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BASF Conference Call for Analysts and Investors: Full Year 2024

Transcript Q&A

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1.1 Current market environment

Thomas Wrigglesworth (Morgan Stanley): Any comments on near-term trading and how you are thinking about 1Q, noting that, obviously, the Ag Solutions business is very important to that first-quarter performance?

Dirk Elvermann: I would summarize the start of the year as unexciting, so there's nothing really very significant happening. Let me start with core businesses upstream. Here, the markets remain structurally long. In this environment, we are holding up.

We also see some effects on competitors, affecting in our favor the ethylene and propylene prices, which helps our cracker business. So, there are some positives. As you know, there is also still headwind for value chains like BDO. This continues. But overall, I would say, in a structurally long market, we are doing okay.

Core businesses more downstream, so Performance Materials, Dispersions & Resins, Care Chemicals: There we see a decent start into the year. We see ongoing good business for Care Chemicals, particularly on the back of the home care business, which is running nicely, but also in the Dispersions & Resins division. For instance, electronic materials is continuing in a good and strong manner. So, here, I would say, both on volumes, but also on prices, we are okay.

On the standalone businesses: Surface Technologies. Here, we are seeing internally slightly better results than what you hear from the markets. When it comes to automotive, we see that the businesses are confronted with automotive challenges, but also here the businesses are holding up.

For the Agricultural Solutions business, we had a strong fourth quarter. There was a bit of a preponement effect, but we see agricultural conditions as being fundamentally okay. Inventory levels, depending on which region you are looking at, are a little bit more challenged, but are okay in North America and Europe. So, here we might see some shifting from Q1 to Q2, but we are basically on track with what we are now guiding for the full year.

So, Q1 will be okay, I would say.

Christian Faitz (Kepler Cheuvreux): On all the tariff rumors coming out of Washington: I would believe BASF itself directly is not impacted because you're naturally hedged. You have big production hubs also in the US and everywhere else. But have you actually played through a scenario of your customers being affected, i.e., the automotive manufacturers in Europe trying to sell into the US etc.?

Markus Kamieth: As you rightly said, it's very difficult right now, to comment on the whole tariff situation because – you know this even better than I do – it's very fluid right now. Almost every day new scenarios are coming out, new numbers being calculated; customers also, of course, are now heavily analyzing what can be done short term.

So, I would say there is a big disclaimer on everything because we first have to see what is really going to happen and what's really going to drive any changes in trade flows and in manufacturing footprint.

Having said this, you're right in saying that BASF is not so much affected directly. We have high own manufactured product shares in all regions. The BASF strategy of putting our assets in our respective markets has proven it's right. Also in the US, we have an OMP share, as we call it, of roughly 80%, depending on how you count it. 80%, maybe a little bit higher. So, mostly what we sell in the US we make in the US.

Customers – you're right – are now looking at their respective production footprints. We've heard some customers thinking about production relocations – tactical, I would say –, short-term production relocations.

But this in general for us is still anecdotal. It's nothing major that we see. And many of our customer industries are in a similar situation to ours, with long investment cycles. So, it's not so easy to move a production asset from one region to another just because trade tariffs are being implemented.

So, I would say, in large, we have not seen anything major in terms of production shifts yet. Of course, there's this tactical flexibility of customers shifting production within their network, towards the US, for example, from Europe, that we are already seeing here and there. And here, as I said in earlier calls, we are also well equipped because, typically, in most of our industries, we have as good a footprint in the US as we have in Europe. So, whether an automotive OEM paints a car in Germany or in the US doesn't really matter to us. We can paint them in either region. So, for us, also not such a big impact, but an area of high alertness, and we have to be agile. Things could change every week.

Thomas Wrigglesworth (Morgan Stanley): Can you talk a little bit about the China recovery story that you've been talking about in 2024? Clearly, the latest data point in Chemicals, at a headline level, looks a bit weaker in the fourth quarter. And then, on the other side, we have also had some of your peers talk more positively about MDI in China as well. So, I'm keen to get your thoughts on how China is progressing.

