BASF
We create chemistry

Analyst Conference Call Q3 2024

Transcript Q&A
October 30, 2024

Contents

1 BASF Group 2
1.1 Current market environment 2
1.2 Cost savings programs and regional profitability 4
1.3 Outlook 5
2 Segments 7
2.1 Chemicals 7
2.2 Materials 8
2.3 Industrial Solutions 8
2.4 Nutrition & Care 8
2.5 Surface Technologies 9
2.6 Agricultural Solutions 9

1 BASF Group

1.1 Current market environment

Thomas Wrigglesworth (Morgan Stanley): On this automotive shift that you indicate from U.S./Europe to Chinese exports. Can you talk about how that impacts your Coatings business and how that impacts in terms of the value split between the regions and also how it impacts your polyamide 6 and 6.6 businesses and how you're thinking about adjusting those accordingly?

Markus Kamieth: A couple of comments on auto: I mean, it is certainly shaping up to become a more challenging year than what we initially thought. If you look at the overall year to date, as I said, roughly minus 2% production figures, light-duty vehicles. In Q3, it was minus 5%, particularly pronounced in Europe, and certainly the momentum in Europe is challenging.

However, coming to your question as to how this affects our business, as we have also said in the past, regional shifts between automotive production are not such a big deal for us because we have assets for all our automotive-related businesses in all major production areas, and we are also present with all significant OEMs, also in China. Market share shifts between regions and also between OEMs in general, are, I would say, not such a big influencing factor for BASF.

It's more the overall production volume trajectory that is worrying us right now because Q3 momentum has not been good. And with what's to be expected in Q4, that's certainly a headwind that we have to face.

Christian Faitz (Kepler Cheuvreux): Some of your peers are talking about a continued drag in automotive demand into 2025. Would you subscribe to this view?

Markus Kamieth: I would say, it's hard to say right now. If you would ask anybody: "What is the outlook for 2025 automotive?", everybody would be fishing a bit in the dark as usual. I would say that all the industry experts and consultants are projecting slight growth next year.

But I have to say that we have to see how the year really starts. For me, what always is a big indicator is how China will behave before Chinese New Year and then also what will happen thereafter. Once that is clear, we will have a clearer outlook on overall production figures and sales figures, in particular for the automotive industry. China is so big that this really matters.

That's why I would say right now: I would not put a lot of money on speculations on 2025, but we are certainly not going to see a big rebound or a big growth year. Nevertheless, I expect some positive trends again to emerge in automotive next year as well.

Sebastian Bray (Berenberg): On the in-principle impact of tariff policy: Depending on the outcome of the U.S. election, there might be substantial increases, at least between U.S. and China. Are there any direct impacts on the BASF business structure in terms of importing or exporting within the company from one region to another, or is this broadly neutral for your firm?

Markus Kamieth: I'll take your question on tariff policy. That's a big one. We can spend an hour on this going back and forth. In general, we don't have – I really have to be broad here now – a big exposure to this in our business because we don't have value chains that really extend beyond the major regions, China, U.S. to a large extent.

So, our strategy to have our assets in the markets under a more tightening trade regime in the world will prove to be even more valuable than it was in the past.

However, this of course affects our customer industries. We're also, let's say, typically in our large customer industries, exposed in all regions. So we are nicely present in all regions. But this of course could lead to regional shifts. My biggest concern in general is that this will lead to a slower overall growth of the global economy.

I'm a big proponent of that, at the end of the day, economies, especially in our current day and age, grow fastest when there is free trade. If there are hindrances of free trade and of economically optimized trade flows, it might lead to lower growth in general. That will certainly be challenging for at least a couple of years until things have realigned.

But this is nothing specific to BASF. At BASF, if I look across the setup that we have market-wise as well as supply-chain-wise, I feel much better than most companies should feel in an environment where quite drastic tariff regimes might be established in a very short period of time. I think we're very robust with regard to this, but it will not be good for the economy.

Geoff Haire (UBS): We've seen a number of companies strategically reviewing their upstream assets in Europe, particularly the U.S. companies. Would you have any interest in being a consolidator in Europe, or is that something where you would rather focus on capex or cash elsewhere in the world?

