (\$/tonne)



Source: dataCentral, Citi Research

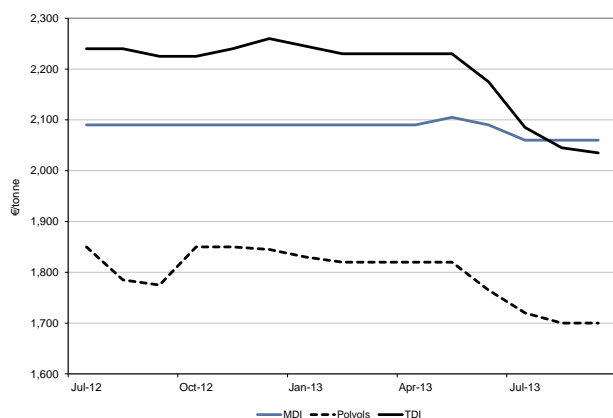
Flattish crude oil prices, ample supply and sluggish demand is eroding pricing power

Upstream prices have been a mixed bag with:

- **Some upward movement seen in Ethylene and Propylene in 3Q13.** Benzene was flattish YoY but down 5% QoQ. Demand was generally sluggish and prices were driven by higher naphtha costs tracking crude oil and some plant outages. We expect some pressure on downstream margins for C3 chain such as acrylics as price was flat yoy vs. 4% increase in propylene price. Implication for Arkema. Margins for C6 downstream were mixed with slight improvement in MDI but capro, Nylon and TDI treaded lower.
- **A sharp decline in butadiene prices** which fell 45% YoY and 37% QoQ. We believe butadiene and derivative prices will remain under pressure in 2013 due to the improved supply outlook for butadiene in 2013 and sluggish downstream demand. We have downgraded Lanxess recently on back of these expectations.