Markus Kamieth: Your observation is correct. We were also, after a rather solid and good development in the third quarter, a little bit disappointed on the business dynamics overall in China in the fourth quarter. Towards November, December, we saw some cooling off also on the volume side. In particular, the upstream markets cooled off in the last weeks of the year. So, that dynamic was clearly there.

Overall, I have to say, 2024 was a good year for us in China. If you discount the precious metal related businesses and look at the Chemicals businesses, we had overall volume growth of roughly 5% in 2024, which is roughly in line with the market in China. So, volumes in China were not the biggest challenge. The biggest challenge is still low margins because everything is long.

In the fourth quarter, it was a bit compounded overall because the year-end finished rather weak on the volume side.

You asked about MDI. I don't want to now specifically get into individual products and pricing dynamics. But I would say, our feeling is that across the board, the first attempts to raise prices now in certain commodity areas are successful. I don't want to call it a good pricing environment in China because, as I said, everything stays long. But I think, overall, the start of the year is giving us some indications that volume growth holds up. So, although dynamics towards the end of the year were not favorable, overall China stays on track.

Sebastian Bray (Berenberg): Are cracker margins getting modestly better in Europe at the moment, sort of flattish, going down? It's a little bit difficult to tell, but any color you can provide is helpful.

Markus Kamieth: The cracker margins in Europe are walking sideways on a low level, nothing spectacular now. We don't assume that they are now further deteriorating or significantly going up. So, I would say, there's nothing to suggest that this will be a significant game changer.

But you always have to keep in mind that, in particular in Europe, we have a very integrated setup. Most of the olefins we make in Europe, we consume within the Verbund. So, yes, cracker margins are important. But, of course, we always have to look at the integrated value of our value chain. We're not as exposed as many other players on the actual cracker margin in Europe due to our setup.

But, overall, from the numbers I've seen, I would guide your expectations towards a rather sideway, unspectacular movement.

1.2 Natural gas and Harbour Energy

Alex Stewart (Barclays): On the situation in Russia: There's been a lot of talk about a negotiated ceasefire, about potentially Russia selling more gas through the pipelines to Europe again. Would you mind giving the BASF view on this? Would you be in a position to buy gas again from Russia? Do you think that you've done enough work to diversify your input sources? What's your take as one of the biggest buyers of natural gas in Germany?

Dirk Elvermann: We have no scenario to resume gas supplies from Russia. As you know, our production participation via Wintershall Dea has been fully expropriated. The pipelines have been destroyed. We are not looking into a scenario to resume.

We have secured gas supplies via the European hubs, getting gas from the Netherlands, from Norway. And we have also secured a very long-term LNG gas supply contract via the US that goes until 2043. So you see, we have taken an approach to fully discontinue purchases from Russia and source our gas from other sources. So, a short answer: no resumption.

Markus Kamieth: Just to add one thing, because we get a lot of questions on potential changes in the gas landscape. There's nothing magic about Russian gas. So even if – what we don't assume – Russian gas should come back into the market somehow through pipelines into Europe, at the end of the day, this only changes supply and demand. There is nothing specific about Russian gas. It only changes the demand-supply balance. And of course it will increase supply. So there might be a positive impact.

But I sometimes feel that people are assuming there is a certain artificial or magic discount to Russian gas, which is not realistic from our perspective. So again, put this into perspective. We don't believe that there is going to be any short-term supply from Russia. But even if there is, in a low-likelihood scenario, this is not going to be anything super-specific.

Sebastian Bray (Berenberg): On the gas price and in particular hedging policy. How heavily hedged is BASF for this year? And does it have built in flat, up or down energy costs at the Group level, especially in Europe?

Dirk Elvermann: Given the current price levels, we haven't changed our approach to hedging. As you know, we have a mixed hedging approach, which obviously also covers gas prices. For 2025, we are also hedging gas, but on a normal level, I would say.

Currently, with regard to the price levels, we see gas prices rather on the high end with above $16 per MMBtu. We think this will probably go down over the year because the European gas situation is currently rather under stress with low storage levels. But over the year, this will normalize. So we believe that gas prices will come down, and we do not see it as a major influence factor for the business if you take the Group overall. But, yes, we are also hedging, using the well-known instruments, mostly forwards, but also some options.