Markus Kamieth: The answer is very simple. I was relatively outspoken on this at the Capital Markets Day. I consider the consolidation, the necessary consolidation in Europe in the chemical industry, as an opportunity for BASF. This is based on the analysis that we did during our strategy work, that again confirmed the largely competitive nature of our key assets here in Europe and, of course, in anticipation of a wave of consolidations in the chemical industry in Europe in particular, but also globally.

I will leave it there. I don't want to be any more specific, but that's certainly something where, based on our strength and our technology position, it is plausible that BASF is going to emerge as a consolidator rather than the opposite.

Georgina Fraser (Goldman Sachs): This time last year you included in your third-quarter presentation a chart looking at one of your key internal indicators of demand. It was called "Indicators for stock levels in manufacturing," "Stocks of purchases per region." At the time, it showed Western Europe and North America with stock purchases at very low levels and in a zone which was highlighted as a kind of inflection point, which we obviously didn't see yet.

How do those look today? You also showed Asia Pacific, which was above kind of long-term trends. But if you could just elucidate what those indicators are telling you at the moment, that would be great.

Markus Kamieth: I have to tell you, my takeaway is that, right now, especially in 2024, if you look at this data, you almost get more question marks than you have answers. If you look, for example, at the inventory levels that are reported on the basis of this data for Europe, you would see a continued destocking now over a huge period of time. For me this is just physically unimaginable. I lack a little bit the translation of such data to the real world. That's why we are no longer including these demand indicators in our quarterly presentations, because it doesn't necessarily make too much sense.

What I can say is: Overall, I think we have to acknowledge that destocking in our supply chains and also downstream at our customers has largely come to an end. However, we are still, of course, facing an overall weak demand picture in many industries. So we are not seeing any turnaround in terms of people actually preparing for growth going into 2025. That's why I said earlier, I still expect that in Q4 2024 there is room for tactical buying behavior, so we have to be on the watch-out here.

But I would say, no more destocking across the board as far as we can see. And eventually, if demand comes back, there is still quite some refilling of value chains that we can expect. That's certainly an upside for 2025. But first the confidence has to come back that actual growth, actual demand growth materializes in most of the regions.

I would say, there is a pent-up upside, if you want, on the supply chain side, but not more at this point in time.

Dirk Elvermann: At that time, we used this graph to corroborate our statement on volume development and price development. Remember, that was a time of high uncertainty. We started to predict by the middle of the year that quarter over quarter the volumes would catch up, which happened, and that then the prices would be dragged along, which also happened.

I think it was helpful at the time, but in the current situation it is probably not so helpful, as Markus said, to include it anymore. These days we are looking rather into the purchase manager indices, etc. and following the stocking and destocking behaviors..

1.2 Cost savings programs and regional profitability

Peter A. Clark (Bernstein Société Générale Group): Related to the restructuring: It's good to see you getting ahead on that. I see you've got the €800 million by the third quarter. I think, it was the year-end target.

I'm just wondering why you didn't actually increase the €800 million. You say "around", over €800 million now for the full year. But why didn't you just add €100 million or something to it? Presumably you want to keep beating these numbers.

Dirk Elvermann: Regarding the cost savings I'd say: We rather like to overdeliver. It's great that we already brought in the €800 million by the end of the third quarter.

Are we stopping now or are we pressing forward? Of course, the latter. Q4 is a quarter with a lot of things going on, as you appreciate. It doesn't make sense probably at the end of October to come up with a new number. But I'm confident that, in our next call, we will report the savings run rate achievement for 2024 that will for sure be higher than €800 million.

Peter A. Clark (Bernstein Société Générale Group): I know you don't like talking about the profitability by country. But I'm going to keep batting on about Germany because, obviously, that was a big standout comment in 2023 with the EBIT losses there.

I'm just wondering if you were to try and pull back if Germany is approaching the break-even on EBIT now, with the performance upswing we've seen.

Markus Kamieth: A nice try to get the profitability by country out of me. I'm still not biting. But let me give you some comfort that we are moving in the right direction. I have to say we always have to take these numbers with a grain of salt, also because of intra-group bookings of costs etc. between different countries.

