Conference Call Q1 2025
Transcript Q&A
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1 BASF Group

1.1 Current market environment

Thomas Wrigglesworth (Morgan Stanley): On the near-term trading dynamics: Obviously, you sit in a lot of end markets. Are you seeing any changes and fallout in terms of this indirect consequence from the tariff uncertainty, either in China or in the US? Or are you seeing more imports into Europe potentially impacting prices?

Dirk Elvermann: As I've already tried to mention in my speech, it is too early to really tell. What we see is a very limited direct impact from the tariff situation. On top of that, we know that nothing is certain at this time. So, I would currently not be too concerned about the direct effect.

For the indirect effects, we are already seeing more cautiousness among customers across all industries. We also see that customer sentiment is currently not getting better. So, at the beginning of the second quarter, what we see so far in terms of top lines is a little bit softer than what we saw in our expectations early on. You find businesses where demand will certainly pick up, like in the Agricultural Solutions business. You also will see on the back of China sentiment some better results, for instance in Performance Materials. So, we have parts of our portfolios where we see better results going forward. But overall, I would say, the sentiment is softer right now. And we have to see how this develops in the second quarter.

Thomas Wrigglesworth (Morgan Stanley): Just following up on the outlook. You've highlighted that actually the FX is negative, the chemical trends are negative, the GDP is negative, and oil is the one kind of silver lining.

Are you confident that you can see the cyclical pick-up through Q2 and Q3 to maintain your full-year guidance? Or is the guidance unchanged? It's not a reiteration of guidance; it's a waiting for guidance to change. Do you see what I mean?

Dirk Elvermann: As I said, we are maintaining our outlook because the assumptions that we have taken can't be replaced by better assumptions. We currently see more risk to our forecast and outlook than we saw probably three months before. But the situation is very volatile and can change, and we certainly need the second quarter in order to be able to decide whether we need to change our outlook or not. For now, it's the best outlook we have at hand. But certainly, it is a little bit more risky than it was before.

As you rightly mentioned, we have some positives – oil price –, we have some negative effects such as FX. Net-net it is currently slightly negative. So, we will have to look into this as well when we are through with the second quarter. Currently also here there is a little bit more risk than before.

Georgina Fraser (Goldman Sachs): Related to the macro uncertainty: We've been through several years of pressure in the chemicals industry. I'm wondering what levers you still have left to further reduce spending, if that's needed.

Dirk Elvermann: You are completely right. Since a couple of years, we were always somewhat in a headwind situation. This is also why we said early on: On top of all the strategic things we want to do, we need to constantly focus on capital discipline, on cash and on cost. On the cost side, I can tell you that we have even accelerated our cost-saving efforts and can now say that, by the end of the year, we will have another €100 million of savings already achieved as part of our total €2.1 billion savings program. So, we are accelerating here.

Are we currently setting up new cost-saving programs? No, but we are steering the businesses with increased productivity and see that we are also gaining competitive advantages as a result. We see that already in Europe where we have certainly gained market share over the last couple of quarters. So, this is currently the way to go.

If the situation were to exacerbate, we certainly also have the possibility to pull more triggers.

Chetan Udeshi (J.P. Morgan): If I look at your volume by regions, China was strong at 7%. I guess all of us have a concern that some of that China strength is a pull forward of demand, ahead of tariffs. We've actually seen the PMIs come down in April in China. I'm curious what you actually see now in China. Is that momentum that you saw in China actually continuing? Or are you actually seeing that momentum weaken as we think about the second quarter?

Dirk Elvermann: Indeed, we saw a very good development in the first quarter, particularly volume-wise. We see that currently flat continuing into the second quarter. So, no further improvement, but also no deterioration.

We note that China is now pulling the strings in order to stimulate the economy and with that somewhat counteract the U.S. tariffs. So, currently volumes are developing in a flat, sidewards direction.

Laurent Favre (Exane BNP Paribas): Regarding the German situation between what's happening maybe on electricity prices and stimulus. How do you think that could impact BASF directly, let's say, for the next 18 months?