Peter A. Clark (Bernstein Société Générale Group): You mentioned the expropriated assets. I'm just wondering how the discussions are going on the federal guarantees, because you mentioned it was a very structured process, on the last call.

Dirk Elvermann: On the federal investment guarantees, I'd say there's still nothing spectacular to report. Proceedings are ongoing. It's difficult for me to comment on details of a pending process. It is getting more concrete. I hope that we see further progress in the course of this year. But at this point in time, there's nothing more to report.

Andreas Heine (Stifel): How do you think about the Harbour Energy stake? Is there something where you would start to sell down in this year, or will you hold this more for mid-term?

Dirk Elvermann: As you know, the lockup period where we are not allowed to sell our shares ends next week. Basically, we want to monetize our 39.6% share over time, but we do not need to do this immediately. We consider this shareholding as a financial participation. We are mindful of the value. Given the current value of the shares, we also see some upside. This is in line with what we said back at the Capital Markets Day. No need to do it immediately, but over time we certainly will monetize it.

1.3 Zhanjiang Verbund site

Chetan Udeshi (JP Morgan): On the contribution from the new Verbund in China, I'm just curious of next year. Can you remind us how we should think about the EBITDA contribution from the site in 2026? Is it going to be zero? Is it going to be positive? Or do you still expect some negative contribution next year?

Markus Kamieth: It's too early to talk about the 2026 EBITDA contribution. But let me also clarify again the numbers we have given you on this slide where we break out the 2025 effect. This is, of course, only the commissioning impact. This is what we typically call the start-up costs. And, as we promised, we broke this out here for you because these are such big numbers for 2025.

These costs will then not fully go away in 2026 because we will also have some start-up and commissioning-related activities in 2026, but they will ramp down significantly. Then, of course, the business will start up. And we will guide for an EBITDA contribution in year one later this year. But it will certainly be a year where these start-up costs will ramp down quickly. And then we will see how quickly the volume uptake of the markets is. A number will come later. But right now, it's too early to say.

Laurent Favre (Exane BNP Paribas): Can you help us on the cadence of the €400 million commissioning burden between Q1, Q2 and the second half? Should we expect most of those €400 million to be in the second half?

Dirk Elvermann: We guided you that we will incur €400 million over the year. And you are fully right: This is not distributed equally over the quarters, but will be more backloaded towards the second half of the year. The €100 million per quarter, I think, is quite good to take away. But yes, the impact will be a little bit more backloaded towards the second half of the year.

Sebastian Bray (Berenberg): The €800 million guided as a cash flow headwind from the ramp-up of the Zhanjiang site, the Verbund site. Is this all working capital and is a reasonable assumption flat working capital excluding this ramp-up year on year? Or do you need to take some more on to support the volume growth?

Dirk Elvermann: We already guided last year that 2025 is the year where we have to fill this entire site. So, it's not just filling a plant, but it's an entire site, where product also partly has to be shipped in.

If you take an overall ballpark figure – but this goes beyond 2025 –, then I think an order of €700 million to €800 million for the working capital increase is a fair estimate. Part of that, maybe half of that, you will see this year. The other half, you will still see next year.

Matthew Yates (Bank of America): Around the ramping of the new Verbund site: Markus, you said this project is unique in size and complexity, which therefore sounds quite daunting. Can you just talk a little bit about the challenges you need to overcome as we go to ensure the plants are working smoothly and what sort of lessons you can draw upon from projects that you've done in the past, appreciating that this one is an even bigger magnitude?

Markus Kamieth: It was not my intention to scare you with my comment on size and complexity. I put this half sentence into the speech because I'm proud of this exercise and because it's something that I think not so many chemical companies in the world can actually do. And I'm fascinated by it technically.

As I said, I have every confidence that this works. But I wanted to also indicate that it is something that also BASF has never done on this scale. We have never started up a Verbund site with this level of integration and with this size in the history of our company. It requires a lot of respect and good planning, and that's what we have done, so we are confident. Certainly, it's a significant moment for us, and it requires a lot of diligence.

