Chemical Sector Analysis

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Summary Chemicals

This is commodity business where it is impossible to have a durable competitive advantage. Competition is high and the cycles are ugly.

Shareholder returns are mostly from dividends in good times.

However, from a cyclical perspective, riding the cycle upturn can be profitable and perhaps even save.

It still seems overcapacity is the name of the game now, if there is a global slowdown or US recession, things can still get uglier. Don't get confused by 2021 and 2022, those were post pandemic times, not to compare to normal business reality. Oil shocks, input prices…

Related to timing, value and a hidden catalyst, Laxness remains the most interesting value risk and reward option.

Dow Inc. NYSE: DOW - A bet with an uncertain yield!

Let's start with the stock that best explains the situation, then see whether there is value.

DOW Stock

The situation with DOW stock looks ugly. We are at historical lows compared to the 2019 Dow DuPont split. The dividend has been recently cut and there is no profitability at the moment. The market capitalization is $16.4 billion which is extremely low compared to the above $50 billion levels in 2021.

The Dow company has always been knowns as a good dividend payer, and if we return to previously paid dividend levels of $2.8 per share, we are looking at a potential yield of 12%, which is unlikely to be that high for long, and thus for a 2x upside if things just return to historical averages.

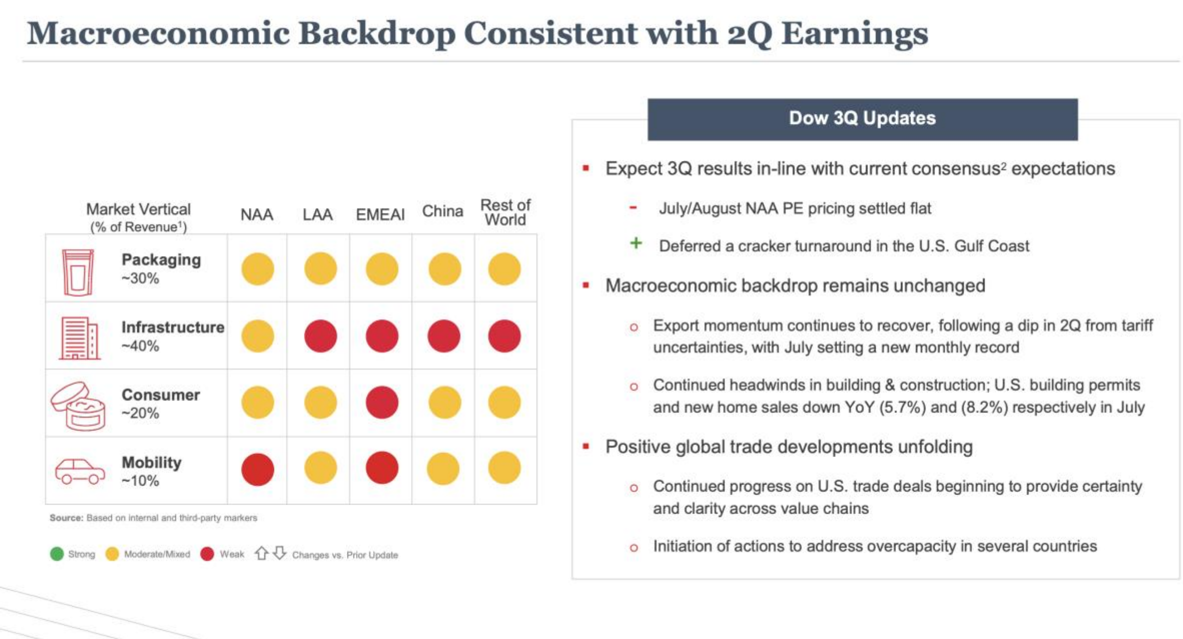
On the risk side, we have to see whether this downturn is just temporary, or it is a bigger issue with more dividend cuts ahead, and other issues that might arise.

Let's look at the business.

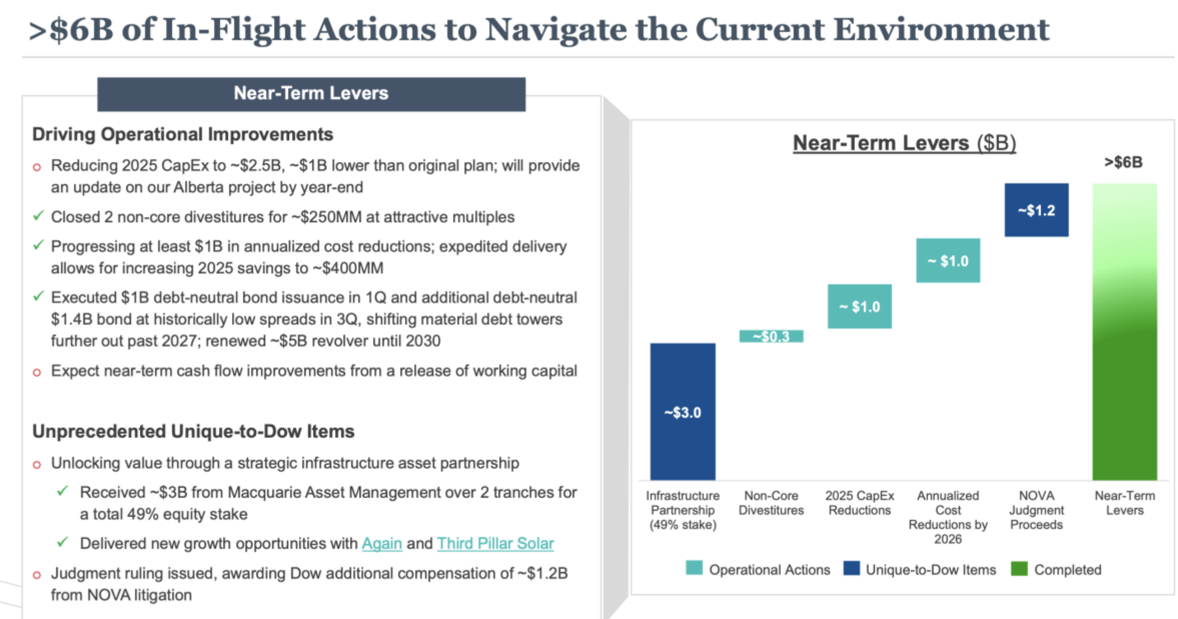
Dow Inc. Business Situation Sept 2025

There was a recent Morgan Stanley Conference and the CEO presented the business situation in 3 shorts slides.

As a chemical business, you depend on general economic activity. The macro situation doesn't look great from that perspective. The market is exuberant about AI, crypto and other speculative assets inflated by financial engineering, but all the other things seem leaning towards the side of ugly, we'll see how it will end.



Given it is a commoditized business, when demand drops, prices drop, margins get very low, and businesses try to survive the downturns. In that line, DOW is reducing capex, closing facilities and selling assets.



In short, the business is in rationalization mode with shutdowns, focusing on what is profitable, selling the Americas as focus and perhaps key, PRAYING FOR LOWER RATES AND A REVIVAL IN HOUSING AND DURABLE GOODS as shown on the chart below, bottom line right.

Taking Strategic Actions To Maximize Shareholder Value

Driving Higher Returns

- Shifting portfolio mix towards higher-growth end markets with resilient demand across the economic cycle
- Upgrading product mix by shifting capacity to higher-value downstream products produced in the cost-advantaged Americas, capitalizing on light cracking
- Rationalizing Propylene Oxide capacity in Freeport by YE25 (~20% of North American industry capacity), supporting supply/demand balances in the Americas
- Addressing regional challenges with European shutdowns; will result in Op. EBITDA uplift of $200MM beginning in 2026; additional ~$60MM/year of CapEx avoidance

Enhancing Long-Term Competitive Position

- Leveraging our purpose-built global footprint with ~65% of capacity in the cost-advantaged Americas
- Furthering our unmatched feedstock flexibility with >80% light cracking feedslate
- Capitalizing on attractive market trends growing at >1.3x GDP
- Generating higher margins[1] versus peers across the cycle
- Executing disciplined actions to increase our cost efficiency and cash generation, including $1B of targeted savings by 2026
- Anticipating lower interest rates, which should foster a recovery in housing and durable goods end markets ?

I know I can't anticipate what will happen with the economy, but I know what is a key factor when it comes to investing in Dow Inc.

Let's take a look at the financials and estimate what happens if the economy rebounds, but also what happens if it doesn't.

From the conference call, it is clear, the company isn't competitive and needs regulatory protection to survive:

Dow reports second quarter 2025 results

OUTLOOK

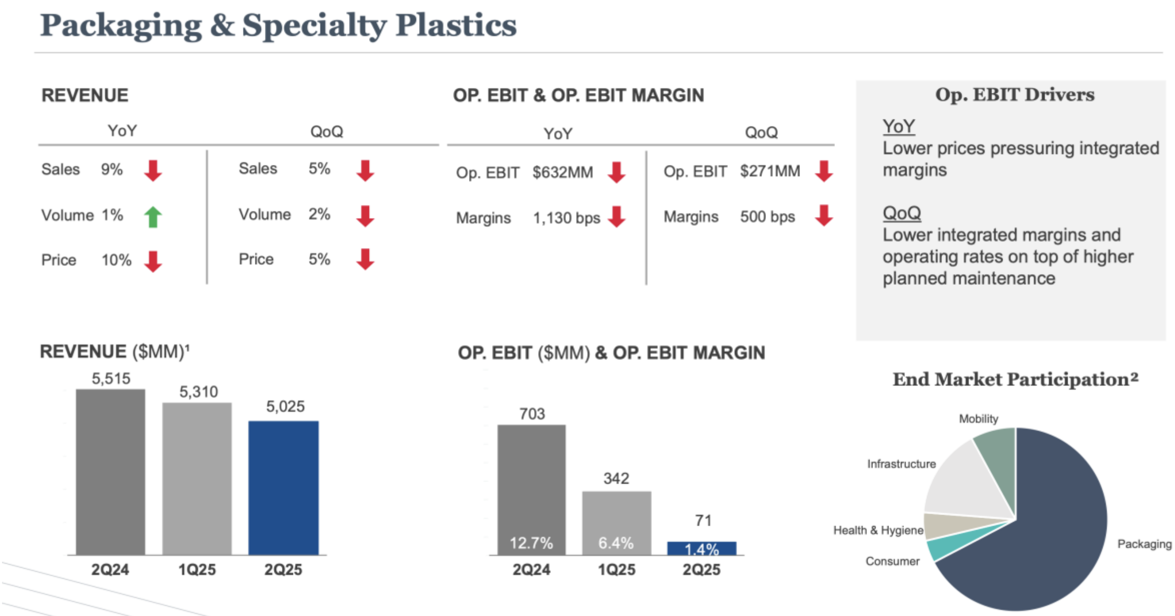
"Dow's strategic actions enable us to mitigate the dynamic factors that our industry is facing. However, signs of oversupply from newer market entrants who are exporting to various regions at anti-competitive economics require broader industry engagement and additional regulatory action to restore competitive dynamics," said Fitterling. "The commissioning of our near-term growth projects, which are all operational in the third quarter, paired with our longer-term strategic investments, will increase Dow's position in higher-value applications and attractive end markets that are not exposed to this same level of anti-competitive activity. This will enable more resilient earnings and leading shareholder returns. Additionally, Team Dow is focused on structurally improving our cost base, optimizing our global asset footprint, and maintaining our track record of operational excellence to further strengthen our competitive advantages."