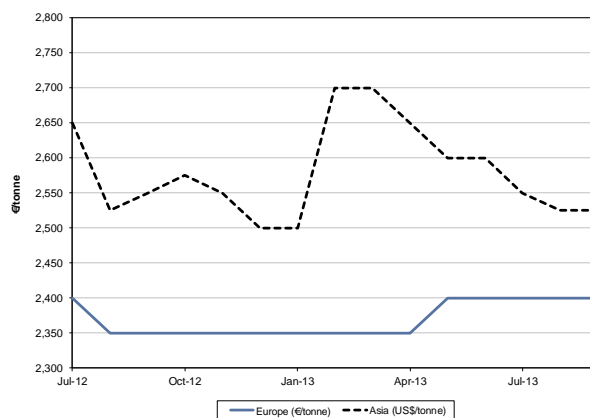
Downstream Products

Figure 12. European MDI, TDI and polyol prices



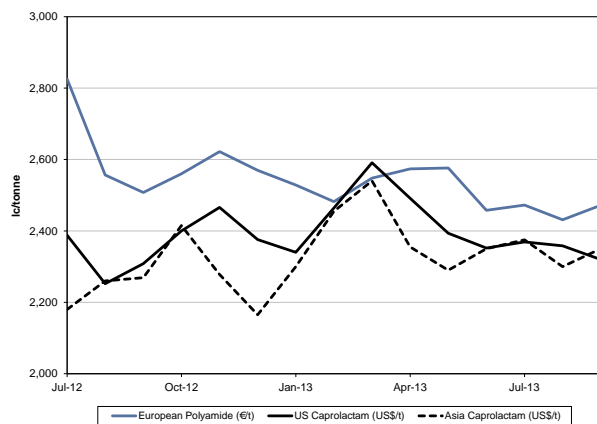
Source: dataCentral, Citi Research

Figure 13. Polycarbonate prices



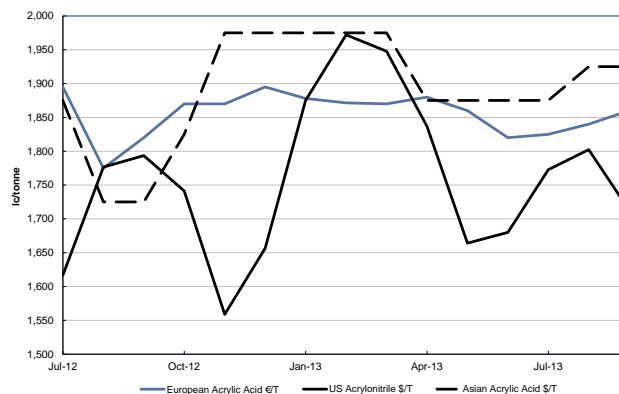
Source: dataCentral, Citi Research

Figure 14. Nylon and caprolactam (nylon raw material) prices



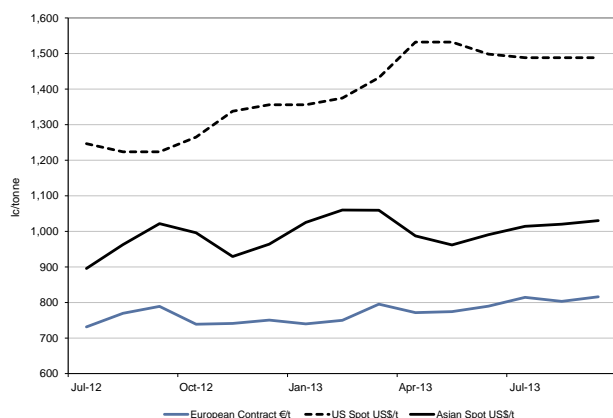
Source: dataCentral, Citi Research

Figure 15. Acrylic Acid and Acrylonitrile Prices



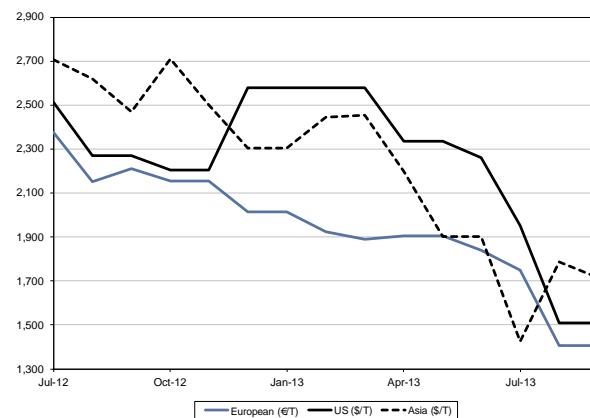
Source: dataCentral, Citi Research

Figure 16. Global PVC prices



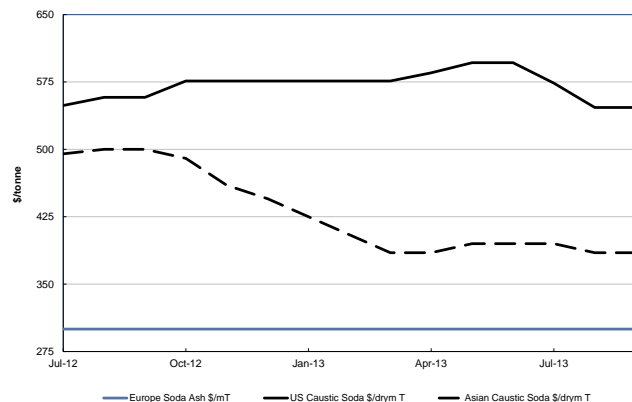
Source: dataCentral, Citi Research

Figure 17. Styrene Butadiene Rubber



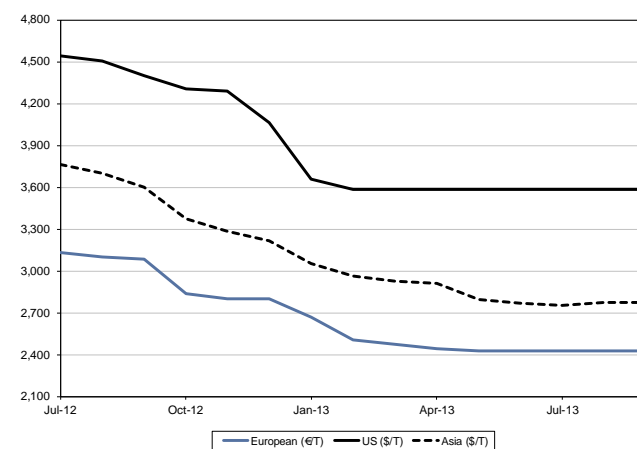
Source: dataCentral, Citi Research

Figure 18. Caustic soda and Soda ash prices (US\$/t)



Source: dataCentral, Citi Research

Figure 19. Titanium dioxide prices (values as shown)

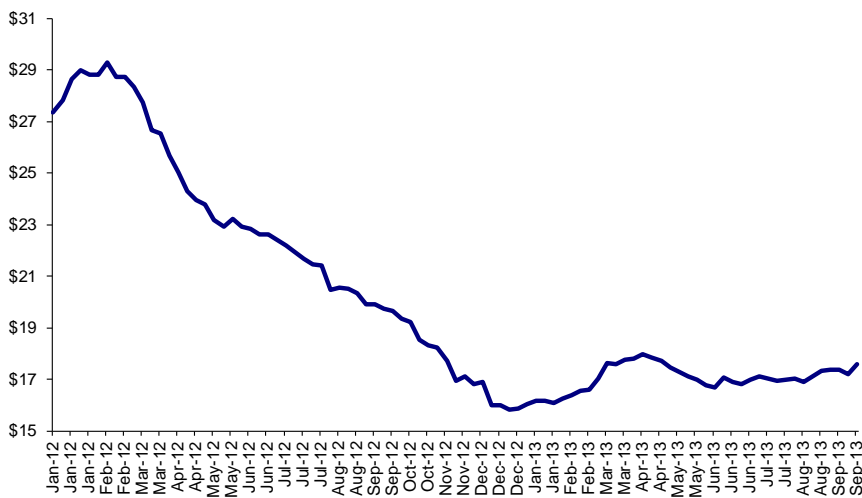


Source: dataCentral, Citi Research

The commodity polysilicon appears to have reached something of a floor at about \$17/kg but is also well below the average cost of production, which we believe is probably in the low to mid \$20/kg range. We would expect the next move to be up but more certainty regarding demand is needed and this requires the political environment to improve. Overall, we would expect 2013 to be extremely challenging for Wacker as well but for the consolidation of the market underway now to enable a cyclical recovery thereafter.

We see Polysilicon trading near bottom of the cycle but still below the average cost of production.