But generally, if I look at this, the majority of our segments have significantly improved profitability, also in Germany, in our local companies here. So it looks to me like we are on track, and we are seeing this operationally as well as the effects of our restructuring already coming in. And this is just the beginning.

Andreas Heine (Stifel): On the regional earnings trends: If I look at the JV income in the P&L, it looks as though China has not really improved.

Maybe you can qualitatively expand a little bit how the three regions North America, Asia and Europe have contributed to the earnings increase exclusively in the core businesses, which was the strong part.

Markus Kamieth: If I look at the regional results, you are right in assuming that the results in China have been weaker, but only slightly weaker, I have to say. So, the effect is not as dramatic as you might think. They have slightly gone backwards in Q3 versus prior year. In all other regions we have actually increased EBIT before special items, most pronouncedly in North America. But I cannot give you more details on this because I'm not looking at the individual business units by regions on a quarterly basis.

So, overall, we're seeing positive earnings trends in all regions in the core businesses, with the exception of China, where it has slightly receded.

1.3 Outlook

Thomas Wrigglesworth (Morgan Stanley): Obviously, normal seasonality is that the fourth quarter would be down somewhere by 20% to 25%. And if we add back the outage impact in Nutrition & Care, it looks like you're indicating that quarter on quarter things will be up more than 10%. Is that backed by your view on volumes or is that backed by "we are seeing better fixed cost absorption"? Can you help us understand better the counterseasonal performance that you're indicating for the fourth quarter?

Dirk Elvermann: As we said, we expect to reach the low end of the range. What we have seen this year is quite an extreme volatility. If you think about Q3, we started strongly in July, had a really weak August, and then came back strongly in September. And for the last quarter, which is anyway quite a volatile quarter, there are quite a couple of effects that lead to some uncertainty here.

Let me stress that, on average for the last years, we reached €1.7 billion of EBITDA before special items in the fourth quarter back to 2015.

But what are the uncertainties that we have? First, you said rightly, that we are making progress with our cost improvement programs. That is clearly so. Also, volume-wise, talking to all our business heads, the volumes are not falling off the cliff, clearly, but are being maintained and in some cases maintained strongly.

With regard to the buyer behavior, there are a couple of question marks. To some extent, we see this typical inventory management behavior at customers, but also not consistently. There's still the question as to how much presales the ag business will generate, which also had quite some volume success, at least also during the third quarter, and is working on that. And then also the impact that we will see in Nutrition from the incident with the isophytol plant has been not so pronounced in the third quarter. Here, we still have also products to be sold in the fourth quarter at quite good prices, I would say.

So just to give you a couple of effects that make it hard to land at a certain number. But all in all, I would say, expecting the low end of the guidance is a reasonable stance.

Chetan Udeshi (J.P. Morgan): I'm sorry, but I really don't understand why you expect Q4 to be better than Q3. So let's try the other way round: Can you maybe give us a bit more color by segments where you actually think Q4 will be better than Q3 in terms of EBITDA, as you seem to suggest in your Group guidance?

Markus Kamieth: I will not go now into individual segment guidance on Q4. In general, let me give you some thoughts on this. What we see – and you have seen this now throughout Q2 – is that in Q3 the overall earnings momentum in our chemical businesses, what we now call core businesses, is quite favorable compared to last year, and we are seeing both volume growth in almost all divisions and margin expansion.

The trend that will certainly be more challenging in Q4 is the volume picture in this area. But the margin is holding up quite well, because when you look at raw material markets, most of them are actually walking sideways or receding. So, the margin picture is quite positive. And we are also expecting this momentum to carry forward in most divisions.

We are therefore quite optimistic that despite the year-end challenges from the buying behavior of customers that we always have, we can see a continued good momentum, especially margin-wise, in the core businesses.

Dirk has already alluded to some of the effects that we will also see in our P&L in the fourth quarter. So, in our books, the €8 billion lower end of the guidance is achievable. And we're confident that we will be there at the end of the year.