This is not anti-competitive activity, this is purely competitive activity :-))))))

Given the legacy position the Dow Inc. company has been enjoying, I get a feeling of entitlement and ego, that is usually bad for business. When a CEO accused everything else, it is a small red flag so to say.

Financials

With chemicals, it is pretty simple. When times are good, companies are investing and getting exuberant. As the business cycle turns, there is overcapacity and prices collapse. In packaging, sales dropped 9% while volumes stayed stable. This resulted in the operating margin falling from 12.7% to 1.4%. Practically the business is losing money now.



Here are the summary financials:

SUMMARY FINANCIAL RESULTS

	Three Months Ended Jun 30			Three Months Ended Mar 31	
In millions, except per share amounts	2Q25	2Q24	vs. SQLY [B / (W)]	1Q25	vs. PQ [B / (W)]
Net Sales	$10,104	$10,915	$(811)	$10,431	$(327)
GAAP Income (Loss) Net of Tax	$(801)	$458	$(1,259)	$(290)	$(511)
Operating EBIT[1]	$(21)	$819	$(840)	$230	$(251)
Operating EBITDA[1]	$703	$1,501	$(798)	$944	$(241)
GAAP Earnings (Loss) Per Share	$(1.18)	$0.62	$(1.80)	$(0.44)	$(0.74)
Operating Earnings Per Share[1]	$(0.42)	$0.68	$(1.10)	$0.02	$(0.44)
Cash Provided by (Used for) Operating Activities – Cont. Ops	$(470)	$832	$(1,302)	$104	$(574)

1. Op. Earnings Per Share, Op. EBIT, Op. EBIT Margin and Op. EBITDA, Free Cash Flow and Cash Flow Conversion are non-GAAP measures. See page 6 for further discussion.

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At best, things should remain like this going forward or there could be a recession and then things would look even uglier. With operating margins in the low single digits, it is ugly and it might look even uglier. With the interest expense of $840 million per year, the profit is zero at best.

Income Statement | TIKR.com	31/12/16	31/12/17	31/12/18	31/12/19	31/12/20	31/12/21	31/12/22	31/12/23	31/12/24	LTM
Revenues	36,099.00	43,730.00	49,604.00	42,951.00	38,542.00	54,968.00	56,902.00	44,622.00	42,964.00	41,819.00
Total Revenues	**36,099.00**	**43,730.00**	**49,604.00**	**42,951.00**	**38,542.00**	**54,968.00**	**56,902.00**	**44,622.00**	**42,964.00**	**41,819.00**
% Change YoY	*(2.7%)*	*21.1%*	*13.4%*	*(13.4%)*	*(10.3%)*	*42.6%*	*3.5%*	*(21.6%)*	*(3.7%)*	
Cost of Goods Sold	(29,894.00)	(36,350.00)	(41,074.00)	(36,582.00)	(33,346.00)	(44,258.00)	(48,338.00)	(39,565.00)	(38,283.00)	(38,485.00)
Gross Profit	**6,205.00**	**7,380.00**	**8,530.00**	**6,369.00**	**5,196.00**	**10,710.00**	**8,564.00**	**5,057.00**	**4,681.00**	**3,334.00**
% Change YoY	*(16.7%)*	*18.9%*	*15.6%*	*(25.3%)*	*(18.4%)*	*106.1%*	*(20.0%)*	*(41.0%)*	*(7.4%)*	
% Gross Margins	*17.2%*	*16.9%*	*17.2%*	*14.8%*	*13.5%*	*19.5%*	*15.1%*	*11.3%*	*10.9%*	*8.0%*
Selling General & Admin Expenses	(1,813.00)	(2,471.00)	(1,659.00)	(1,385.00)	(1,368.00)	(1,313.00)	(1,337.00)	(1,265.00)	(1,317.00)	(1,246.00)
R&D Expenses	(745.00)	(803.00)	(800.00)	(765.00)	(768.00)	(857.00)	(851.00)	(829.00)	(810.00)	(798.00)
Amortization of Goodwill and Intangible Assets	(344.00)	(400.00)	(469.00)	(419.00)	(401.00)	(388.00)	(336.00)	(324.00)	(310.00)	(291.00)
Total Operating Expenses	**(2,902.00)**	**(3,674.00)**	**(2,928.00)**	**(2,569.00)**	**(2,537.00)**	**(2,558.00)**	**(2,524.00)**	**(2,418.00)**	**(2,437.00)**	**(2,335.00)**
Operating Income	**3,303.00**	**3,706.00**	**5,602.00**	**3,800.00**	**2,659.00**	**8,152.00**	**6,040.00**	**2,639.00**	**2,244.00**	**999.00**
% Change YoY	*(29.7%)*	*12.2%*	*51.2%*	*(32.2%)*	*(30.0%)*	*206.6%*	*(25.9%)*	*(56.3%)*	*(15.0%)*	
% Operating Margins	*9.1%*	*8.5%*	*11.3%*	*8.8%*	*6.9%*	*14.8%*	*10.6%*	*5.9%*	*5.2%*	*2.4%*
Interest Expense	(827.00)	(914.00)	(1,063.00)	(933.00)	(827.00)	(731.00)	(662.00)	(746.00)	(811.00)	(840.00)

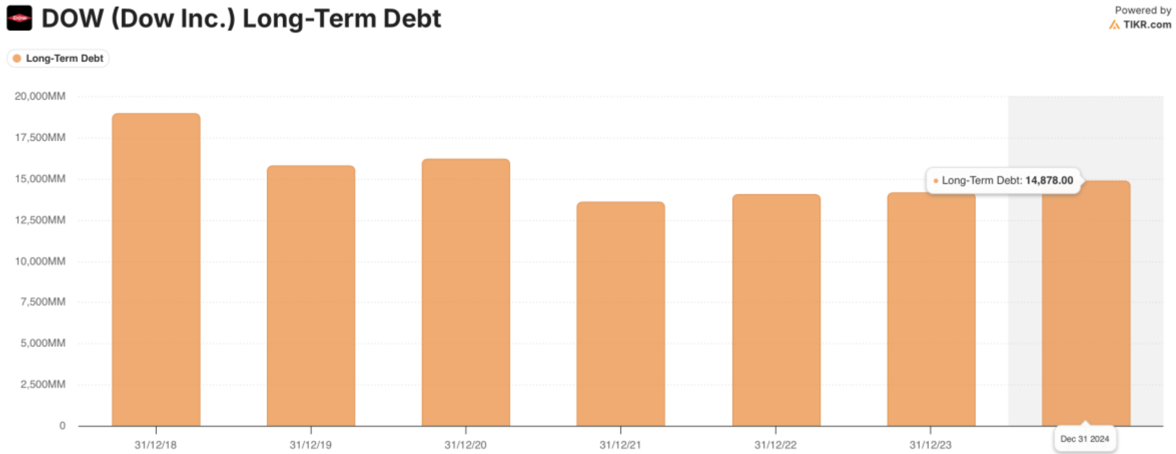
With almost $3 billion in depreciation, they need that amount just to keep things stable. That means given the operating cash flows, they are underwater when it comes to capex.

Cash Flow Statement | TIKR.com	31/12/17	31/12/18	31/12/19	31/12/20	31/12/21	31/12/22	31/12/23	31/12/24	LTM
Net Income	**465.00**	**4,641.00**	**(1,359.00)**	**1,225.00**	**6,311.00**	**4,582.00**	**589.00**	**1,116.00**	**(981.00)**
Depreciation & Amortization	2,064.00	2,347.00	2,423.00	2,377.00	2,364.00	2,342.00	2,217.00	2,517.00	2,572.00
Amortization of Goodwill and Intangible Assets	400.00	469.00	419.00	401.00	388.00	336.00	324.00	310.00	291.00
Total Depreciation & Amortization	**2,464.00**	**2,816.00**	**2,842.00**	**2,778.00**	**2,752.00**	**2,678.00**	**2,541.00**	**2,827.00**	**2,863.00**
Amortization of Deferred Charges	82.00	93.00	96.00	96.00	90.00	80.00	70.00	67.00	67.00
(Gain) Loss From Sale Of Asset	32.00	377.00	117.00	(484.00)	(105.00)	193.00	726.00	174.00	41.00
(Gain) Loss on Sale of Investments	81.00		1,755.00						
Asset Writedown & Restructuring Costs	2,658.00	221.00	1,464.00	708.00	6.00		528.00	103.00	857.00
(Income) Loss On Equity Investments	253.00	108.00	1,114.00	443.00	(651.00)	696.00	387.00	348.00	412.00
Net Cash From Discontinued Operations	1,514.00	1,158.00	217.00	(26.00)	(60.00)	(11.00)	32.00	11.00	(10.00)
Other Operating Activities	(979.00)	(3,502.00)	(703.00)	294.00	113.00	43.00	(745.00)	(111.00)	(228.00)
Change In Accounts Receivable	(11,431.00)	(855.00)	1,253.00	171.00	(2,132.00)	1,187.00	1,161.00	(224.00)	(674.00)
Change In Inventories	(891.00)	(859.00)	668.00	515.00	(1,768.00)	347.00	844.00	(529.00)	(304.00)
Change In Accounts Payable	1,081.00	787.00	(948.00)	(84.00)	2,458.00	(1,255.00)	(734.00)	278.00	(278.00)
Change in Other Net Operating Assets	(258.00)	(731.00)	(586.00)	590.00	(5.00)	(1,065.00)	(203.00)	(1,146.00)	(530.00)
Cash from Operations	**(4,929.00)**	**4,254.00**	**5,930.00**	**6,226.00**	**7,009.00**	**7,475.00**	**5,196.00**	**2,914.00**	**1,235.00**
Memo: Change in Net Working Capital	*(11,499.00)*	*(1,658.00)*	*387.00*	*1,192.00*	*(1,447.00)*	*(786.00)*	*1,068.00*	*(1,621.00)*	*(1,786.00)*
Capital Expenditure	(3,115.00)	(2,251.00)	(2,046.00)	(1,392.00)	(2,416.00)	(2,248.00)	(2,692.00)	(3,268.00)	(3,150.00)