Figure 20. Spot Polysilicon price (\$/kg)



Source: Citi Research, BNER

Weakness in Fertiliser prices

Figure 21. Key Fertiliser Prices

	2010	2011	2012	2012	2012	2012	2012	2013	2013	2013		
	FY	FY	FY	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
Feedstock												
Natural Gas (\$/mmbtu)	4.36	3.99	2.71	2.33	2.35	2.68	3.35	3.36	4.03	3.57	57.1%	(11.4%)
Ammonia												
Other U.S. Golf (\$/st C&F)	408	572	607	457	597	669	705	647	583	493	(12.3%)	(15.5%)
Black Sea (\$/st)	325	474	495	385	484	536	575	525	463	386	(13.6%)	(16.6%)
Middle East (\$/mt)	333	464	513	343	499	566	640	557	498	388	(7.9%)	(22.2%)
Urea												
US Gulf (\$/st)	312	442	482	467	590	501	424	414	365	336	(24.2%)	(7.8%)
Black Sea (\$/st)	263	393	373	359	430	385	353	355	324	284	(13.9%)	(12.2%)
Middle East (\$/st)	286	410	404	398	459	405	385	390	333	298	(18.3%)	(10.5%)
US Gulf Margin (\$/st)	176	304	391	406	513	405	303	302	225	192	(43.5%)	(14.6%)
UAN												
US Nola Barge (\$/st)	222	324	313	295	340	317	307	327	314	243	1.0%	(22.5%)
US Nola Barge Margin (\$/st)	143	249	250	236	280	254	238	257	238	172	(4.7%)	(27.8%)
Ammonium Nitrate												
Baltic (\$/st)			304	312	324	296	308	338	286	262	4.0%	(8.3%)
Black Sea (\$/st)			302	309	325	292	307	339	282	264	0.2%	(6.3%)
Phosphate												
Mid Corn Belt (\$/st)	504	625	548	520	535	553	576	530	511	472	(6.1%)	(7.8%)
C FI Cash DAP Margin (\$/st)	119	168	194	196	196	194	190	183	155	116	(14.9%)	(24.8%)
Potash												
Coarse Midwest (\$/st)	388	522	500	535	500	485	474	440	430	373	(12.5%)	(13.1%)
Brazil Granular (\$/st)			522	541	532	527	487	451	449	419	(14.7%)	(6.5%)

Source: Green Markets, Argus Media

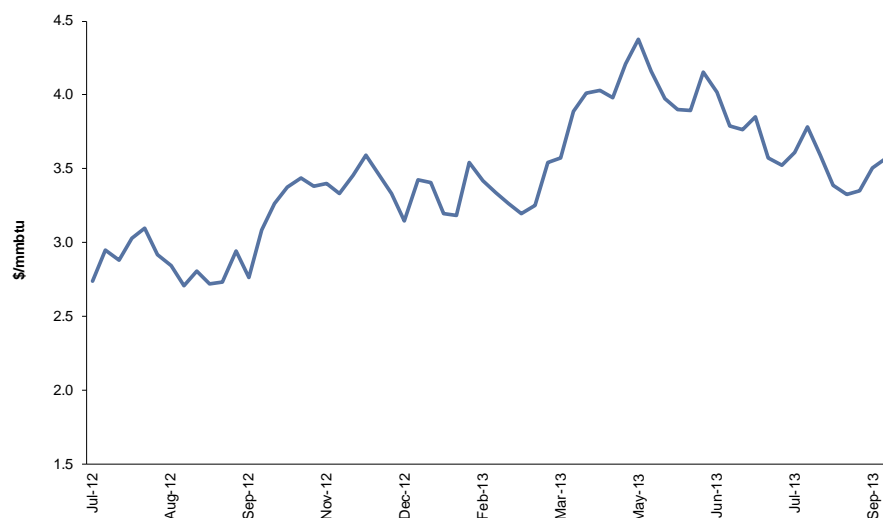
Fertilizer prices dropped significantly in 3Q13. There were **four main** factors at work:

- 1) Uralkali's decision to exist BPC and start of a potash war;
- 2) Lower grain prices tending to suggest farmers will become more conservative in their buying patterns,
- 3) The collapse in the Indian rupee, which is likely to delay and possibly reduce fertilizer imports and
- 4) The 11m tonnes expansion of urea production in China and the sharp increase in exports.

Market seems to have stabilized now with new price levels for potash emerging at around \$350/t-\$380/t cfr depending on the region. Urea prices may well be at trough levels, noting the Chinese export window shuts at the end of October. However, weak demand in India is still affecting phosphates and Florida DAP is trading below \$400/t. On back of these trading conditions, we expect sharp earnings decline for fertilizer names such as Yara (down 39% YoY) and K+S (down 73% YoY)

Natural gas prices are up 57% YoY but down 11% on QoQ basis. Prices are lower than last three year average and well below calorific natural gas oil arbitrage ratio. That said, higher natural gas costs on YoY basis should slightly impact margins of nitrogen fert producers such as Yara.

Figure 22. Natural Gas prices

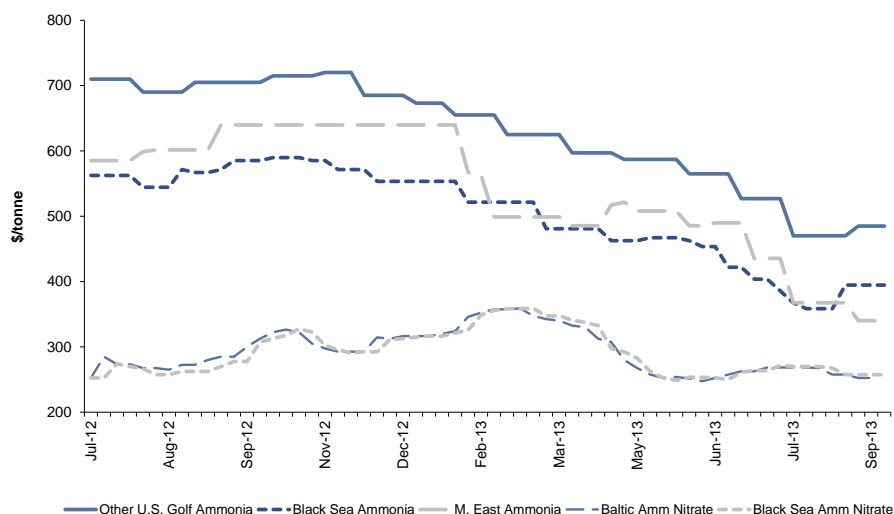


Source: dataCentral, Citi Research

Ammonia prices are down 8%-14% depending YoY around the globe. Sequentially, prices are down even more sharply at 16-22%. Clearly prices are coming off the peak due to lower demand. This is negative for Yara.