Dirk Elvermann: The good thing is that now everybody is aware that Europe is at a turning point, and that Germany has to become much more proactive in order to revamp its infrastructure. BASF is supplying its products into all sorts of industries, including those that will be responsible for infrastructure build-up, so there will also be a beneficial impact on our results for sure. Is this a short-term 2025 effect? No, but we would expect some upsides in 2026 going forward.

With regard to energy prices: You know the extent of the effect it has on our various businesses. So if we are getting more focus on industry-competitive energy prices, this will also certainly not harm us.

Laurent Favre (Exane BNP Paribas): In what division do you think we are the most likely to see the impacts from the German stimulus – in the next two years, let's say – or what segments?

Dirk Elvermann: It's too early to be very specific here. As I said, we are delivering to all industries, basically including the construction industry, etc., the electronics industry. So I think we will see a couple of positive effects here across the board.

Alex Stewart (Barclays Capital): I wonder if you could give us some indication of which markets, specific industries are seeing activity slow down. I know you talked about auto. You talked about the precious metal refining. But particularly within North America or in the US, is that localized, is it broad? Any indication on that would be really interesting.

Dirk Elvermann: There's one evident market, which is the auto market, which is declining elsewhere, except for China, as you've seen. The Chinese auto market is going up, elsewhere it is going down. You'll probably have seen the new global units, numbers for the year by Standard & Poor's. So it's again down by round about 2 million units. So this is certainly a market that is currently declining and is in consolidation mode.

In Ag, you see that the buying power of the farmers, which is eventually the decisive element, is also not that strong currently, and there's a lot of uncertainty. The Ag market is also a little bit on the negative side.

In Nutrition & Care, the Care Chemicals segment for us, you see more a sideward trend. You see some uncertainty in the higher-price products like UV filters in Care Chemicals, but overall okay.

In the industrials, it's really a mixed picture: the dispersions businesses are quite stable, the resins business is more cautious and negative , the electronics business continues to be strong. You maybe recall what I just said in the presentation about the new capacity that we are building in Ludwigshafen. We are building this to meet good and clear demand from customers for electronics materials, particularly also in Europe.

For the upstream, it is really a mixed bag. You see some more positive trends in consumer goods, but you see also a very shaky situation in terms of the upstream big chemical plants. This is also reflected in shutdowns elsewhere in the industry. You currently hear the announcements, particularly in Europe, regarding crackers, but also other upstream plants where we observe that there will be less supply capacity in Europe for the European market, while we are sticking to what we have.

So, a mixed bag and currently a little bit more tilted to the risk side than to the opportunities.

1.2 Balance sheet

Matthew Yates (Bank of America): I'd like to talk a little bit about the balance sheet because I'm not sure I entirely share your view that it's strong. Net debt is now over €20 billion. I appreciate you can, in theory, bring leverage down quite significantly if you execute on some of your disposal plans over the coming years. But I'm struggling to understand how much capacity there actually is for doing the €12 billion of buybacks you previously promised. If I think forward with the strategic reviews of some businesses, it's plausible that BASF becomes a smaller company, possibly a more volatile company. So, do you have in mind a specific absolute debt target that will help us understand how much headroom you really have for additional shareholder returns?

Christian Jutzi: As we showed, we have a 46% equity ratio. That is actually pretty much at the same level as it was last year, and it's in the range that we typically had in the past, which was always around 45%. So, I think there we are in a good spot. We have a single-A credit rating that we strive for. And it's being agreed on by the different rating agencies again and again.

If you remember, in September, we announced in our new corporate strategy that we want to generate an operating cash flow of €30 billion over the next years until 2028 with a capex of €17 billion. That would then free up about €12 billion for distributions via dividends and share buybacks.

We also said we passed the peak of our investment phase in Zhanjiang last year. You can already see this now in the first quarter. Our capex has come down by nearly €200 million. Therefore, you can expect that our free cash flow over the next years is going to significantly increase and therefore bring back what we all are used to: BASF as a cash machine.