Plus there is the 2 billion dividend. Alongside the negative $2 billion FCF, the DOW needs $4 billion just to keep up.

Total Debt Issued	268.00	1,999.00	2,594.00	4,835.00	253.00	1,920.00	104.00	1,610.00	1,340.00
Total Debt Repaid	(617.00)	(3,232.00)	(5,561.00)	(5,247.00)	(2,949.00)	(1,020.00)	(695.00)	(345.00)	(1,317.00)
Issuance of Common Stock	489.00	112.00	93.00	108.00	320.00	212.00	188.00	166.00	115.00
Repurchase of Common Stock	(81.00)	(77.00)	(560.00)	(152.00)	(1,012.00)	(2,360.00)	(667.00)	(533.00)	(111.00)
Common Dividends Paid	(3,235.00)	(3,711.00)	(2,085.00)	(2,071.00)	(2,073.00)	(2,006.00)	(1,972.00)	(1,966.00)	(1,972.00)
Common & Preferred Stock Dividends Paid	(3,235.00)	(3,711.00)	(2,085.00)	(2,071.00)	(2,073.00)	(2,006.00)	(1,972.00)	(1,966.00)	(1,972.00)
Other Financing Activities	(149.00)	(495.00)	1,424.00	(237.00)	(610.00)	(107.00)	(73.00)	(100.00)	2,247.00
Cash from Financing	**(3,325.00)**	**(5,404.00)**	**(4,095.00)**	**(2,764.00)**	**(6,071.00)**	**(3,361.00)**	**(3,115.00)**	**(1,168.00)**	**302.00**
Foreign Exchange Rate Adjustments	320.00	(99.00)	(27.00)	107.00	(99.00)	(237.00)	(45.00)	(163.00)	159.00
Miscellaneous Cash Flow Adjustments	(19.00)	(40.00)	(13.00)	(4.00)	(45.00)	(54.00)	(61.00)	(74.00)	(147.00)
Net Change in Cash	**(435.00)**	**(3,484.00)**	**(397.00)**	**2,724.00**	**(2,120.00)**	**853.00**	**(953.00)**	**(859.00)**	**(1,016.00)**
Supplementary Data:									
Free Cash Flow	**(8,044.00)**	**2,003.00**	**3,884.00**	**4,834.00**	**4,593.00**	**5,227.00**	**2,504.00**	**(354.00)**	**(1,915.00)**
% Change YoY		*124.9%*	*93.9%*	*24.5%*	*(5.0%)*	*13.8%*	*(52.1%)*	*(114.1%)*	
% Free Cash Flow Margins	*(18.4%)*	*4.0%*	*9.0%*	*12.5%*	*8.4%*	*9.2%*	*5.6%*	*(0.8%)*	*(4.6%)*

For now they have managed to keep debt stable through value unlocking activities and asset sales, but the debt is now close to the market capitalization, which is never a good sign.



In short, the company is not profitable, it is not known when it will be, as soon as the non-recurring cash flows stop flowing, it will need to intensify the borrowing to keep things running, cut the dividend again and hope for a US economy revival. It looks ugly, but ugly is the time to buy cyclicals, not great times! (those buying this in 2022 for the 5% yield have hopefully learned their lesson).

The investing risk and reward

It is simple, if there is a recession, a proper one, where the FED's tools stop working, we enter stagflation, the company is not set up to survive that in the current form. This is because of 15 years of loose financial markets allowed them to borrow, to boost dividend and to invest heavily into capacity, like everyone else did. When the cycle turns, it looks ugly and there is risk of total loss here. The bond holders are now at $15 billion, let's say they need to borrow another $5 in the coming year or two, that is $20 billion, if they cut the dividend again, the market capitalization could go to $12 billion. At that point there could be default, recapitalization or a cheap takeover. We haven't seen ugly since 2009 so what I am saying might sound crazy, but let me stick to being crazy when it comes to risk.

On the reward side, any kind of guidance where things somehow return to normal, would push the stock up 50%...

Conclusion: Dow Inc. is too risky for value investing.

REWARD: FED cuts, FED prints, revival of US true economy for a while, DOW is better.

RISK: Recession, two year chemical downturn, more debt, dividend cut, uglier...

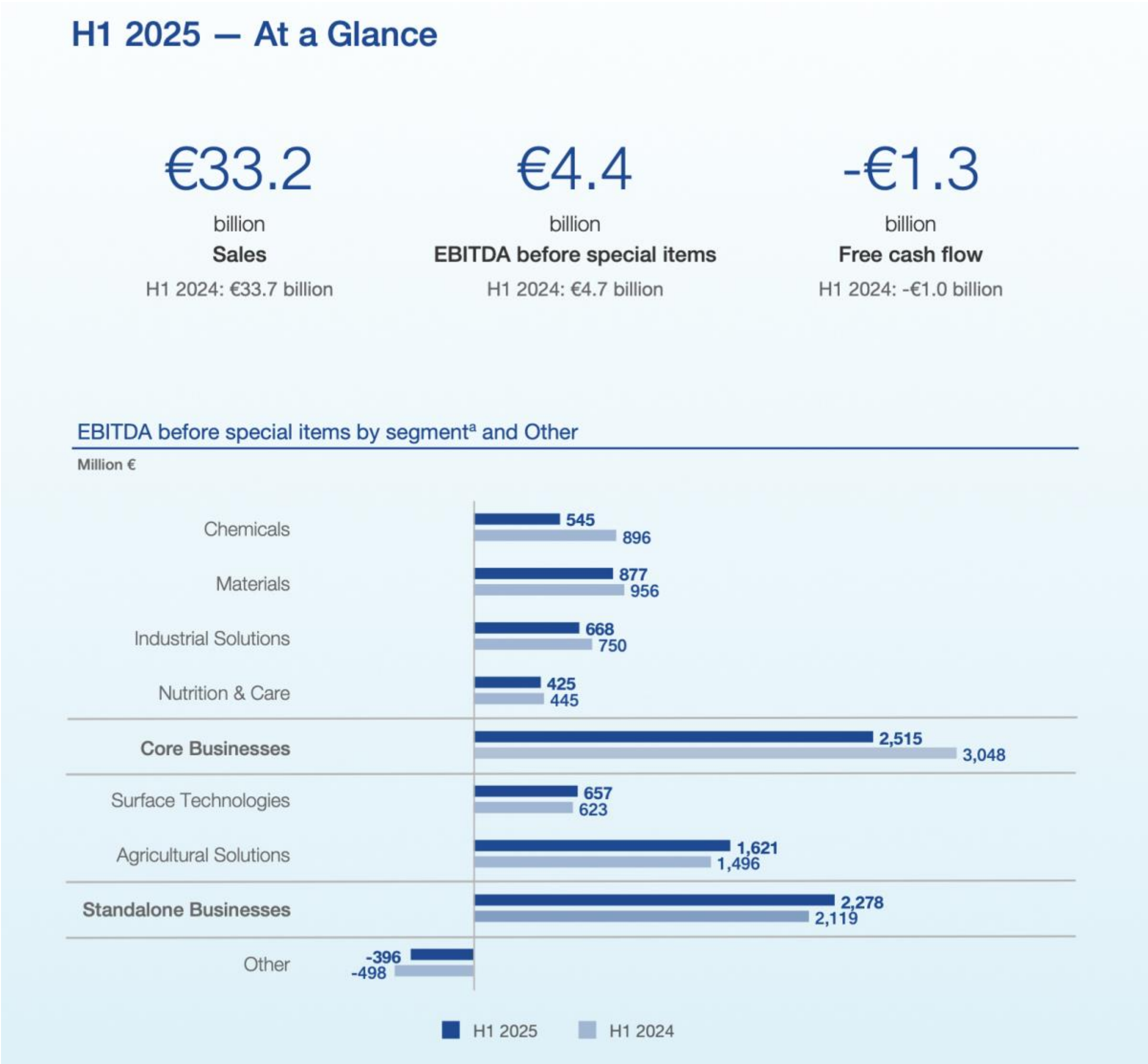
MARGIN OF SAFETY: Given the debt, none!