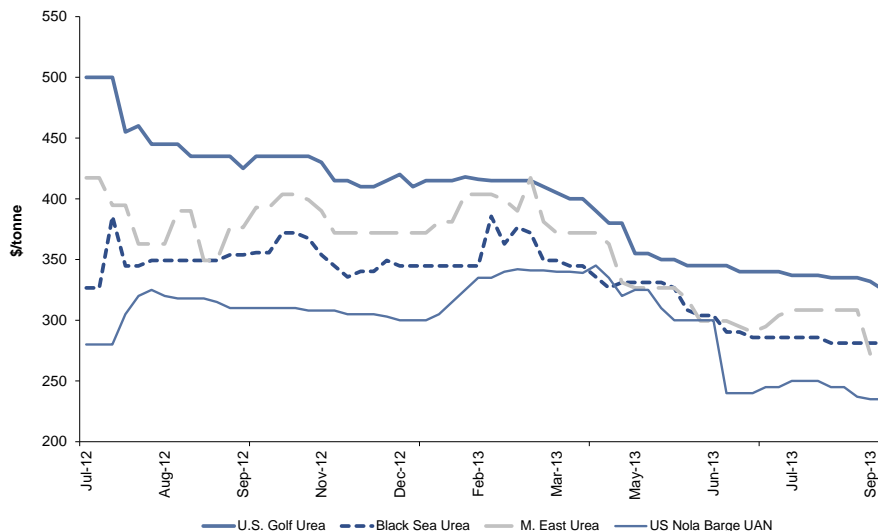
Ammonium Nitrate prices are up slightly in Baltic and flat YoY in Europe. Sequentially prices are down 6-8% tracking ammonia. This is negative for Yara.

Figure 23. US, European and M. East Ammonia prices



Source: FMB, Green Markets and Citi Research Estimates

Figure 24. US, European and M. East Urea and UAN prices



Source: FMB, Green Markets and Citi Research Estimates

Figure 25. Phosphate and Potash prices



Source: FMB, Green Markets and Citi Research Estimates

3Q13E – Results expectations

Syngenta – 3Q13 sales data on 17th October

Look for sluggish sales growth of about 2% to \$2.8bn – adverse currency moves and the corn price are the main issues.

We would expect just modest growth in 3Q13 sales due partly to the impact on reported sales of currency weakness in Latin America in the quarter – so we are projecting sales growth. 3Q13 is seasonally the weakest for Syngenta so not too much should be read into the pace of development in our view. We would expect the company to talk fairly positively regarding 4Q13. Our concern is that weaker grain prices might provoke a weaker demand outlook than is presently in consensus expectations. By region, we would expect Europe to show some growth, Americas still to be affected by the softening in 2Q13 caused by the late Spring and mild weather. The main risk to the performance is currency related and into emerging regions.

Yara – 3Q13 results on the 18th October

We expect adjusted EPS of NOK5.3 down 39% on last year.

The slump in urea prices also coincided with Uralkali starting a price war in potash, which in turn, led to a postponement of NPK buying as buyers looked for lower prices. We believe the premiums for nitrates and NPKs have held up quite well but with urea prices down, it should have impacted margins. Underlying demand should be in a strengthening track so when prices do reach floor levels, and we are close to that now, volumes are likely to recover. Yara will also now be able to start integrating Bunge; it expects \$50m in synergies from this deal in 2014 and potentially we believe twice this level is possible.

Yara faces a tough few quarters with the risk to earnings on the downside. But it has a strong balance sheet, should remain robustly profitable and is well placed to buy assets cheaply in our view. We do expect the market to worry about the next few quarters but equally, we think this is a good time to buy into a quality company with strong long term cash generation potential.

Akzo Nobel – 3Q13 results data on 21st October

We expect EPS of €0.86 – up 16% on last year on the back of a 2% sales decline to €3.87bn.

Trading conditions are likely to be challenging across most of the group but especially within Deco. However, undemanding comps and a modest level of exceptional charges, about €50m, should mean EPS looks solid versus last year. Akzo Nobel has chosen to report its results differently to all the rest of the sector. They do strip out significant disposal gains/losses and amortization charges but they don't identify exceptional charges by division, although they do indicate the total figure. In addition to the 3Q13 charges, they will take a further €200m in exceptionals in 4Q13.

In 1H13 Decorative Paints suffered from down-trading but solid volume growth; Industrial Coatings almost matched the prior year level and Chemicals was weak suffering from some areas of industry overcapacity. We expect these trends to continue but for forex effects for be slightly higher.

We recently increased our estimates slightly to reflect the probable impact of the accelerated restructuring efforts more than offsetting adverse currencies.

Air Liquide – sales data for 3Q13 due on 24th October

We expect 3.9% sales growth to €3.95bn.

The company is projecting EPS growth this year. At the interim stage adjusted EPS rose 2.5%. Importantly, the sales development was more favourable in 2Q13 than the first quarter, where sales fell. New tonnage contract and a stabilization of the European economy together with a few small healthcare acquisitions and a determined effort to increase prices by perhaps 2% should mean the upturn in sales has continued into 3Q13 noting that forex effect will also be more adverse. Cost cutting is likely to be a key factor in the profit outlook this year but we only expect slight EPS growth in 2013 with a more normal 7% growth likely in 2014. We would expect the company to reiterate its expectation of some growth this year.