1.3 China

Peter Clark (Bernstein Société Générale Group): On the China Verbund site: I'm just assuming everything's all on track for the startup at the end of the year, effectively. In terms of the projections here, obviously you're not changing anything about 2030, but I think you're already expecting a slower start than you envisaged a few years ago. Obviously, things are getting tougher there in terms of your expectation into 2026 and 2027 for this operation. I know it's very uncertain. Then, finally, the ramp-up cost, which was, I think, €100 million per quarter for this year. Just to confirm that's all on track.

Dirk Elvermann: Let's start with the construction phase. This is still and will to the end be very much on track. It is in line with the timeline. It is even below the budget, nothing to report here. Most of the construction work is now finished. There is some remaining construction work, but we are also already in the commissioning phase, and the pre-marketing phase is already running. First plants are about to start up. As we promised, the Verbund site will then be ready for production by the end of the year. So, from this angle everything is good.

In terms of the operations, we are very confident that we will be able to very quickly fill the plants also to reach a high level of utilisation. We are also securing, as we speak, the contracts with customers and partners, which predominantly are located nearby. As we said, it is a local-for-local investment.

In terms of margins, you're fully right. This is the big unknown. Margins are under pressure and will be under pressure also for our operations.

The good thing is that most of our plants in Zhanjiang are highly cost competitive. This was one of the main design principles. So, we should fare well in the market. But, of course, the margin level will be the big question for us.

Ramp-up costs: The €400 million that we indicated, €100 million per quarter, this stands. So, you will see that the impact is a little bit lower in the first quarter and will probably be a little bit higher in the coming quarters. But overall, the €400 million ramp-up costs mainly burdening the Chemicals segment are confirmed.

Geoffrey Haire (UBS): I think that you mentioned at the Q4 Call that there would still be ramp-up costs for Zhanjiang and that they will be lower than this year in 2026. Are you concerned that, if the Chinese economy isn't growing as fast as maybe you think at the moment because of the tariffs, those ramp-up costs could be significantly higher than you expect for 2026?

Dirk Elvermann: No, we are currently not concerned about this because for the ramp-up we now have everything in China that we need. So we are currently not planning a downside scenario or something with regard to higher ramp-up costs. They should stay as planned. This is our realistic estimate.

Christian Faitz (Kepler Cheuvreux): You talk a lot about your new China Verbund site in Zhanjiang. Yet, this decade, you are also investing some €5 billion into your existing Nanjing site. Where are we on this in terms of investment cycle?

Dirk Elvermann: BYC is this year entering into a big turnaround. That's a big exercise that has to be done. There will also be additions to the asset park. We are doing this together with our partner Sinopec. Basically, the joint venture is running very successfully.

The turnaround that is coming this year is a planned turnaround, not something that is out of the ordinary. After the turnaround, the site will be ramped up again and additions will be made – everything according to plan and everything according to our capital allocation framework. Nothing extraordinary, I would say.

1.4 Nordlicht 1 and 2

Matthew Yates (Bank of America): Can you explain to me how the company lost €300 million on a wind farm investment? I would imagine there was a PPA agreed upfront on the offtake. But did something happen in terms of construction costs that impacts the equity value or has something else changed?

Dirk Elvermann: As you know, we took a second look into how much green energy we will need, particularly in Europe, in the years to come. We came to the conclusion that we are well served by the Hollandse Kust Zuid wind farm that we already are partnered in plus the long-term PPAs that we have secured. So, we decided that the second wind farm would no longer be needed. And this brought us to an agreement with Vattenfall to terminate the project and convert our partnership into a PPA.
We have secured a PPA for additional green energy, which is only becoming effective at a time when we need it. This is probably likely to be in the 2030s rather than earlier. So, you cannot fully account for this right now. This led then to the accounting effect which you mentioned. It is cash neutral. It avoids that we have to invest more into a wind farm in the next couple of years that we do not need at that time. Later on, when we need the green energy, we will take it for sure via the PPA, which is not yet fully accounted for.