BASF - a bit expensive for a margin of safety…but…

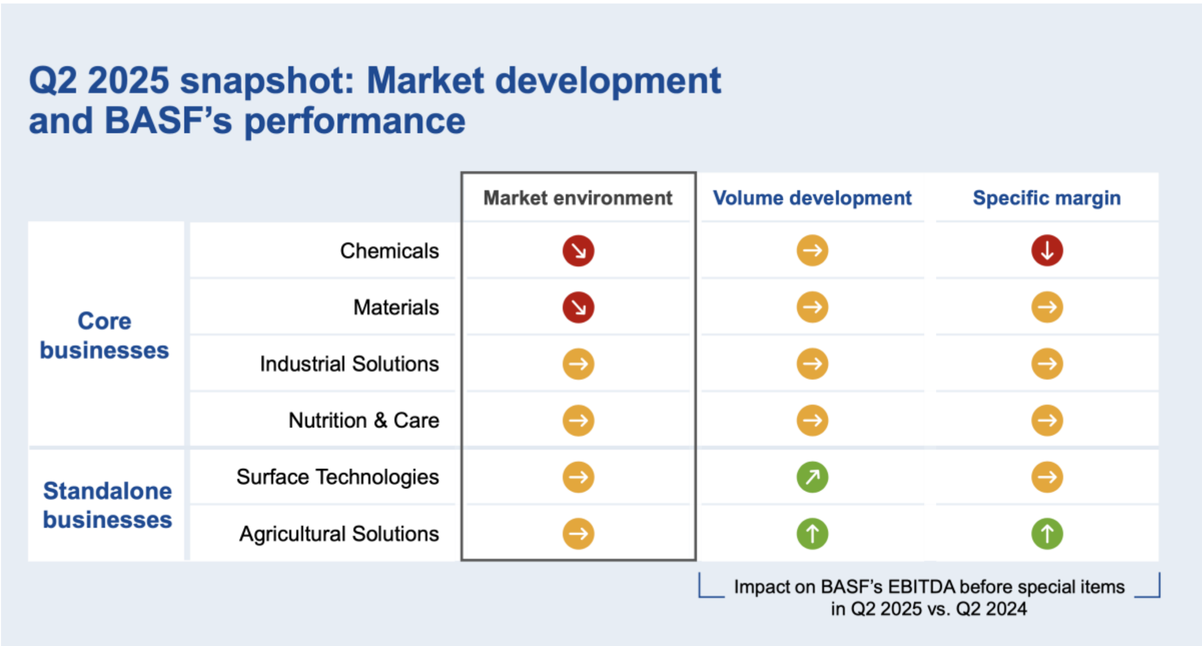
Great times for BASF as emerging markets were booming and the old economies were still doing ok. Now, alongside more expensive natural gas as an input in Europe, those economies are declining while global competition is intensifying.

BASF Business & Financials

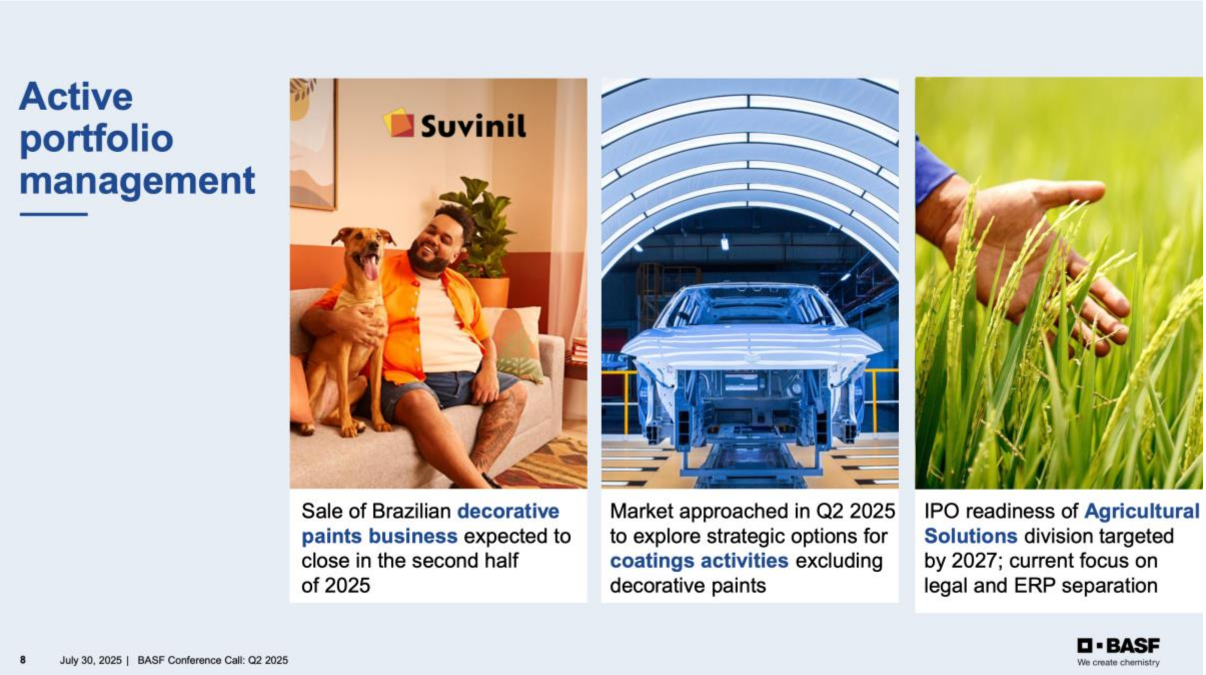
A little bit more diversified, so not all that bad.



But the outlook, except for agricultural solutions is not that great.



They are also selling assets:



What I don't understand is why would you sell assets in a downturn; you are getting cents on the dollar now ?!?!?!?!?! Oh, but Sven: "it could improve margins and make the company look better to analysts, plus the investment banker gets a nice fee on the deal and they always invite us to these cool Wall Street parties......"

The outlook seems positive for the company, and it also assumes growth ahead. However, free cash flow will not be existent.

Outlook 2025 for BASF Group

	Adjusted forecast	Previous forecast	Zhanjiang startup impact 2025[1]
EBITDA before special items (billion €)	7.3 – 7.7	8.0 – 8.4	minus ~0.4
Free cash flow (billion €)	0.4 – 0.8 (unchanged)	0.4 – 0.8	minus ~0.8
CO_2 emissions[2] (million metric tons)	16.7 – 17.7 (unchanged)	16.7 – 17.7	

Underlying assumptions (previous assumptions in parentheses)

Growth in gross domestic product	Growth in industrial production	Growth in chemical production	Average euro/dollar exchange rate	Average annual oil price (Brent crude)
+2.0% – +2.5% (+2.6%)	+1.8% – +2.3% (+2.4%)	+2.5% – +3.0% (+3.0%)	$1.15 per euro ($1.05 per euro)	$70 per barrel ($75 per barrel)

[1] Extraordinary impact from the startup of the Zhanjiang Verbund site, impact on EBITDA before special items and on free cash flow (incl. impact on EBITDA before special items and on net working capital)
[2] Scope 1 and Scope 2

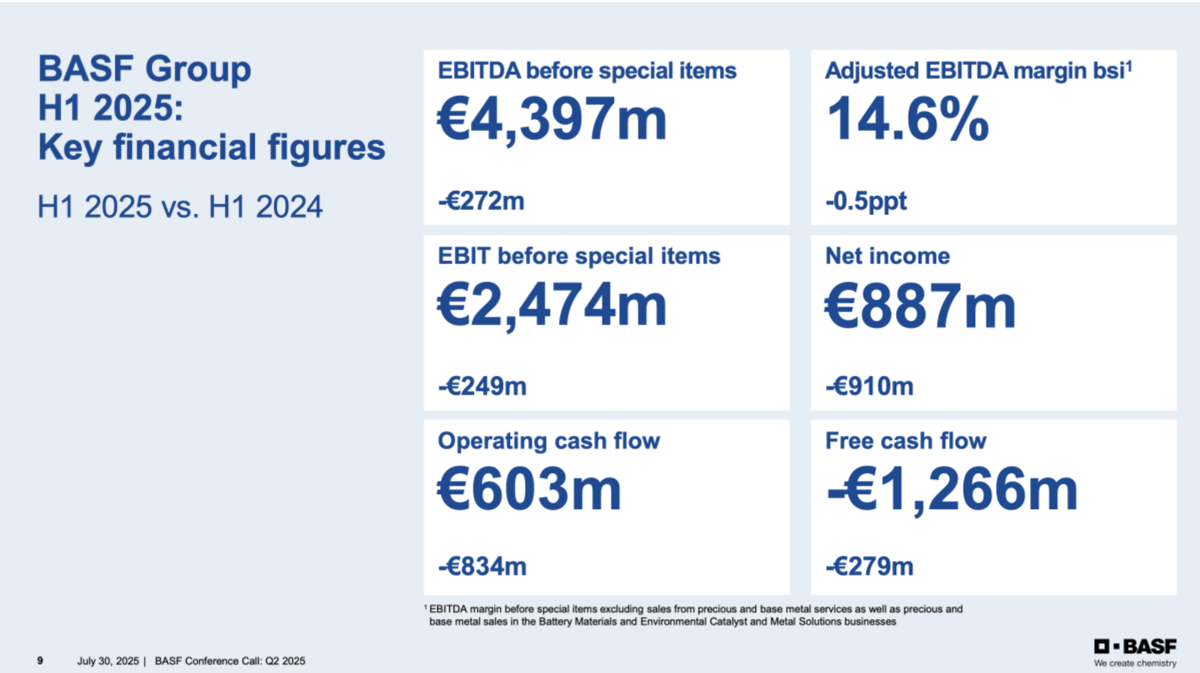
13 July 30, 2025 | BASF Conference Call: Q2 2025

BASF We create chemistry

A key factor for BASF is their 10 billion EUR Verbund investment in China, a bet on higher economic activity there for the next decade. (From conference call:)

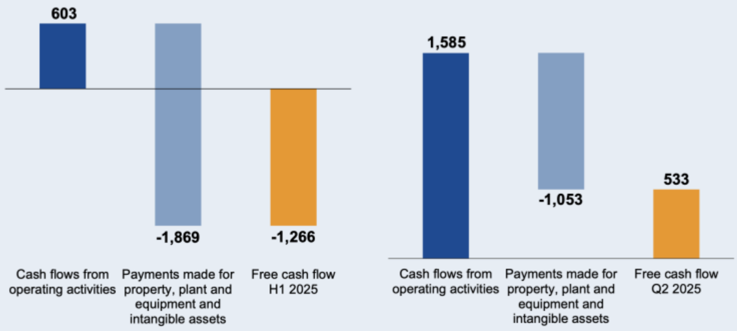
> also our rating at Moody's and Fitch. Over the last 3 years, our financial debt and leverage ratio have increased. This was driven by lower earnings in a cyclical downturn and by our considerable investments, mainly in our Verbund site in South China.
>
> This mega project is on time and below budget. We have already entered the commissioning phase and will start up most of the plants at the end of 2025. Our CapEx peaked in 2024, and we will bring it down below the level of depreciation as of 2026. At EUR 5 billion, payments made for property, plant and equipment and intangible assets in 2025 are expected to be EUR 200 million lower than forecasted in February. Furthermore, we will use part of the proceeds from divestitures to reduce our financial debt and to deleverage our balance sheet. We have also accelerated our cost savings programs.

