Hilco Valuation Services

Plastics & Chemicals Industry

PRIMARY RECOVERY FACTORS

- Domestic Supply and Demand
- Export / Import Activity
- Selling Prices (Domestic and Import)
- Crude Oil Prices
- Natural Gas Prices
- Margins
- Inventory Turnover

RECENT VALUATION OR LIQUIDATION EXPERIENCE

- Delta Plastics
- Poly One
- Indorama
- Univar Solutions
- Kraton Polymers
- PQ
- Arclin
- US Fibers
- Omnova Solutions
- Kronos
- Nexeo Plastics
- Marco Polo
- Otto Environmental
- NGL Supply

Ethylene Investment Speedbumps

The ethylene and shale gas markets have undergone significant investments in North America, leading to an oversupply in the domestic market. However, the export business has been problematic for operators. With a slowdown in global economic growth, an expanding ethylene supply is more challenging to sell. Due to short-term tariffs and its desire of self-sufficiency, China is no longer a dependable consumer as it once was. Therefore, operators have turned to new markets, such as Europe and Latin America, to sell their surplus inventory. While establishing markets like these outside of China could be beneficial in the long-term, creating new sales channels has the impact of increasing short-term costs.

Conversely, ethane feedstock supply has not kept pace with the expansion in ethylene production capacity. Collecting natural gas liquids (NGLs) and converting them into marketable feedstock products requires investments in NGL infrastructure, including fractioners and pipelines. Consequently, the number of investments needed have fallen short as compared to the rate of ethylene capacity. Ethane supply likely will be limited through at least the beginning of 2020, as ethane-related investments come to fruition. Ethane prices spiked, more than doubling from 25 cents per gallon in 2017 to over 50 cents in 2018, as extreme volatility persisted for approximately 10 weeks. Since that time, however, prices have stabilized. Another run of increased prices in 2019 now poses a threat of a lengthier volatile market than the prior year.

Pricing pressure from an oversupplied ethylene market exerts pressure on feedstocks, which, in turn, affects sales prices and operating rates/costs. Furthermore, high costs and production efficiency of raw materials due to limited supply and an oversaturated ethylene market, place downward pressure on selling prices and could negatively impact margins. The delayed start-up of ethane infrastructures coupled with new ethylene production capacity coming online, likely will create some volatility in the ethane-to-ethylene cost spread, resulting in both a continued tight feedstock supply and high levels of ethylene supply.

The ethane shortage, however, has created relief to polypropylene (PP) margins. For instance, propylene supply increases when NGL alternatives such as propane can be utilized as a suitable replacement. Industry experts believe the level of alternative feedstock demand will remain strong, despite the sole reliance on ethane by several new ethylene crackers. In addition, PP end users will be able to rely more on domestic-supplied rather than imported product, enabling shorter lead times, smaller individual purchases, and greater overall risk avoidance.

Kevin Duffy is a Senior Valuation Director who specializes in the plastics and chemicals industries. He has valued numerous plastics and chemical-related companies in North America that are involved in distributing, compounding, and manufacturing chemicals, resins, films, sheets, and molds. Kevin received his B.A. in finance from Illinois State University, and passed the CPA exam in Illinois. Kevin has diverse business experience in accounting, banking, manufacturing, distribution, and retail.

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