I didn't want it to sound too daunting, but I wanted to make sure that we get a lot of respect for what we are doing. This is a major task and technically quite unique.

1.4 Full-year outlook

Chetan Udeshi (JP Morgan): You are guiding at the midpoint a full-year EBITDA increase of about 4%. Are you able to say whether you think you are going to be in line with that? Are you going to be up, down, same level of last year? Any more indication, just to assess how we should think about the phasing of the guidance through the year?

Markus Kamieth: If I look at Q1, Dirk has described a little bit the dynamics. I don't want to now give too detailed a number, but in general, the biggest effect that we have is certainly on Ag. As Dirk said, there has been a strong finish in Q4. If you look at Q4 and Q1 together, we're fully on track. But you have seen a little bit of a shift also of EBITDA in the fourth quarter. That puts a bit of a challenge into the Q1 numbers. But in general, we still expect that the full year will deliver.

All other segments will start the year more or less in line with our operational planning. The biggest challenges or question marks are, of course, in the upstream business right now. So, as Dirk said, this is in tendency long and didn't finish the year with a strong momentum overall.

So, this is where we have maybe a little bit of a downside, and the Ag shift. Everything else, especially our core businesses downstream, looks quite robust.

So, I hope this gives you a flavor that Q1 will probably not be a super-positive surprise, but with the history of BASF and the phasing, you should be able to work with that guidance and come up with a reasonable estimate.

Tony Jones (Redburn Atlantic): On the guidance: It's good to hear that major tailwinds are not captured in that. But at the low end and the upper end of the guidance range, what sort of volume growth are you assuming?

Markus Kamieth: Our guidance on our operational planning is based on an overall volume growth of BASF Group in line with what we project for the chemical market. This is not the guiding theme, so to say. It's a coincidence that both numbers are roughly around 3%. So 3% volume growth. That should get us into the range that we have given you.

The volatility, from our perspective, is more on the margin side. The spread, so to say, is more given by the margin side than the volume side. We're relatively comfortable with seeing a slight volume growth across the board. But the question mark – and this is why the range is there – is more on how margin recovery will develop, especially upstream. So that maybe gives you a guidance there. We believe it's not overly ambitious, but it's achievable and also takes into account the insecurities that we have currently in the markets.

Laurent Favre (Exane BNP Paribas): On the EBITDA guidance in Chemicals for a slight decrease, which implies less than, I guess, €140 million of decline for the full year, but includes the start-up cost. So, presumably, the underlying EBITDA is seen as growing considerably. Given what you've just been saying on the run rate, on other capacity, the market being long, etc., I'm just wondering what gives you the confidence that we end up with such a strong underlying EBITDA improvement?

Markus Kamieth: We have different driving forces, of course, in that segment. You are right: We have significant efforts and costs related to the startup of Zhanjiang, which mainly affect the Petrochemicals division. But we also have an ambition to have a pretty significant earnings increase in the Intermediates divisions, for example, where both on the volume side and on the margin side we expect to see a significant improvement in 2025 coming from a very challenging situation in 2024.

In the Chemicals segment, we also have often quite significant cost shifts when we have significant turnaround activities. And we had a strong turnaround activity in particular in Intermediates in 2024, which will be significantly less in 2025. So, all of these things are a little bit adding to the dynamic in this.

Net-net, you are right. If you take out the Zhanjiang effect, it's a quite significant improvement of our earnings power in Chemicals. And this is justified. On the market side, volumes will continue to grow, margins will improve overall over the segment and non-startup-related costs will also improve.

Alex Stewart (Barclays): Surface Technologies is the only division where you are expecting a considerable increase in EBITDA. I wonder if you could talk through some of the factors behind that projection, maybe some of the individual markets or some of the segments within that which you expect to be particularly good.

Markus Kamieth: Yes, it looks a little bit maybe counterintuitive to see a considerable increase in the segment that has the highest share of automotive-related businesses. But let me give you some components of this how we see it.