However, if the new plant is ramped up in a weaker market, the profits might not be there, but the debt is already there. Cash flows are negative, and Q2 was also bad for net income.



Cash flow development in H1 2025 and Q2 2025

H1 2025 (million €) **Q2 2025** (million €)



Q2 2025 vs. Q2 2024

- **Cash flows from operating activities** decreased by €365 million to €1.6 billion, mainly due lower cash inflows from changes in net working capital
- **Payments made for property, plant and equipment and intangible assets** declined by €428 million to €1.1 billion
- **Free cash flow** increased and came in at €533 million compared with €471 million in Q2 2024

There is 22 billion of debt on the balance sheet.

Balance sheet

Million €	June 30, 2025	Dec. 31, 2024	Change
Total assets	**77,668**	**80,415**	**-3.4%**
Noncurrent assets	*45,769*	*49,183*	*-6.9%*
Current assets	*31,899*	*31,232*	*2.1%*
Equity	**33,504**	**36,884**	**-9.2%**
Equity ratio	**43.1%**	**45.9%**	**-2.8ppt**
Financial debt	**23,854**	**21,762**	**9.6%**
Net debt	**21,281**	**18,781**	**13.3%**

- **Total assets decreased by €2.7 billion to €77.7 billion**, due to lower noncurrent assets
- **Equity ratio amounts to 43.1%** compared with 45.9% at the end of 2024
- **BASF enjoys good credit ratings**, particularly compared with competitors
- BASF strives to **maintain its single A rating**

With EBITDA of 7 billion, 5 billion for capes, more than 1 billion for interest, add a bit of other costs that are always there, and you are at zero value creation.

We are executing measures to protect our balance sheet

- At €5.0 billion, **payments made for property, plant and equipment and intangible assets in 2025** are expected to be **€200 million lower than forecasted** in February; as of 2026, the figure is expected to be below the level of depreciation
- **Proceeds from divestitures** will partially be used **to reduce financial debt**
- **Cost savings programs** have been **accelerated** to generate €1.6 billion in annual cost savings by year-end 2025 (previously: €1.5 billion) and are **on track** to reach €2.1 billion by year-end 2026
- Strict focus on **reducing inventories**

+ Maintain financial strength

We are **committed to** our **prudent financial policy**

We strive to **maintain our single A credit rating**, best in class in the chemical industry

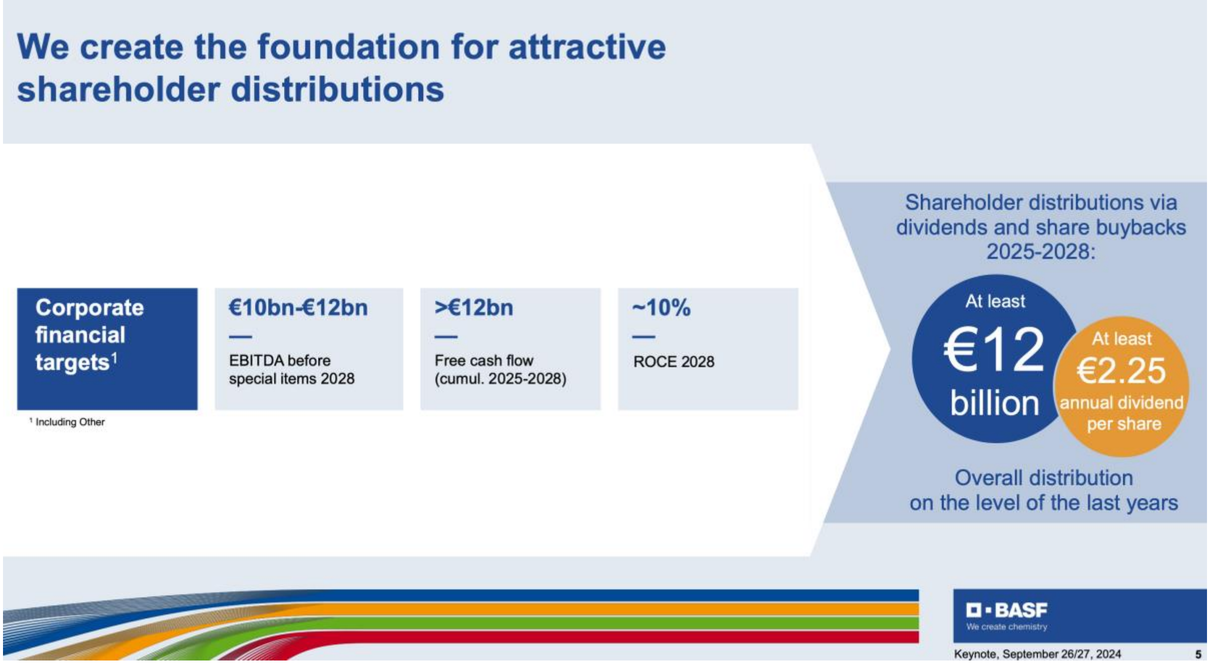
We will **reduce net debt** and **lower** our **leverage ratio**

11 July 30, 2025 | BASF Conference Call: Q2 2025

BASF
We create chemistry

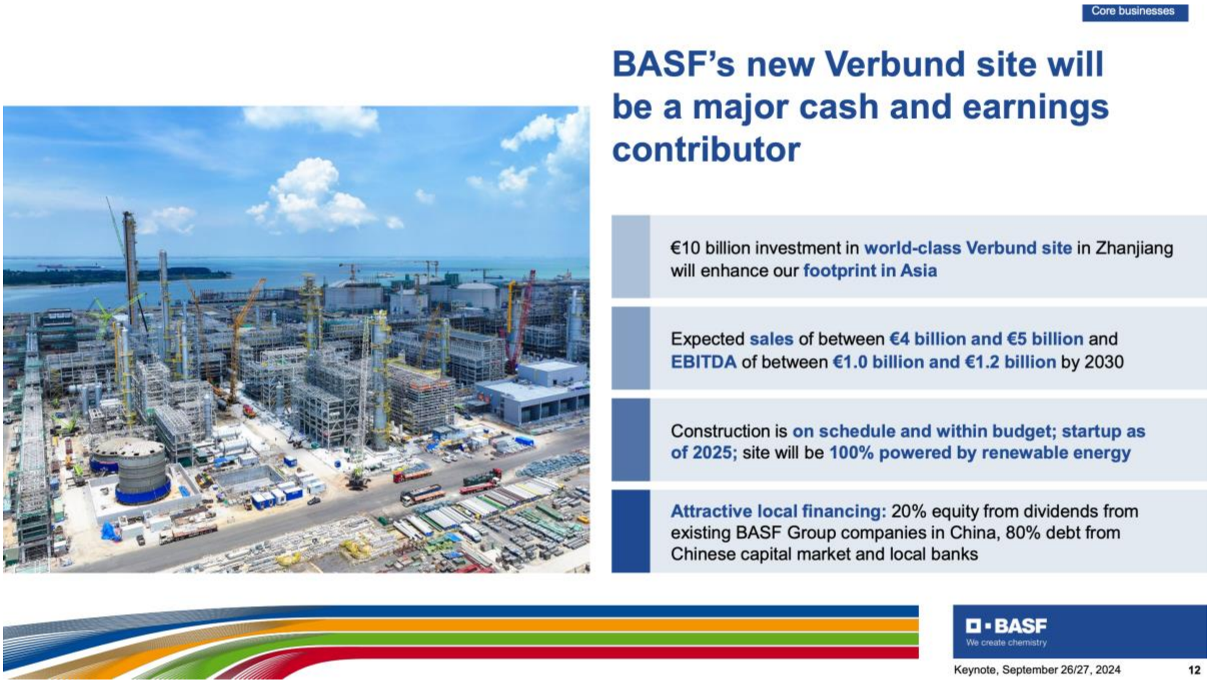
BASF Stock Valuation

BASF's plan in 2024 was for 12 billion of distributions or 3 billion per year between 2025 and 2028.

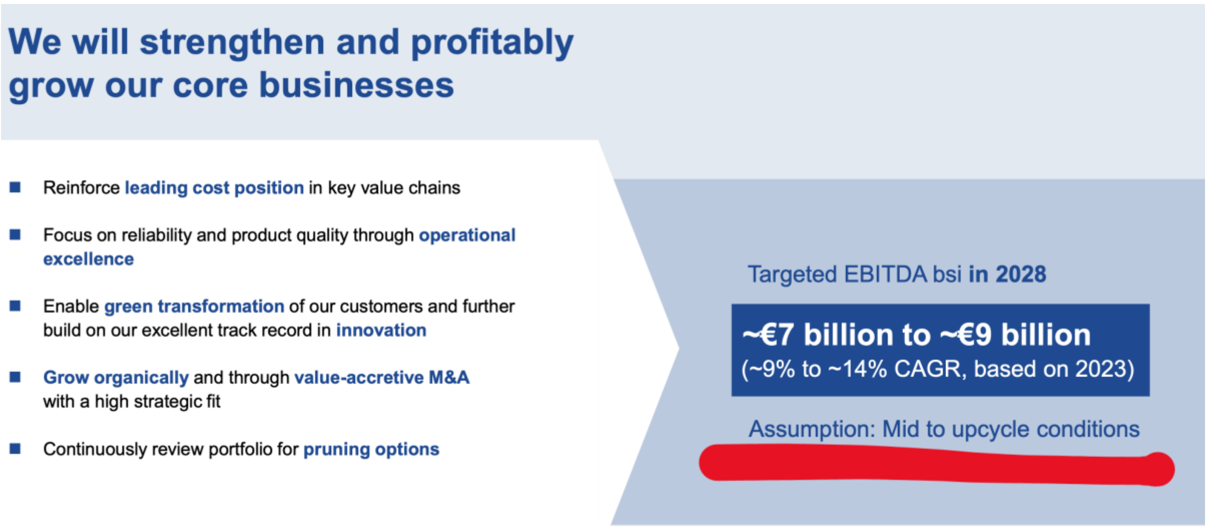


From a value perspective, there can be IPOs or sales:

Verbund should then add 1 billion of EBITDA by only 2030.



