Winning in Global Chemicals

Balancing Asset Value Creation and M&A-Led Growth in an Era of Geopolitical Fragmentation and Market Volatility

The global chemicals sector has delivered **–1.2% TSR** over the past two years, compared with **+3.4%** for the broader industrials universe. The **top-quartile performers (+5.3% TSR)** share a common pattern: disciplined capital allocation, advantaged feedstock positions, and programmatic M&A.

1. My observations

- **Capital efficiency** is the primary differentiator in a low-growth, volatile market.
- **M&A remains a growth engine**, but only when executed programmatically and counter-cyclically.
- **Organic value creation** is the highest-certainty source of returns.
- **Feedstock advantage** (Middle East, US) is a structural competitive lever.

Strategic implication: Prioritize **organic optimization and brownfield expansion**, while treating M&A as a **repeatable capability** rather than a one-off event.

2. What does Structural and cyclical tests reveal

- Global chemicals market: **USD 6.8T (2024)**
- Expected growth: **3.4% nominal CAGR to 2035**
- Demand remains **GDP-linked**, with recovery expected **post-2028**
- **Rationalization > new capacity additions**, especially in Europe
- China's share of global chemical capacity: **70% (2022–2025)**
- China targets:
    - **42%** of global output
    - **85%** self-sufficiency by 2030

3. What are Organic value-creation levers and how did they perform

Lever	Description	Speed	Durability
Commercial excellence / pricing	Need-based customer segmentation, business rules, and pricing transformations can materially expand earnings.	Fast	High
Procurement & supply chain	Quantified savings should be supported by company-specific benchmark evidence.	Fast	Medium
Operational / fixed-cost excellence	Savings should be validated through asset-level diagnostics or named case evidence.	Medium	High
Working capital optimization	Working capital discipline can release cash and strengthen resilience through the cycle.	Medium	High
Digital & manufacturing transformation	Quantify impact where tied to named digital, AI benchmark studies, or internal asset diagnostics.	Medium	High
Portfolio rationalization	Focused pure plays can remove conglomerate discount, reset ROIC, and sharpen management focus.	Medium	Medium
De-bottlenecking / brownfield	Preferred over greenfield in overcapacity markets where debottlenecking improves unit cost without adding large new capacity.	Medium	Medium
Sustainability & circularity	Retain as a strategic and regulatory hedge; quantify economics only with cited third-party studies or customer offtake evidence.	Slow	High

4. Performance of M&A as a growth engine

Global chemical M&A value is **30% below** pre-2021 levels.

Value-Creation Themes

- Only **30% of deals deliver 80% of value**
- **Strategic fit** is the strongest predictor of success
- **Programmatic M&A** outperforms megadeals on TSR

Geopolitical Impact on M&A

- **China:** 35% of global M&A volume
- **Europe:** constrained by energy costs and regulation
- **Middle East:** advantaged feedstock → rising acquisition hub

5. How should you allocate through Capital framework

Where Should Your Next $1 Billion Go?

Option	Strategic value	EBITDA impact	ROIC	Risk
Organic optimization	High	Medium	High	Low
Brownfield expansion	High	High	Medium	Low
Selective M&A	Medium	High	Medium	Medium
JV / partnership	Medium-high	Medium	Medium	Medium
Commodities consolidation	Medium	Medium	Low-medium	High
New platform creation	High	Low	Low	High

6. Decision matrix: where you next incremental capital should go

Decision factor	Favors organic	Favors M&A / inorganic
Return certainty & speed	Need fast, high-certainty ROIC uplift within 12–24 months at low capital intensity.	Willing to accept integration risk and multi-year payback for a step-change in position.
Balance sheet	Constrained leverage, dividend defense, or downcycle cash preservation.	Deep balance sheet or NOC backing able to fund counter-cyclically.
Feedstock position	No structural cost edge; defend ROIC inside existing assets.	Advantaged feedstock to deploy into distressed assets or new regions.

Segment	Commodity or cyclical lines where scale is already adequate.	Specialty or downstream segments where pricing power and programmatic bolt-ons compound.
Portfolio gap	Capability exists in-house; the gap is execution, not assets.	Genuine capability, technology, or geography gap where build-vs-buy favors buying.
Market timing	Mid/late cycle, with full asset prices.	Cyclical trough, with quality assets available below replacement cost.
Base-rate discipline	Default posture: many deals destroy value without strong strategic fit and execution discipline.	Only via programmatic, disciplined, well-diligenced execution.

7. What has been the Capital allocation patterns of leading players

Company	Strategy used	**Capital-allocation signature**
SABIC — Petrochemicals, pivoting to specialties	Restructuring	Reported FY2025 revenue of SAR 116.53bn, net loss of SAR 25.78bn, and total cash dividends of SAR 9bn; Saudi Aramco owns 70%.
LyondellBasell — Commodity O&P; exiting four European assets	Organic optimization	Reported $2.3bn of cash from operations in 2025 with 95% cash conversion; cash improvement plan exceeded the $600m 2025 goal by $200m.
INEOS — Commodity petrochemicals and intermediates	Inorganic carve-outs	Fitch downgraded INEOS Group to BB- in 2025, citing EBITDA net leverage of about 8x in 2025–26 and high Project One capex.
Westlake — PVC/chlorovinyls and building products	Inorganic acquirer	Reported FY2025 net sales of $11.17bn, EBITDA excluding identified items of $1.14bn, $2.9bn of cash/securities, and more than $170m of structural cost reductions.
Evonik — Specialty pivot	Organic + pruning	Reported FY2025 sales of €14.07bn, adjusted EBITDA of €1.87bn, free cash flow of €695m,

		ROCE of 6.1%, and a proposed €1.00/share dividend.
Covestro — Polyurethanes / polycarbonates	Acquired	XRG completed the Covestro takeover in Dec. 2025; the agreed offer was €62/share and included a €1.17bn capital increase.
Borouge Group International — Pure polyolefins, advantaged feedstock	Inorganic mega-merger	ADNOC/OMV announced the Borouge–Borealis combination with Nova acquisition at $13.4bn EV; target annual floor dividend is about $2.2bn with approximately $500m run-rate synergies.
Reliance O2C — Integrated O2C and captive Indian demand	Organic integration	Reported FY2024–25 consolidated EBITDA of ₹1,83,422 crore; Oil-to-Chemicals remains a core integrated platform alongside retail and digital services.
Sinopec — Refining and commodity chemicals	Organic state capex	Reported FY2025 revenue of RMB 2.78tn and profit attributable to shareholders of RMB 32.48bn.

8. My 2 cents on Design-stage recommendations

1. **Balance organic vs. M&A playbook** Deploy **70–80%** of discretionary capital to organic optimization and brownfield expansion.
2. **Adopt disciplined capital allocation** Use the decision matrix and capital allocation framework as mandatory screening tools.
3. **Institutionalize M&A capability** Treat M&A as a **repeatable, programmatic, counter-cyclical** capability.
4. **Build resilience** Focus on feedstock advantage, cost efficiency, and sustainability.
5. **Drive long-term competitiveness** Integrate digital, workforce, and circularity levers.

9. Bottom line

- Fund the organic “triad” first — pricing/commercial, procurement, cost/operational plus working capital — for the highest-certainty ROIC uplift.
- Use portfolio pruning as the bridge to inorganic action; it monetizes low-return assets and lifts group ROIC.

- Pursue M&A only programmatically and at disciplined valuations; treat megadeals as rare, high-bar exceptions.
- If feedstock-advantaged, Invert the default now — deploy counter-cyclically into distressed downstream/specialty and integrate relentlessly.