Oliver Schwarz (Warburg Research): About the write-down on Nordlicht. If I'm not mistaken, the Nordlicht contract with Vattenfall was one of the last contracts signed by Mr. Brudermüller before he stepped down as CEO of BASF. So that was back in 2024, not that long ago. What has changed in regards to your assumptions regarding future power or electricity usage by BASF that led to basically that huge write-down in these contracts due to the change of the nature of the contract? What pressed you to do that now and not take a more wait-and-see approach?

Dirk Elvermann: This would have been a costly wait and see because, if we had stayed in the partnership, we would also have to put in more capital and more investment.

And as, with our new strategy, we clearly came to the conclusion that in Europe we will not need as much energy as we anticipated beforehand and, accordingly, not so much green energy, we rather pulled out of the project now in order to avoid further outflows in terms of an investment and thus kept to our very disciplined capital allocation approach.

At the same time, we see demand for more green energy in the next decade. And this is why we were very eager to secure with our partner a PPA that is directly linked to Nordlicht, so to the wind farms in the North Sea. I think it makes a lot of sense, even though it is a painful one-time hit now in the first quarter of 2025.

1.5 Harbour Energy

Laurent Favre (Exane BNP Paribas): On the Harbour Energy stake: I think now the market value is more than a billion below the book value that you're running. I'm wondering what could be a catalyst for an impairment test if you haven't done that already.

Dirk Elvermann: The current Harbour share price of around 150 pence per share is certainly far from reflecting the fundamental value. I'm also very optimistic that, over time, the share price will go up again. This is currently depressed due to oil price development and macroeconomic uncertainty, but also due to the energy profit levy that was introduced and was causing some concerns to investors in the UK particularly.

Fundamentally, the underlying value of Harbour Energy is way higher. So I'm very optimistic that the share price will increase again. This is also what has to be and is taken into consideration with regard to impairment testing. We do our impairment tests, as you should do, regularly and in response to trigger events. Currently the situation is that we are expecting that the share price will go up and that there is no need for us to do an impairment on this participation.

1.6 Portfolio measures

Georgina Fraser (Goldman Sachs): The evolution of the BASF portfolio: Apart from the investment in China, we're looking at some disposal activity that you had guided to shareholders. Can you talk about whether the global economic conditions are having any impact on the timing of those potential disposals that you're seeing so far?

Dirk Elvermann: Let me say that, first, we are happy with the first piece we have already concluded in the first quarter with the sale of the Brazilian deco paints business to Sherwin-Williams, which is now in the regulatory clearance phase.

In terms of the divestment, strategic partnership or joint venture for Coatings, we intend to follow our process exactly as planned. We are intending to approach the market in the second quarter. Then, we'll see how the market sounding goes. We are confident that we can also go through with this transaction in this challenging environment.

In terms of the Agricultural Solutions' preparation for the IPO, also here the project is set up and is in motion. We are in an early phase, but also here, we currently see no changes to our anticipated timeline.

2 Segments

2.1 Chemicals

– No specific questions –

2.2 Materials

– No specific questions –

2.3 Industrial Solutions

– No specific questions –

2.4 Surface Technologies

Sebastian Bray (Berenberg): On Battery Materials within the Surface Technologies. This segment appears to have undergrown the end market by about 15% to 20% in Q1 in volume terms, and prices collapsed by more than 10%. The goal set out at the Capital Markets Day was to improve utilization in this segment. But it doesn't seem like that's happening. Why not just shut the plants?

Christian Jutzi: Yes, prices came down in the overall market. Cobalt, nickel, lithium hydroxide – all came down in the first quarter versus prior year. You also saw a slight volume reduction of 2%. This is also related to the development of the base metal prices. The volume of CAM production was actually up by 5%. So, that is related to the base metals and not to the underlying business.

We have very cost-competitive assets in Battery Materials, 190 kt in Europe, China as well as Japan. Yes, the market has not developed as we had originally planned. You saw basically no growth last year in the Western world. Nevertheless, as you also probably heard, this is now changing a bit in Q1. This year, the BEV penetration will increase from 13% to 16.5%. Therefore, this is a growing market in which we intend to participate.

We also announced to look into partnership options. But we are committed to this business and believe that once we can grow into the volumes, we will also have a profitable business.