But it all depends on how the cycle will go:

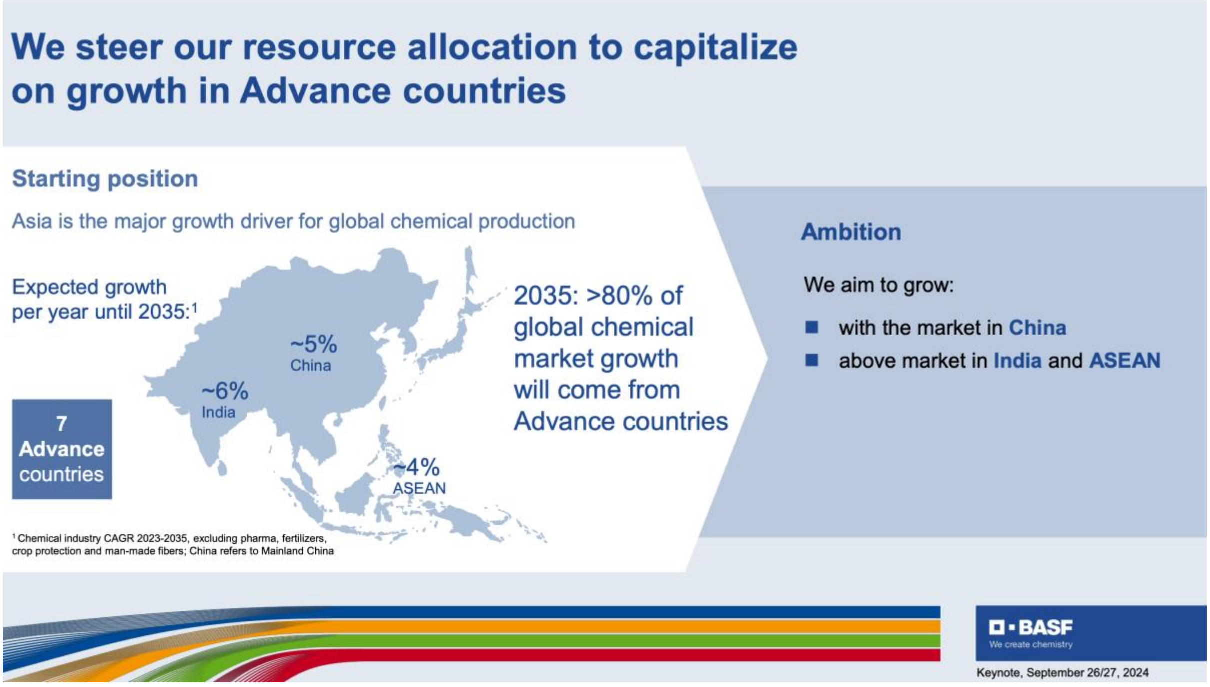


On the cycle, analysts see we are close to bottom, but not yet out of the woods…

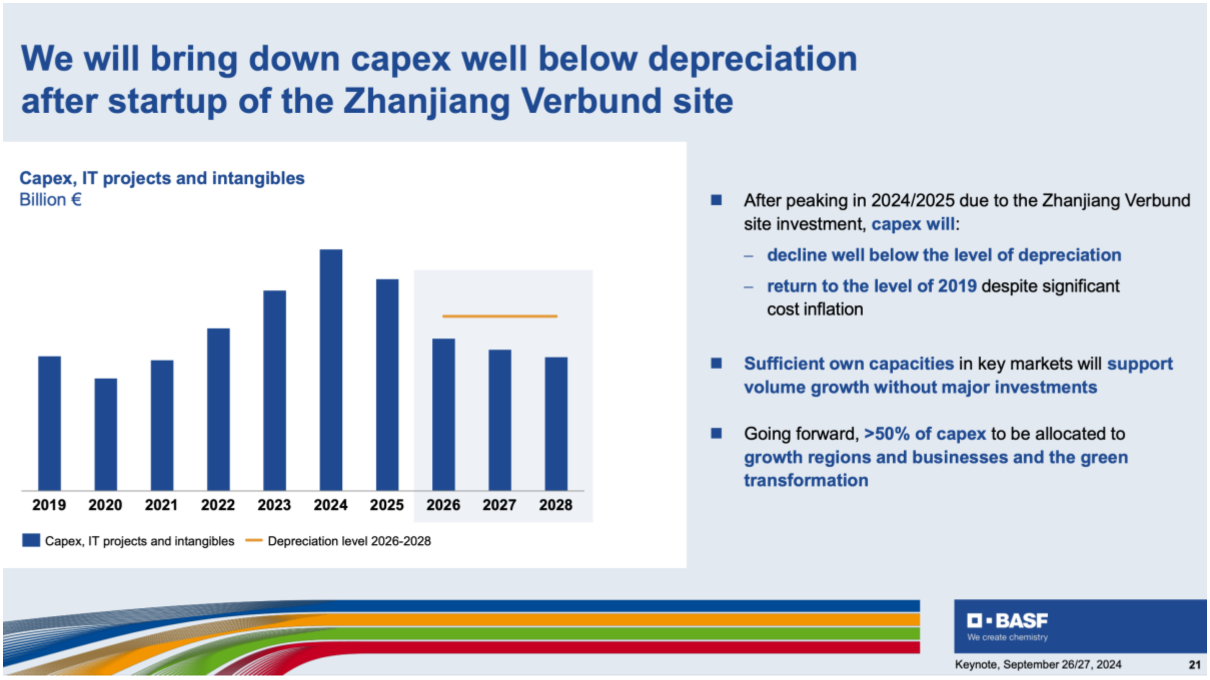
Summary & What to Watch

Analyst / Firm	Current Rating	Target	Tone / Key Drivers	Risks / Caveats
Morgan Stanley	Overweight	~€54	Balanced optimism: divestitures, FCF recovery, base reset	Still in downgrade cycle; macro / trade risks
Goldman Sachs	Buy	~€53	Expect turnaround / re-rating	Dependent on favorable macro / structural improvements
Jefferies	Hold / Neutral	~€47	Cautious: spreads, demand softness, China ramp drag	Divestments may not fully offset headwinds
UBS	Neutral	~€45	Focus on macro, capacity constraints, sector valuation	Limited upside given peer valuations and cyclical risks

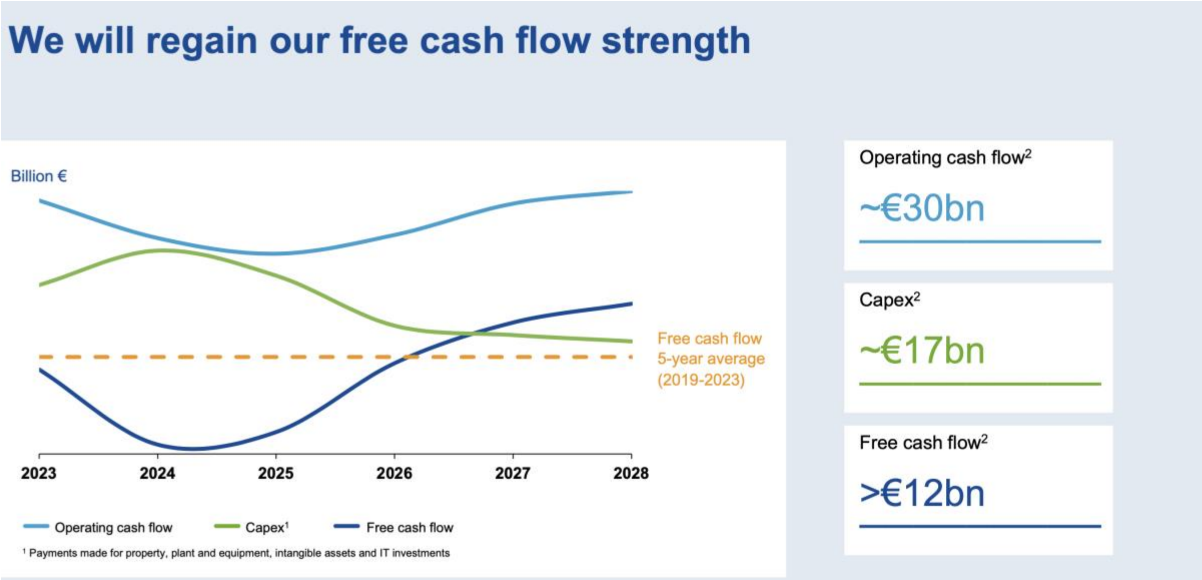
Here is where Dow will have it hard given that the growth is expected to come from Asia, for practically everything in the future.