Umicore – 3Q13 Trading Update due on 24th October

Umicore will publish a **qualitative trading update** highlighting the sales trends across the different divisions.

In Catalysis the trends observed in 1H13 largely continued in 3Q13 with global car production up 2.5% YoY. In EU, car production declined by 7% YoY vs. +5.3% in the US and +3.7% in the RoW. We calculate Umicore's regionally weighted growth at around 0% given the relatively high EU exposure at around 40%.

In the Recycling business further weakening of the gold and silver prices (-6% and -8% QoQ respectively) weighed on the refining intake we believe. In addition, Special metal prices continued to slide in 3Q13 and were down c. 8% QoQ and 24% YoY. This should have put additional pressure on Recycling EBIT as Umicore cannot hedge its exposure to these types of metals. PGM prices remained fairly unchanged on a sequential basis.

In Performance Materials and Energy Materials business trends remained stable QoQ, we think, with a challenging EU construction market weighing on the Performance Materials business while ongoing competitive pressures keep Energy Materials margins at bay. Topline continues to grow in the mid-teens range for the Battery Materials business unit, we estimate.

Assuming no material change in the metal price environment we think Umicore will most likely come out at the very low end of its EBIT guidance of €300-330m for FY13E given the trends observed in 3Q13.

BASF – 3Q13 results due on 25th October

We expect only a slight reduction in adjusted EPS to €1.14 (down 2%) on the back of a 2% rise in sales to €17.9bn.

As per normal, the profit evolution is likely to have been driven by a considerable number of moving parts with main ones, we believe, being price pressures in the commodity-oriented parts of the group (Chemicals division mainly) mitigated by strength in Agriculture and the benefits of a fairly aggressive set of restructuring actions and cost improvement benefits (the reconfiguration of the US cracker to use cheap shale gas being an important issue) plus improved volumes.

With further cost cutting and the repositioning of the Oil & Gas division as well as the market share gains they have been making in agriculture, we would expect the company to be able to predict progress in 2014 even with an increasingly competitive environment for the commodity businesses although the pace of progress is likely to be modest.

Novozymes – results due on the 25th October

We expect adjusted EPS of DKK1.69 up 3% on the back of a 6% increase in sales to DKK3.0bn.

The trends in Household in 1H13 were robust with about 7% underlying growth; we would expect this to have continued. Food and feed enzyme demand also picked up in 2Q13. Biofuel output in the US was down on the prior year but with grain prices falling, we would expect some rebound in output in 4Q13. Currencies should be somewhat more adverse in 3Q13 than the second quarter. Novozymes has flagged up that Agriculture division benefited in 4Q13 from a payment by Syngenta as part of the agreement whereby it gains access to and markets its biological treatments. They have not defined the payment but noted that it will not recur. So the probable upturn in biofuel enzyme demand in 4Q13 will be mitigated by the absence of this inflow. But overall, we would still expect a similar progress in 2H13 compared with the first half. We like the technology and growth potential of this stock but the valuation is well above our view of fair value.

Solvay – 3Q13 results due on 25th October

We forecast adj. EPS €1.48 and recurring EBITDA (REBITDA) of €460m vs. consensus at €1.88 and €495m respectively.

We see considerable risk of Solvay issuing a profit warning for FY13 should REBITDA come in at c. €460m. This would push its implied FY13 guidance of €1,877m out of reach as a strong cyclical upturn in 4Q13 seems unlikely at this point and given the normal seasonal slowdown towards the end of the year in our view.

3Q13 saw no rebound but stabilization in EU, solid growth in the US and weaker than expected growth in Asia, esp. China. FX was a more significant headwind this quarter at c. -3-4% YoY based on our estimates. Close to 10% of group sales are generated in Brazil and the Real depreciated by about 20% YoY vs. the Euro in 3Q13.

In Consumer Chemicals we expect to see some sequential margin erosion given the 40% QoQ collapse in guar prices which affects the Novecare business. Coatis' high Brazil exposure (c. 90%) will be an additional burden due to FX.

In Advanced Materials, improved demand for smart devices should have led to a sequential pick up in Specialty Polymer sales. Silica demand has been strong throughout this year and we expect a similar performance in 3Q13. Rare Earth prices continued to weaken in 3Q13, but Heavy Rare Earths improved towards the end of the quarter. Hence, prices seemed to be bottoming out at this point.

Functional Polymers looks sequentially weaker as the drop in butadiene prices will likely put pressure on margins given FIFO accounting. We expect to see a relief in 4Q13.

Corporate costs should shoot up due to the absence of carbon credit trading benefits. We see REBITDA at minus c. €50m vs. minus €25m in 2Q13.

Linde – 3Q13 results due on 29th October

We expect adjusted EPS of €2.09 up 12% on the back of 8% sales growth to €4.32bn up 7%.

These results will include a full quarter of Lincare, which was acquired in the prior year quarter. It should also benefit from a raft of contract start-ups in 1H13. The improvement in activity in Northern Europe, especially in two key markets, Germany and UK, ongoing cost efficiencies and the sluggish improvement in activity generally should all have helped. Currencies will have been slightly adverse and the weakness in Australia will also have held them back somewhat but overall we do expect a solid set of data.

The shares are at an interesting point. In our view, they do not discount the growth that will flow from the tonnage business as new contract come on stream. It also trades at about a 10% discount to Air Liquide, which we view as unjustified given its somewhat greater EPS growth potential and rising ROCE.