We said the automotive market will be more or less flat. So, we expect the same number of vehicles produced overall, however, still an increasing shift of EV penetration in 2025. That's the macro scenario behind it.

What we will see, of course, is an earnings increase in both Coatings and our ECMS business, which is the automotive catalyst-related business, significantly driven also by our cost savings initiatives because we have started already last year to work on our structures and to bring them in line with an automotive market that is overall not as dynamic as we are used to. So, we did the carve-out in ECMS and that significantly helped to bring down cost. And also in our Coatings activities we are addressing our cost situation. So, we will see slight improvements there even if there are no market tailwinds.

Both businesses are actually holding up very well in their respective markets. And both businesses, Coatings and ECMS, continue to increase market share in an overall stagnating market.

So, a combination of ambitious cost savings in these automotive-related businesses plus share gains both in Coatings and ECMS bring improvements.

The third element is also a significant improvement that we're planning in our battery materials business. As you know, like everybody in this market, we had significant challenges over the last two years with regards to changes in market dynamics and also volumes. And we anticipate in 2025 to make a significant step forward. So, the business is going to see a significant improvement in EBITDA in 2025.

Andreas Heine (Stifel): On the outlook on Surface Technologies, especially on the catalysts and battery materials. Looking on what we can expect from Europe there, due to the EU regulation, the increase in EVs has to be quite considerable. Some forecasts say that EVs in Europe have to increase by at least 30-40%. That would eat into the high-margin catalyst business, while battery materials which would benefit from this are rather low-margin. So how the net impact can be a double-digit increase is something that I do not fully get.

Maybe you elucidate a little bit what the precious metal trading did. That was commented quite negatively over the last two years. Is that something where a normalization speaks for an earnings level as we have seen it last year, or would the normalization mean considerably up?

Markus Kamieth: One thing is, I think, very difficult in this segment: to get out of a very high macro view – how many EV cars are being sold in Europe – down to dynamics in our two divisions. This is a very complicated correlation you're trying to do there. First of all, these businesses – both on the catalyst side and on the battery side – are heavily dependent on the platform you are in, which specific OEMs are you supplying with which models, in which region and where – in the case of batteries – are the battery cells actually produced? Are they produced in China and transported to Europe? Or are they made in Europe? And so forth.

So, from my perspective, with the correlation you're trying to do, it is highly difficult to get to a good result.

Let me still give you a couple of indications. First of all, on the automotive catalyst side, we are seeing that we are impacted like everybody in this market by the continued penetration of EVs versus ICEs in the world. However, this only happens at a large scale in China. Outside of China, it's rather going the opposite. In 2024, fewer EVs were sold in Europe than the year prior. So the dynamic is not favorable. So, overall, the ambitions in 2025 by all OEMs, also in Europe, to increase the share of EVs are high, but we are not seeing it yet in our numbers.

In automotive catalysts, we are still making excellent progress in winning platforms from competitors. So we are increasing market share as we speak. This is the dynamic I can tell you there. If I look at how comfortable I feel with my automotive catalyst business, I am not looking at the EV sales in Germany. These sales are not a proxy for this.

On batteries, a similar thing. If you look at the current state of battery manufacturing in Europe, cell production in Europe – you all know the headlines on this –, it's also a very difficult environment. And there are not many battery cells now being produced in Europe as we speak. Most of the production is happening in China. We have good assets in China, and most of our improvement in the battery business, besides the significant cost restructuring that we are doing in battery materials as we discussed over the last months, is coming from increasing volumes in China. So, here in Europe, nothing much dynamic is happening in this market.

Matthew Yates (Bank of America): When I look at the Q4 performance, profits were down close to 10% year on year. So when you talk about your confidence this year in growing profits from cost cutting and share gains, we didn't see any evidence of that really in the Q4 number. So are those measures basically only coming through now and you have line of sight on? I was wondering if maybe you could talk about what share of the €500 million of group cost savings accrue specifically to Surface Tech.