2 Segments

2.1 Chemicals

Matthew Yates (Bank of America): It looks like the Chemicals segment got weighed down a little bit with an increase in fixed costs related to the new site in China. Is it possible to quantify the impact of that additional fixed cost and, perhaps more importantly, talk a little bit more about the magnitude of those cost increases as you go into 2025 with the site starting to come online and more people, etc., that we should start thinking about in terms of the impact on chemical profitability next year?

Dirk Elvermann: Already in 2024, we are now faced with the first cash fixed cost burden for Zhanjiang. Think about it for the entire year 2024 as a low-triple-digit million-euro number. And then, going forward, for 2025, it will be about €100 million per quarter that we have to bear before we start operations at the end of 2025 or beginning of 2026.

Matthew Yates (Bank of America): Maybe just as a follow-up: I know it's non-cash, but what does the depreciation phasing look like in terms of above or below that, essentially the depreciation incrementally next year?

Dirk Elvermann: Depreciation is obviously going to start. I don't have the number handy for you now. But think about the Zhanjiang Verbund site as a normal to extended depreciation period.

Alex Stewart (Barclays): You've called out strong unit margins in the Monomers segment within Materials. Could you perhaps tell us which products are responsible for that and whether that is a sustainable or temporary benefit?

A clarification on the Verbund fixed costs: Was I right in hearing that this year was about €100 million headwind, and then next year will be about a €400 million euro headwind, in other words: €300 million year on year? And would you mind just confirming whether that's across Chemicals and Materials?

Markus Kamieth: You have an interesting take on whether the margins in Materials are sustainable or not. It's always difficult to say in a cyclical, rather commoditized business.

In general, where we have seen a good margin expansion, also in the third quarter, is, in particular, in the ammonia value chain in our Monomers division. It also had good margin recovery in our PA6.6 and PA6 value chains. These are the areas where margin expansion in Q3 has been seen versus the prior year.

Overall, in the Performance Materials division, I would say, the margin picture was more stable. We had some margin expansions in individual product lines, but nothing so pronounced.

So, I would say, overall, if I look at the numbers, the predominant margin expansion comes from these three areas that I just mentioned: ammonia, PA6.6 and PA6 precursors.

Dirk Elvermann: To the clarification question on the Verbund site project in China: low-triple-digit million-euro extra cost in 2024 full year and roughly €100 million of extra cost per quarter next year, mainly attributable to the Chemicals segment.

Markus Kamieth: I would like to make this very clear: In terms of Verbund startup costs, Materials is not affected, neither in the Monomers nor the Performance Materials division. So, the costs are attributable to by far the largest extent to the Chemicals segment and, to a minor extent, also to the Nutrition & Care segment because we have both the nonionic surfactant complex and the citral plant in Zhanjiang.

2.2 Materials

– No specific questions –

2.3 Industrial Solutions

– No specific questions –

2.4 Nutrition & Care

Jaideep Pandya (On Field Investment Research): Around the citral complex that you have. I think you've increased capacity in Malaysia. And also in the plan for China, there's supposed to be citral coming, I think, in due course.

Now, one of your big Chinese competitors, Wanhua, is going to enter the market, I think, pretty soon in citral. It looks like citral will go long.

Can we go away from the fire a little bit and understand: What is your citral strategy and will you reduce utilization or capacity in Germany to balance this market?

Markus Kamieth: You're right. Quite a while back we invested in a new citral plant in Malaysia and are also making menthol there out of citral. And we will start up a new citral plant in Zhanjiang next year and then use the citral also largely internally to make various different derivatives. So, we will use most of the citral to make higher-value aroma ingredients.

Overall, our strategy is to build these capacities based on a very strong cost position and good technology in line with the market expectations and in particular with close alignment with our large global key accounts. You can be assured that the investment in China is also largely contracted due to the strongly growing demand of our large customers in this segment.

So, overall, yes, there are new competitors entering the field, but with our three manufacturing sites in Malaysia, China and Germany, along with the good integration with downstream aroma derivatives, we feel very good about our setup. We feel good about our customer relationships. And we believe that the growth that we have seen in aroma over the last years, which is one of our strongest growing businesses, will be strongly supported also by our strong position in citral. We are not blind to competitors who are entering the market, but in that particular technology, we feel good with our cost position and our setup.