Clariant– 3Q13 results due on 30th October

We forecast adj. EPS of SFr0.22 and adj. EBITDA of SFr200m vs. consensus at SFr0.27 and SFr205m respectively.

We think 3Q13 was another solid quarter with underlying growth of c. 3-4% vs. c. 2% in 1H13. However, given CLN's high EM exposure FX took a bite and we see FX headwinds of about -5% in 3Q13 vs. c.-3-4% for the sector. This held back earnings growth this quarter in our view.

Care Chemicals should have continued on its growth path with 4-5% underlying growth and solid margin. **Catalysis & Energy** has a more difficult year with customers deferring catalysts purchases in light of the global uncertainty. We see negative organic growth of -5%. **Natural Resources** performed well in 1H13 and we continue to see it well placed and expect organic growth of 5.5% with margins at around 13.5%. **Plastics & Coatings** has easier comps and as a result we see organic growth at 3% and stable sequential margins.

CLN will book c. SFr190m in FX translation losses (c. SFr90m) and a book loss (c. SFr100m) associated with the divestment of 3 BUs to SK Capital. This will be booked in the line net income from discontinued operations. We adjust for this in our EPS calculations.

Croda – Interim statement for 3Q13 on the 31st October

We expect Croda to announce that adjusted EPS in 3Q13 was about 31.4p up 30% on the 24.2p last year.

That said, the 2012 number included discontinued losses; we estimate the underlying improvement is about 8%. To the interim stage, Croda was seeing a somewhat better trading picture, European demand tending to stabilize enabling the growth elsewhere to be more visible, but at the more commodity end of its portfolio, it continued to see competitive markets and lose share. The net effect is a steady growth of higher margin business and a modest erosion in sales of lower margin products. We would expect 3Q13 to have been similar with sluggish growth and margins holding up well noting that there are a few differences: 1) they had a poor September due to customer industry destocking associated with poor European demand; 2) currencies are materially less helpful and 3) raw material costs are lower – so the Industrial Chemicals division, in particular, has the potential to do well. Overall, the mix of these factors should be good enough to ensure progress but we would judge the management will feel that they are grinding out improvement slowly and in still quite sluggish markets.

Lonza – 3Q13 Trading Update due on 31st October

Lonza will provide a **qualitative trading update** which provides some insights into the trading environment in 3Q13.

In 1H13 Pharma & Biotech disappointed with weak sales, a build-up of inventory and poor product mix. At the time, management expressed confidence that demand would pick up in 2H13 in light of an enlarged project pipeline. Hence, Lonza needs to deliver and we expect positive comments on utilisation rates and reduction of inventory.

Specialty Ingredients performed strongly in 1H13 driven by Agro, nutrition and personal care. 2H13 is seasonally weaker in water treatment and agro. Recent comments by DSM point towards reduced demand for animal feed in China. Hence, we are interested in the performance of Lonza's Vitamin B3 business in terms of volume and price.

Wacker Chemie – 3Q13 Results due on 31st October

We expect adjusted EPS of €0.24 versus €0.50 last year on the back of sales of €1.17bn, which is down only 2%.

We can track the polysilicon price and make an assessment of demand from the PV data that industry providers like BNEF. We can also track the semiconductor wafer market through Japanese statistics, which are followed by our colleague Takao Kanai (for more details please see our Asian team note on [Shin-Etsu Chemical \(4063\) - Revising down on sluggish demand for 300mm wafers](#)). The polysilicon price has stabilized at about \$17/kg. Wacker can command a significant premium to this due partly to its high purity and due to the addition of the prepayment so we would guess its price is about \$7 or \$8/kg higher. Volumes should also have been good as the settlement of the trade dispute between the EU and China regarding Chinese PV exports to Europe appears to have helped volumes recover. Asian demand also appears to be strong especially in China and to a lesser degree Japan. So polysilicon should be sequentially better but still at a low level. That's about all the good news; the wafer market still seems intensely competitive and prices appear still to be falling. Competitive pressures in silicones and polymers also seems to have increased due to sluggish demand and rising Chinese output, we believe. Overall, it is likely to have been a tough quarter and the trends suggest a weak 4Q13. As a result we have further lowered our 2013 and 2014 EPS by 15% and 4% respectively.

The share price has done well and we would judge fully values the likely cyclical recovery in the medium term. Reiterate neutral.

Wacker Chemie AG (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Sales (€M)	4,909.7	4,634.5	4,464.5	4,911.3	5,220.7
Net Income (€M)	380.0	112.8	32.2	144.3	234.1
Diluted EPS (€)	7.65	2.27	0.65	2.90	4.71
Diluted EPS (Old) (€)	7.65	2.27	0.76	3.02	4.86
PE (x)	10.0	33.7	118.2	26.3	16.2
EV/EBITDA (x)	5.0	7.4	8.9	6.6	6.0
DPS (€)	2.20	0.60	0.00	0.60	1.41
Net Div Yield (%)	2.9	0.8	0.0	0.8	1.8

Evonik Industries – results due on 4th November

We expect adjusted EPS to be down about 42% to €0.44 and the back of a slight rise in sales to €3.42bn.

We believe the main issues that adversely impacted EBIT in 2Q13 will have continued to adversely impact performance, namely the sharp declines in butadiene and methionine prices. In addition, there is a blend of other factors: 1) Nippon Shokubai has brought its superabsorbent plant full back on stream and will probably have taken some share back; 2) European demand is probably sequentially slightly better; 3) volumes overall are likely to be up slightly; 4) currencies will have been somewhat more unhelpful to the results and the €40m impact of the maintenance turnarounds in 2Q13 should not have recurred. At its CMD day Evonik noted that the summer slowdown was less pronounced than last year so the demand picture should be positive overall and probably stronger than in 2Q13. The issue is pricing for its commodities is far more challenging.