We did, of course, take all the necessary cost-cutting measures over the last few months as a result of our exit in Indonesia, the pause in Spain. So, they are all now coming to fruition. We will take things from there and move forward.

2.5 Nutrition & Care

Chetan Udeshi (J.P. Morgan): On your Nutrition & Care business: There is clearly a number of moving parts. But can you help us understand how these different moving parts, in terms of the production resumption at your vitamin plant, combined with the other dynamics that you're calling out – I think you mentioned an oversupply of UV filters, but Care Chemicals doing okay. How will that influence the numbers through the second quarter and the second half in terms of different moving parts?

Christian Jutzi: First on Nutrition & Health: Evidently, we are still being impacted by the isophytol incident. Last year, we had a double-digit million-euro impact, this year will be a low triple-digit million-euro impact, mostly in the first half of this year.

You know that we already announced that at the beginning of the year we started with some of the aroma ingredients production. By April, we now started the vitamin A complex. Vitamin E will then follow suit in mid-May. That's actually six weeks earlier than we originally thought. And then also the remaining aroma ingredients will come in, as well as the carotenoids by July. So we are really ramping up over the course of the second quarter, and we shall then see positive results over the second half of the year.

Evidently this is impacting, on the one hand, vitamins, then also a bit aroma. In terms of pharma, we've seen some good volume growth in Q1. So overall, I think we are, let's say, really confident that this division will then deliver again in the near future.

Regarding Care Chemicals, you are right: There is some, let's say, competition in the UV filters. But we saw volume growth in the different businesses, be it personal care outside of UV filters, home care, I&I. So, in the different businesses, we saw volume growth, also some price growth in the oleo surfactants and fatty acids overall.

It all depends now on how the customers are going to react to the tariff situation, whether there's going to be hesitation to buy overall.

2.6 Agricultural Solutions

Sebastian Bray (Berenberg): Agriculture: How has the second quarter started? Is it consistent with the comments about a potential pick-up having demand pulled forward? In other words, are you comfortable with the market dynamic? The reason that I ask is that it looks as if pricing is starting to slip; even the soft commodity prices have held up quite nicely in Q1. And I wonder how Q2 is performing.

Dirk Elvermann: For Ag, I can confirm that, after a weaker Q1 2025, we will now see, compared to previous-year quarter, a stronger start and a stronger second quarter. Our Ag business already had a decent start into the second quarter; as is now becoming clear.

Overall, in terms of volumes and prices, we should see an improvement for the Ag business over the year. We had a challenging start due to the preponements we talked about, but now things should be becoming better and the usual proportion of a very strong first half and then a little bit weaker second half will probably be a little bit more tilted towards the second half. I also expect another very strong finish for Ag Solutions in the fourth quarter, in as far as we can say that now.

Christian Faitz (Kepler Cheuvreux): On Agricultural Solutions: How long will we see a track like the €15 million in Q1 to prepare the ERP systems for the separation?

Christian Jutzi: You know that we announced to put both the Coatings and then also the Agricultural Solutions business on their own footing. For Coatings, the last step has been done recently with the third wave. And now, of course, we are in the middle of preparing Ag to be put into own legal entities and into an own system. This will continue through the course of 2026 and then be finalized at the beginning of 2027.

Oliver Schwarz (Warburg Research): Regarding the closure of your glufosinate production in Germany: In the light of the tariffs on Chinese producers. I guess a lot of the glufosinate that was earmarked to be sourced from producers elsewhere, e.g., China, was targeted to supply the U.S. market. That has now become, when it comes to Chinese producers, two and a half times more costly. Might there be a delay in the closure of the German glufosinate operations?

Dirk Elvermann: You rightly mentioned, we are closing the glufosinate ammonium and replace it by bought so-called LGA. This LGA is exempt, so is not hit by U.S. tariffs. We have this from China. We also could have this from a second source elsewhere in Asia. So the decision to shut down our glufosinate ammonium production stands and the business case with the replacement, namely with the glufosinate ammonium, works for us. There is no reason to change that approach.

2.7 Other

– No specific questions –