Markus Kamieth: Yes, the dynamic in the fourth quarter was certainly not favorable. As you know, the automotive industry in general has had a difficult year with quite a lot of stress towards year-end, also to correct for certain developments, for example the inventories situation.

So, I would say, overall, Q4 was not as much doom and gloom as people expected in automotive, but it was certainly not strong. The improvement comes, as you rightly said, both on the volume side, on the market share gain side, but also on the cost side.

I still want to also emphasize that, yes, we are forcefully addressing our structures and our cost in both Coatings and ECMS, to bring this in line with a growth outlook in the automotive industry that is not so high in the midterm.

But we also are targeting a quite significant improvement in battery materials. This is basically the result of adjusting our approach towards the much more challenging market situation in battery materials as we discussed at the Capital Markets Day. And if you stop a lot of future investment projects, if you also scale down your research and development activities to bring this all in line with a more modest outlook and rather focus on filling your existing capacities and not expanding your footprint dramatically, this, of course, also brings down your cost significantly. And all of this combined, leads us to find and seek a significant share also coming from cost savings.

So overall, I think, Q4 was maybe slightly lower than what we had hoped for. But it is also not as bad a development as you described it. In general, maybe the automotive build rate is not the best proxy for our Surface Technologies segment. That's maybe a good way to summarize it.

2 Segments

2.1 Chemicals

– No specific questions –

2.2 Materials

– No specific questions –

2.3 Industrial Solutions

– No specific questions –

2.4 Nutrition & Care

Peter A. Clark (Bernstein Société Générale Group): On the isophytol hit in Nutrition & Care. You've guided Nutrition & Care slightly up, I think, this year on EBITDA. You were pointing at this isophytol hit of a sort of a couple hundred million euros, in Q4. Then you guided it down a little bit from there. I am just wondering what it was in Q4 and how much rolls into this year in terms of that full-year guidance.

Markus Kamieth: On isophytol, I can report that we're making good progress on restoring our production capabilities. It's in line with expectations. So no setbacks here. We are planning to get back with vitamin A production in April and vitamin E production in July. So, the teams are really working on this diligently. That means also from then on, we have to first replenish our inventories for the value chain, and then we will start supplying these materials in the second half of the year and ramp up sales. So we will still have a significant EBITDA drag in 2025.

You asked specifically for the Q4 effect. I have to say, I don't have that number broken out now, but what we can say is: Since the accident happened, for the second half of 2024, it was a high double-digit million-euro impact. Originally, we thought it would be higher, but our teams did a really good job in containing the impact and also starting up some smaller molecules, more in the aroma area, a little bit earlier.

But for 2025, we still have a low triple-digit million-euro EBITDA drag that we have to assume in the Nutrition & Care forecast overall. And this will subsequently phase out towards the end of the year when we're really back with volumes in the market.

Dirk Elvermann: Maybe, if I just may add: aroma back on line, vitamin A coming early second quarter with leading cost position, vitamin E coming back on line in the summer.

2.5 Surface Technologies

Tony Jones (Redburn Atlantic): On portfolio management: For the remaining Coatings businesses, would you be open to selling this only in one transaction, or would you be open to selling it in two or three parts to avoid antitrust issues?

Markus Kamieth: We are approaching the market, as we said in the speech, in Q2. Our idea is clearly that we look at this Coatings division, minus the Suvinil business, as one entity. I think there are synergies within the portfolio that are, from our perspective, quite attractive and significant and also part of the reason why the division has been very successful over the last years. And this is why we believe the most plausible and attractive way to crystallize the value of this division is to take it to the market in one entity. That is the path we are preparing now and pursuing in 2025.

2.6 Agricultural Solutions

Christian Faitz (Kepler Cheuvreux): Just coming back to Agricultural Solutions on pricing in Q4: Would it be fair to assume that the positive pricing was mostly seen in seeds rather than in crop protection chemicals?

Dirk Elvermann: Yes, your assumption is right. The positive price effect was predominantly on the seed side, so predominantly field crop seeds, but also vegetable seeds. But we also had a positive price effect in herbicides. So on the crop protection side, a mixed picture: some price losses, but also some price gains.