We expect market conditions in its key commodities to become somewhat more challenging in 2014. Butadiene is probably at the bottom but methionine and acrylic prices are likely to weaken further. We do not see recovery starting before 2015 and believe the shares will struggle with this increasingly competitive background.

DSM – 3Q13 results on 5th November

We expect adjusted EPS of €0.78 up 29% on sales growth of 11%.

The upturn is significantly driven by recent acquisitions and some cost reduction actions (they embarked on a €280m cost cutting plan this year. That said, DSM warned at its CMD that FY13 EBITDA was likely to be below €1350m and that Nutrition division had had a sluggish 3Q13. There were several factors at play including the reluctance of the Chinese to return to eating poultry, post the bird flu outbreak, an increase in disease pressure across prawn farmers in South East Asia and weaker Omega oil supplement sales post some significant price increases caused by a poor fish harvest last year. We would expect growth to return and the company expects a strong 4Q13 but the reporting quarter will be below trend growth, which they define as GDP plus 2%. Caprolactam remains challenging; prices are weak and the market is highly competitive but at least they will benefit from about €8m per quarter of license income. Overall, we expect a good result but perhaps somewhat below the company's own expectations set with the 2Q13 results.

Symrise – 3Q13 results due on 5th November

We forecast adj. EPS of €0.48 and adj. EBITDA of c. €100m vs. consensus at €0.45 and €100m respectively.

We think trading conditions remained favourable in the quarter with EM driving growth across the group. We forecast underlying growth of about 7% YoY vs. 8% in 2Q13 given the higher base in 3Q1 when menthol started contributing.

FX however was a more significant headwind. After c. -2.5% in 2Q13 we forecast -4% in 3Q13 as Emerging Markets FX, such as the BRL, depreciated significantly vs. the Euro. The impact will be predominantly translational.

Raw material costs look more favourable. Our proprietary raw material cost tracker suggests raw materials came off by about 12 % YoY and 0.4% QoQ. Hence we forecast a sequential EBITDA margin expansion of c. 50bps to about 21.1%.

Arkema – 3Q13 results due on 7th November

We forecast adj. EPS of €1.61 and adj. EBITDA of €230m vs. consensus at €1.68 and €242m respectively.

In 3Q13, trading in EU stabilized but with no signs of improvement. US performed solidly and Asia was in line with expectations but with only limited growth.

High Performance Materials is still suffering from Oil & Gas project delays in the Gulf of Mexico. We do not expect the business to match the strong margin performance of 2Q13 which was driven by product mix and orders pulled forward from 3Q13. As a result of this and normal seasonality we expect divisional EBITDA margin to decline by c. 200bps QoQ.

In Industrial Specialties, the fluorogas business continued to see competitive pressures and slight oversupply of PMMA in Asia which is putting pressure on margins.

In Coatings solutions, rocketing propylene prices pressured acrylic acid margins as the industry lacked pricing power despite an ongoing improved in volumes albeit from a low base.

Lanxess – 3Q13 results due on 13th November

We expect adj. EPS of €0.38 and adj. EBITDA of €177m vs. consensus at €0.40 and €185m respectively.

3Q13 trading remained challenging, in our view, especially in the Performance Polymers business where a sharp drop in Butadiene prices (-37% QoQ) will most likely lead to an inventory write of around €10m, based on our estimates. We do not think LXS regained any pricing power and expect it to have passed on more than the raw material cost decline to their customers. While global tyre demand has started to improve, competition has intensified and customers have become more price sensitive limiting any margin upside going forward.

Advanced Materials and Performance Chemicals performed roughly in line with 2Q13, based on our estimates. Falling crop prices in 2H13 and going into 2014 could put pressure on the Advanced Materials business should customers, like SYNN, see reduced crop chemicals demand as a consequence.

K&S – 3Q13 results due on 14th November

We expect adjusted EPS of €0.2 down 73% on last year.

At the end of July Uralkali provoked a price war in potash by its decision to withdraw from the export cartel, BPC, and to adopt a volume maximization strategy. This led initially to a collapse in demand as distributors and farmers waited for prices to fall but business is now being transacted in the \$340/t CFR to \$370/t CFR range noting that it would appear, according to Fertecon and Argus, that volumes remain subdued. The average market price in 3Q12 was in the region of \$480/t CFR. As a result we estimate that K&S's performance will be substantially down on the prior year in Potash.

Salt is also likely to be performing somewhat below average. European demand last winter was good so there appears to be strong pipeline filling now ahead of this year's Winter. However, the season was milder than normal in North America so there appears to be some increase in competition for volumes and we would judge

pricing might come under slight pressure, noting margins are quite thin anyway (the average price for deicing salt is about \$55/tonne delivered).

K&S has flagged its need to accelerate restructuring and its determination to push ahead with its Legacy project (our financial model is based on a two year delay). We will probably find out more about both of these key issues with the 3Q13 data.

Clearly, an update on their view of the potash price also has the potential to be share price significant.

JMAT – 1H13/14 results due on 21st November

We forecast adj. EPS of 81.4p and PBT of £212m vs. consensus at 80p and £207m respectively.

General business trends observed in 1Q13 continued in 2Q13 with FX becoming a more meaningful contributor. We see total 1H13/14 FX benefits at around 4-5% as the Pound weakened vs. the Euro by c. 6% and vs. the USD by c. 2% YoY in 1H13/14.