Andreas Heine (Stifel): Can you please expand a little bit more on Care Chemicals? You have quite a strong volume here. Peers have seen a slowing in volume trend. Maybe you can elucidate a little bit why Care Chemicals have been showing this strong trend also in the second half of this year.

Markus Kamieth: I don't want to comment on why my competitors are not seeing what I see. But I can tell you that, if I look at the various pieces of the business for Care Chemicals, we see a positive volume contribution across all business lines. So, personal care, home care, industrial formulators and oleo surfactants are all up in volume in the third quarter, compared with prior year.

Based on this, I see also an overall market environment that is still in quite good shape, compared to some of the more industrial markets that we serve like automotive, construction and others. So I'm not surprised by this. And on top of that comes a margin expansion in all of these sub-businesses.

So, our Care Chemicals business is really doing quite well and also positions itself favorably in the market.

Sebastian Bray (Berenberg): The first question is on the extended deadline for recommencing vitamin production at Ludwigshafen. I imagine that the total lost business and costs of repair are probably in excess of €300 million. I appreciate it was said at the CMD that this was not easily insurable. But is there any chance of getting any of this money back at some stage next year?

Dirk Elvermann: Your estimate of €300 million, I think we can say in all fairness, is too high. You're right that there will also be an impact on the business for the first half of the year. You may, in the meantime, have also seen the announced ramp-up plans for the aroma business, but also for the vitamins. The first part is already ramping up this year, then vitamins next year.

So, from all we can safely say today, the amount is below €300 million. But next year we will still have a low-triple-digit million-euro impact for sure. Is there insurance in place and will that be also covered by insurance? As you know with insurance policies, this will never cover the full damage. But partly there are insurance claims to be discussed.

2.5 Surface Technologies

– No specific questions –

2.6 Agricultural Solutions

Christian Faitz (Kepler Cheuvreux): What is your best guess of FX and trading conditions for your Agricultural Solutions in Q4?

Dirk Elvermann: On the FX effect for Agricultural Solutions: This was burdening the business already throughout the year. And as we are now in the midst of the South American season, and with the presales also for the Northern hemisphere, this is going to continue. So we are not expecting any tailwind from FX for the rest of the year.

The agricultural solutions business is positive in terms of strong volumes, although prices are still relatively weak, as we said. But the FX effect certainly has to be taken into consideration. And at one point it will change, but not in 2024.

Chetan Udeshi (J.P. Morgan): Clearly, the volumes are coming back very, very strongly. But I go back to the question I had asked on the CMD as well.

Typically, what we see with companies or specialty chemical companies where R&D spending is high, you usually have euro-based pricing. So, when FX moves a lot against you, you try to pass it on to your customers because you've got differentiated products.

But here in the ag chemicals business, what we see is that the FX impact is very, very big. And on top, the price is also down. That just seems very unlike a specialty business. So any thoughts around that?

Dirk Elvermann: On the Ag business, I already commented on FX. You saw strong volumes in Q3, but very weak prices. The division is working on a certainly stronger Q4 than Q3. This is then also opening the new season. So, we are very confident that the fourth quarter for Ag will be stronger than Q3. I think this is what we can say at this point in time.

Jaideep Pandya (On Field Investment Research): When we look at the moving parts for Ag next year, especially in Q1, which is your big quarter, what are the risks you have? Is it very heavily focused on seeds and canola? Or do you have enough arrows in your kitty to sort of offset some of the weaknesses? I guess a lot of the 2025 outlook hinges on how good Ag is in Q1 next year.

Dirk Elvermann: We likewise feel good about the start of the new season for Ag. We are seeing lower channel inventories both in North America and Europe. So, we are awaiting and expecting normal buying behavior throughout our portfolio of Ag products.

On top of that, we also have good news for our glufosinate-ammonium. As you know, we have applied here for the approval of the L-GA, which is then to substitute the U.S. part of our glufosinate-ammonium. That is now being restructured. In the last couple of days, we have obtained the federal approval from the EPA in North America. I think, staying in your picture, we have all the arrows for 2025 to shoot and to match and surpass the strong results still in the first half of the year. So, I expect the first half of 2025 for Ag will be stronger than the first half of 2024.