The ECT business should have seen the usual seasonal slowdown in 2Q on the back of summer holidays and maintenance shutdowns. In LDV, we expect the business to have performed broadly in line with global car production and forecast organic growth of about 2.3%. HDD should have seen ongoing benefits from customer pre-buying ahead of Euro 6 and forecast sales to be up by 15% YoY.

The Recycling & Refining business had a good start into 1Q13 and we think this continued into 2Q13 as prices remained roughly flat QoQ. However, as gold and silver prices continued to slide in 2Q13 by 6% QoQ and 8% QoQ respectively, we expect refining intake from these materials to have weakened further compared to 1Q13 levels. As a result we expect divisional EBIT to be flat YoY at around £60m as the lower refining intake will most likely compensate for the absence of £10m of one off costs booked in 1H12/13.

The other two divisions, Process Technologies and Fine Chemicals, are likely to have performed in line with 1Q13 given the absence of any significant seasonality throughout 1H13/14 in these businesses.

Figure 26. Sector Valuation

	Ric Codes	Share Price	Recommendation	PE		EV/EBITDA		ROCE		Dividend yield		FCF yield	
				2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E	2013E	2014E
Ag stocks													
Israel Chem	ICL.TA	31	Buy	10.3	11.2	7.8	8.0	20.2%	18.8%	6.8%	5.8%	5.4%	6.6%
PhosAgro	PHORq.L	11	Buy	10.3	7.1	7.0	5.6	15.2%	18.1%	2.8%	5.6%	5.0%	7.4%
K+S	SDFGn.DE	19	Neutral	9.0	18.8	4.7	7.3	10.9%	5.6%	4.7%	1.9%	-2.3%	1.4%
Syngenta	SYNN.VX	360	Neutral	18.9	16.6	12.0	11.0	24.6%	25.4%	2.3%	2.6%	4.7%	4.7%
Uralkali	URKAq.L	26	Neutral	18.2	15.0	11.3	10.4	9.7%	10.2%	2.7%	3.3%	7.0%	6.8%
Yara	YAR.OL	233	Buy	8.5	7.8	5.5	4.9	14.4%	14.7%	5.6%	5.6%	10.6%	11.5%
Average				15.1	14.0	9.4	8.8	19.7%	19.9%	3.8%	3.9%	5.8%	6.3%
Consumer Stocks													
Croda	CRDA.L	25	Sell	19.5	19.8	12.3	12.0	31.2%	29.8%	2.5%	2.6%	3.8%	4.4%
Givaudan	GIVN.VX	1204	Neutral	19.9	19.4	12.9	12.4	20.2%	21.0%	3.5%	3.8%	4.2%	4.3%
Symrise AG	SY1G.DE	31	Sell	17.0	16.3	11.4	10.8	21.0%	21.4%	2.2%	2.3%	5.3%	5.7%
Average				19.2	18.8	12.4	12.0	23.1%	23.2%	3.0%	3.2%	4.4%	4.6%
Industrial stocks													
Air Liquide	AIRP.PA	100	Neutral	18.9	17.7	10.0	9.5	13.4%	13.3%	2.6%	2.8%	2.7%	2.5%
Arkema	AKE.PA	84	Neutral	12.4	11.0	6.8	5.9	11.8%	12.7%	2.5%	2.9%	4.9%	7.3%
Akzo Nobel	AKZO.AS	48	Neutral	13.7	17.6	8.7	8.0	9.8%	11.0%	3.0%	3.2%	5.8%	4.8%
BASF	BASFn.DE	72	Neutral	13.7	13.5	8.8	8.6	12.1%	11.9%	3.8%	3.9%	4.7%	7.1%
Clariant AG	CLN.VX	16	Buy	15.1	12.4	8.3	7.3	15.8%	17.6%	2.2%	2.4%	4.1%	6.5%
DSM	DSMN.AS	54	Buy	16.0	13.7	9.4	8.0	10.2%	11.3%	2.8%	3.0%	2.2%	4.3%
Evonik	EVKn.DE	26	Sell	13.3	12.6	7.6	7.8	10.5%	9.4%	3.6%	3.6%	-1.9%	0.4%
Johnson Matthey	JMAT.L	28	Neutral	18.9	17.2	12.1	11.2	15.7%	15.4%	2.1%	2.2%	2.9%	3.4%
Linde	LING.DE	143	Buy	16.7	15.5	9.5	8.9	12.8%	13.2%	2.0%	2.2%	3.2%	3.4%
Lonza Grp	LONN.VX	74	Neutral	14.0	11.7	9.6	8.7	8.5%	9.8%	3.9%	4.7%	5.8%	8.7%
Lanxess	LXSG.DE	48	Sell	31.0	16.6	9.3	8.0	4.5%	6.2%	2.1%	2.2%	-1.1%	-0.3%
Novozymes	NZYMb.CO	207	Sell	31.4	29.7	18.1	16.9	18.9%	18.8%	1.1%	1.2%	2.2%	2.4%
Solvay	SOLB.BR	110	Sell	17.9	15.7	8.1	7.7	8.5%	8.7%	3.1%	3.4%	3.6%	3.5%
Umicore	UMI.BR	35	Neutral	17.5	15.1	8.5	7.7	11.8%	12.7%	2.9%	3.0%	5.3%	3.8%
Victrex	VCTX.L	16	Neutral	19.5	18.8	12.2	11.4	28.0%	24.4%	2.4%	2.6%	1.6%	2.0%
Wacker Chem	WCHG.DE	76	Neutral	116.9	26.1	8.6	6.4	2.0%	5.2%	0.0%	0.8%	0.2%	0.1%
Average				18.4	15.6	9.4	8.9	12.1%	12.3%	2.9%	3.1%	3.4%	4.4%

Source: Citi Research, datacentral

Appendix A-1

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