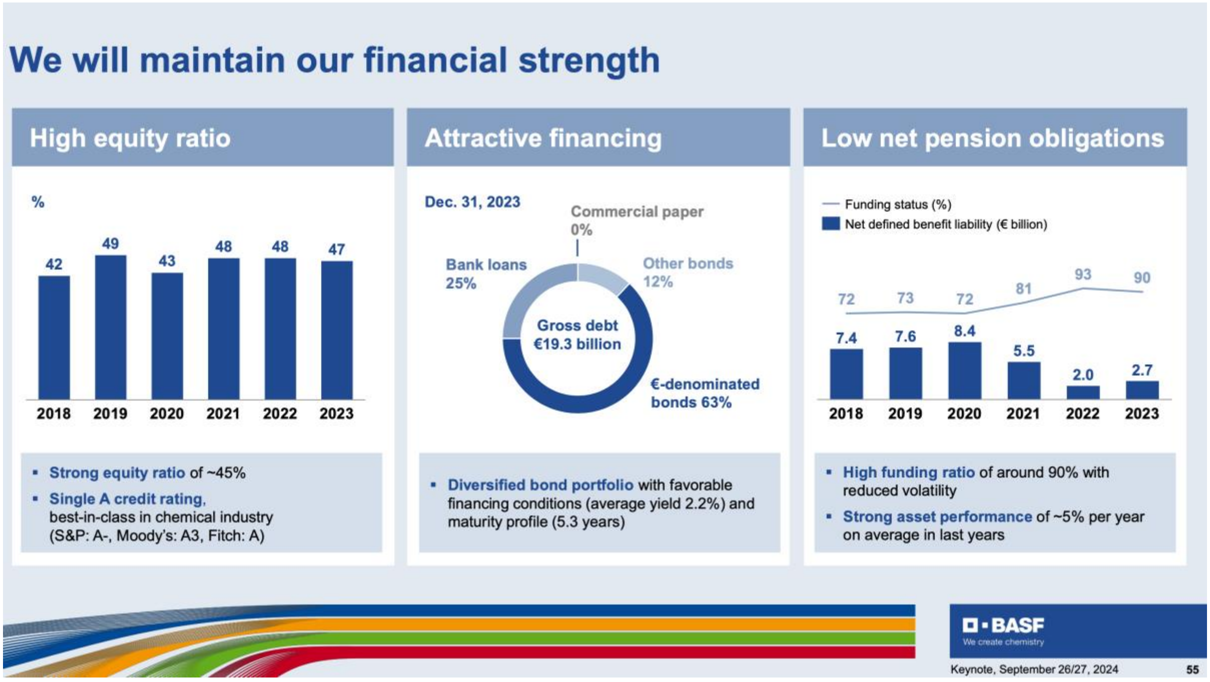
A significant decline in CAPEX will allow for better cash flows.



But, for this to happen, the cycle needs to improve too. If not, it is all about survival..



Another risk with these old businesses are pensions, if the markets crash, obligations go up.



BASF Stock Valuation

Market capitalization is 37 billion. In a good year they can make 4 billion of cash flows for distribution which means at peak cycle, the current yield is 10%. To buy a cyclical, the yield needs to be 20%.

There is not yet enough paid, a DOW Inc. situation is something to look for.

All in all, if chemicals grow over time, it looks interesting, especially for the Asia exposure. The diversification lowers the risk a bit, as there is value. So, it is interesting…

Apart for economic activity, the key is also the chemical cycle. Here is BASF's CEO explaining the current situation and focusing on the long-term. Whenever an investment doesn't go as planned, one always turns to the long-term :-))))0

But, there is higher competition even than expected, you don't have a moat, and therefore you have to accept the margins given by the market…

It is not a great business, just an ok, necessary business…

> First, Zhanjiang, we start there with a Verbund site, which all in all, or a major part of this site and the products that are being produced there are base chemicals, what we could call base chemicals. So not very raw material-intensive product, but it is a very broad portfolio. But generally and basically, it is a product portfolio which comes into a market today, which is much longer and where the supply capability is much higher in the market than we had expected when we planned the site. This is a fact.
>
> In China, you also learned that there is a lot of overcapacity just now due to an investment cycles that went upwards. So you have a site and you enter a market now, which has lower margins than was originally expected. But that also goes for commodity products, for all commodity products. We are used to go through cyclical movements, and we are now at the valley of one of these cycles for this site. But that also means that you have to concentrate more on cost competitiveness and efficiency, and that is given in Zhanjiang. So everything that we commissioned there is at the positive side of the cost curve. So we will start with a high capacity utilization, but then have to accept lower margins in the markets lower than we expected.
>
> But over the years, like in every commodity business, it will level out. Supply and demand will adapt. And then we expect in the long run, a profitability, which we also expected for the site of Zhanjiang.

I'm thinking that the developed economies lived above their standards the past 15 to 25 years. That might put a strain also on emerging markets and things might be just a bit slower than in the 2010s, plus interest rates are not at zero anymore…

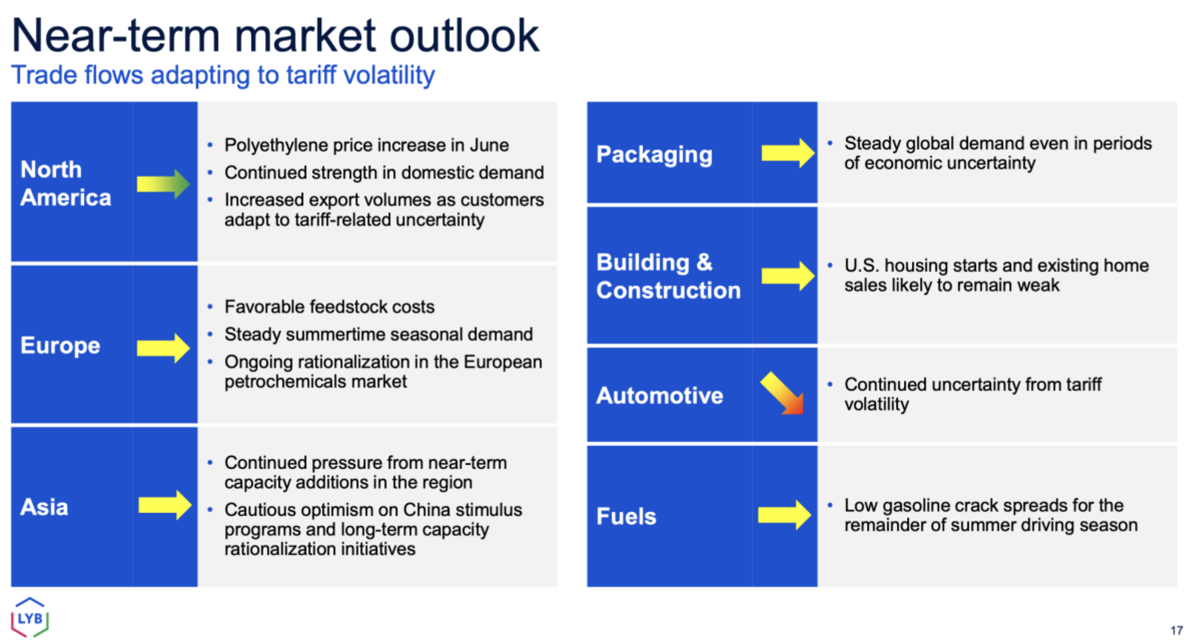
From a pure value investing perspective, I must look for better… it is as simple as that…

LyondellBasell LYB - looks good, which means risky

The stock is down like DOW, the dividend seems to be still there, $15 billion market capitalization.

LyondellBasell is one of the world's largest chemical / polyolefin / polymer companies.

Outlook is for stability, but might have to be updated:



A note on chemicals to keep in mind:

Historically, in the 2008–2009 financial crisis, LyondellBasell did file for bankruptcy / reorganization under Chapter 11.

It seems the dividend is not sustainable in case of longer chemical downturn:

Key Recent Financial Metrics & Trends

These are the figures that matter most when judging whether a dividend is sustainable:

Metric	Most Recent / TTM	Change / Trend	Notes / Interpretation
Free Cash Flow (FCF)	~ USD 463 million (for the year ending June 30, 2025) FinanceCharts	Down ~ 81.9% YoY FinanceCharts	Indicates a sharp contraction in "excess" cash after capex
Operating Cash Flow	~ USD 2,357 million (TTM) FinanceCharts	Down vs prior periods	This is before subtracting capex, so it shows pressure on core operations
Capital Expenditures (CapEx)	~ USD 1,894 million (TTM) FinanceCharts	Relatively large	These are required to maintain and grow the business, reducing what's left for dividends / debt
Dividend Payout / Coverage	Very high relative to net income	Dividend appears to exceed earnings	Analysts flag that the payout is being covered more by reserves / debt than by profits or cash flow Seeking Alpha +2
Liquidity / Cash Reserves	The company reported USD 351 million in operating cash during Q2 2025 lyondellbasell.com +2		But that is modest relative to what it needs to fund dividends + debt in stress periods

The debt is $11 billion:

LYONDELLBASELL INDUSTRIES N.V.
CONSOLIDATED BALANCE SHEETS

Millions of dollars, except shares and par value data	June 30, 2025	December 31, 2024
LIABILITIES, REDEEMABLE NON-CONTROLLING INTERESTS AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 495	$ 498
Short-term debt	119	119
Accounts payable:		
Trade	2,630	3,220
Related parties	483	512
Accrued and other current liabilities	1,950	2,356
Liabilities held for sale	567	—
Total current liabilities	6,244	6,705
Long-term debt	11,211	10,532
Operating lease liabilities	1,407	1,419
Other liabilities	1,919	1,967
Deferred income taxes	2,536	2,535
Commitments and contingencies		
Redeemable non-controlling interests	114	114
Shareholders' equity:		
Ordinary shares, €0.04 par value, 1,275 million shares authorized, 321,627,610 and 323,889,832 shares outstanding, respectively	19	19
Additional paid-in capital	6,139	6,150
Retained earnings	8,732	9,325
Accumulated other comprehensive loss	(1,353)	(1,532)
Treasury stock, at cost, 18,794,888 and 16,532,666 ordinary shares, respectively	(1,628)	(1,500)
Total Company share of shareholders' equity	11,909	12,462
Non-controlling interests	12	12
Total equity	11,921	12,474
Total liabilities, redeemable non-controlling interests and equity	$ 35,352	$ 35,746

The debt is more than 5 times operating income:

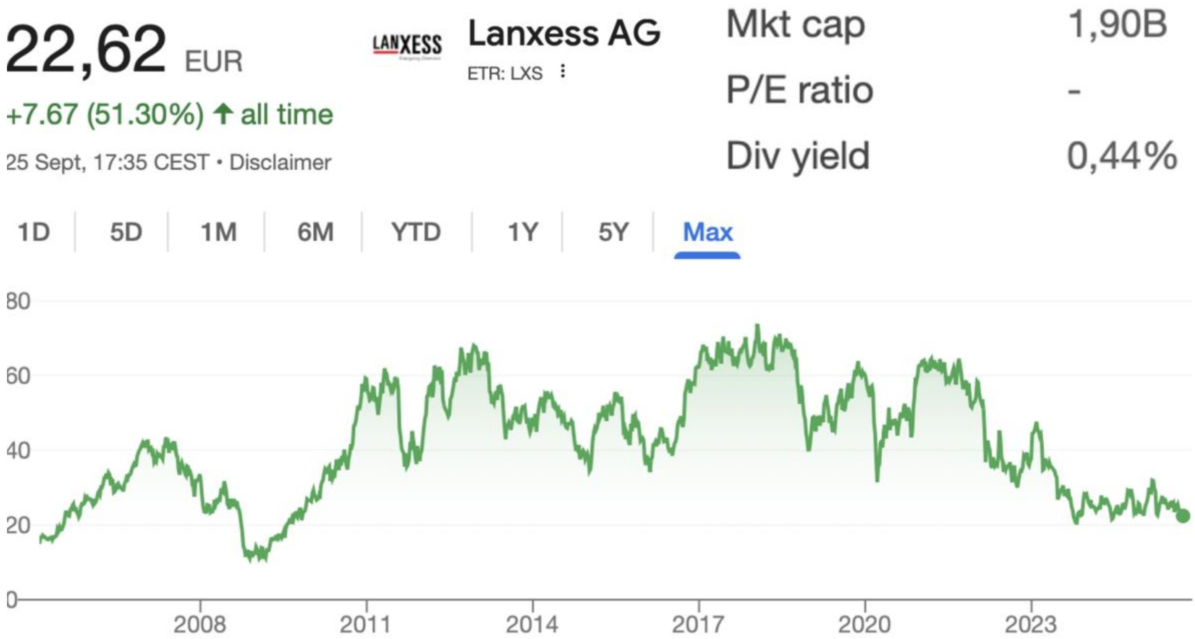
Income Statement | TIKR.com	31/12/17	31/12/18	31/12/19	31/12/20	31/12/21	31/12/22	31/12/23	31/12/24	LTM
Operating Income	5,476.00	5,323.00	4,116.00	2,144.00	7,391.00	5,122.00	3,562.00	2,748.00	1,529.00

a longer downturn, US recession, and we are back to 2009.

The time to look at the sector will be when there is capitulation, where there are no dividends, and most have left the building…

Lanxess ETR: LXS - ENVALIOR…

Lanxess stock also shows the same cyclical weakness. The dividend has already been cut. Let's see what is going on.



The Envalior situation

In practice, if EBITDA goes down, so does the purchase price for the company.

LANXESS exercises right to offer for the sale of its shares in Envalior in 2026

Cologne, September 23, 2025 – LANXESS decided today to exercise its contractual right to offer to sell all its shares in Envalior (40.94%) to its joint venture partner, an investment company of Advent International. Subject to the availability of financing, the joint venture partner is obliged to acquire all or half of LANXESS' shares effective April 1, 2026. If and to what extent the share sale will be completed will be known by March 2026 at the latest.

A base purchase price of approximately 1.2 billion Euro was contractually agreed for the tendered shares. This results from the valuation of the High-Performance Materials business unit contributed by LANXESS in the course of the incorporation of the joint venture in spring 2023.

What is Envalior & What's the "Value" There?

Background & Structure

- **Envalior** is a joint venture formed in April 2023. It combines Lanxess's High Performance Materials business with DSM's engineering plastics / polymer operations. lanxess.com +3
- Lanxess holds a **40.94 % stake** in Envalior. lanxess.com +3
- Upon formation, there was a contractual arrangement including a "put / right to offer" mechanism giving Lanxess the ability to sell its stake under defined terms. lanxess.com +3

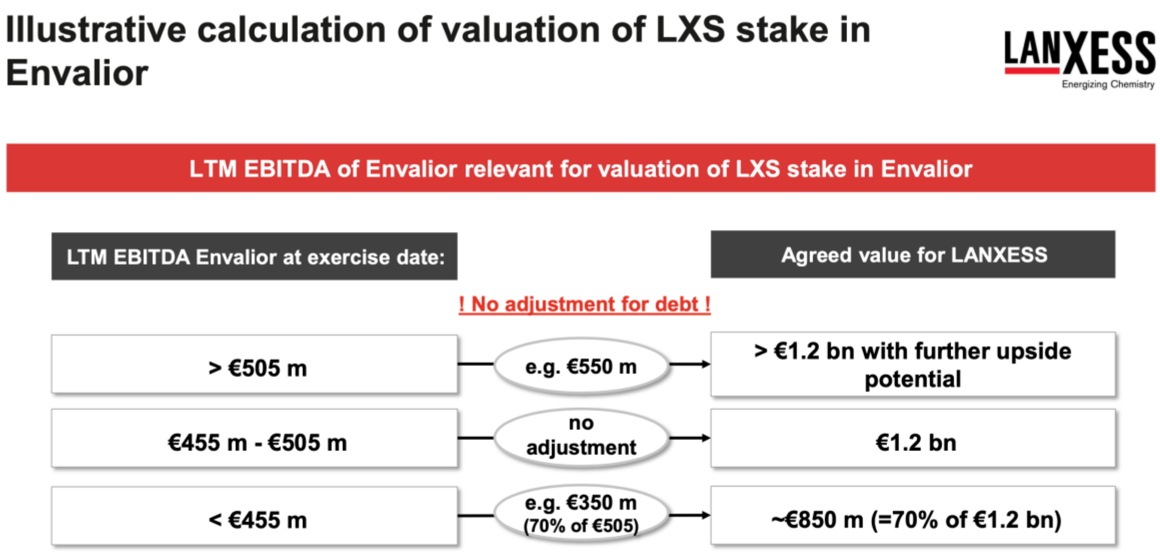
Recent Move: Monetization / Exit

- In **September 2025**, Lanxess announced that it is **exercising its contractual right** to offer to sell its 40.94 % stake in Envalior to its JV partner (Advent) effective April 1, 2026. lanxess.com +4
- The **base purchase price** agreed is approximately **€1.2 billion**. lanxess.com +3
- However, the final price is subject to **adjustment** based on Envalior's **EBITDA performance** in the trailing 12 months before April 1, 2026:
  - If its EBITDA exceeds the benchmark (used in the original JV valuation), the purchase price goes up.
  - If EBITDA falls more than 10 % below the benchmark, the price is reduced pro rata. lanxess.com +4
- Importantly, **Envalior's debt is not taken into account** in this calculation for the purchase price. lanxess.com +2
- The agreement also includes a **€200 million shareholder loan** made by Lanxess to Envalior; that loan (plus accrued interest) must (in part) be assumed / repaid by the JV partner in proportion to the stake sold (especially by 2028). lanxess.com +2
- If the full sale is not completed in 2026 (e.g. due to financing constraints by Advent), further options (2027, 2028) exist, with the 2028 option being less conditional. lanxess.com +2

Thus, the "Envalior value" is still present in Lanxess's assets (i.e., in its stake plus the exit mechanism), but Lanxess is actively moving to unlock it (monetize it). The agreed base valuation (as of now) is €1.2 billion (for its ~40.94 % share) subject to the EBITDA adjustments. lanxess.com +3

This deal, if it goes through close to the base price, gives Lanxess a relatively clean monetization path rather than being stuck with a minority JV interest. Many analysts see this as a de-risking and simplification move. Seeking Alpha +2

We don't know what the EBITDA of ENVALIOR will be in the 12 months preceding the sale, but here is a possibility:



The Envalior stake is already on the balance sheet, so it will not change equity or things. But, they will use the proceeds to lower debt. I see debt below at EUR 2.4 billion. Minus 1.2 billion it would lower things to 1.2 billion.

€ million	Dec. 31, 2024	June 30, 2025
EQUITY AND LIABILITIES		
Capital stock and capital reserves	1,317	1,317
Other reserves	3,533	3,343
Net income	(177)	(102)
Other equity components	(87)	(567)
Equity attributable to LANXESS AG stockholders	**4,586**	**3,991**
Equity attributable to non-controlling interests	6	5
Equity	**4,592**	**3,996**
Provisions for pensions and other post-employment benefits	429	430
Other non-current provisions	280	274
Non-current derivative liabilities	2	0
Other non-current financial liabilities	2,428	2,410
Non-current income tax liabilities	5	5
Other non-current liabilities	34	28
Deferred taxes	168	117
Non-current liabilities	**3,346**	**3,264**
Other current provisions	330	328
Trade payables	648	594
Current derivative liabilities	13	11
Other current financial liabilities	584	80
Current income tax liabilities	48	37
Other current liabilities	119	117
Liabilities related to assets held for sale	31	–
Current liabilities	**1,773**	**1,167**
Total equity and liabilities	**9,711**	**8,427**

From a valuation perspective, they have lowered their EBITDA guidance, based on an improved 2H of the year:

FY 2025 guidance update: EBITDA pre between €520 - 580 m

LANXESS
Energizing Chemistry

Our view on economic environment

- Macroeconomic uncertainties have increased due to ongoing tariff discussions triggering widespread demand weakness
- Positive effect from German government stimulus program expected to start in 2026
- Excess capacity from Asian competitors creates additional pressure in many end markets

LANXESS outlook

- **FY 2025 EBITDA pre guidance: €520 - 580 m** (force majeure of Chlorine supplier included with ~€10 m shortfall)
- Considerations for Q3:
  - Absence of EBITDA contribution from Urethane Systems business
  - Q3 EBITDA pre sequentially lower than Q2

let's say 500 million in EBITDA, minus 250 million in investments, minus 100 for interest, minus, other... we are left with 100 million, which should not be bad. Not great, but not bad. Here is the cash flow:

Positive free cash flow in a continued difficult environment with ongoing disciplined CAPEX

LANXESS
Energizing Chemistry

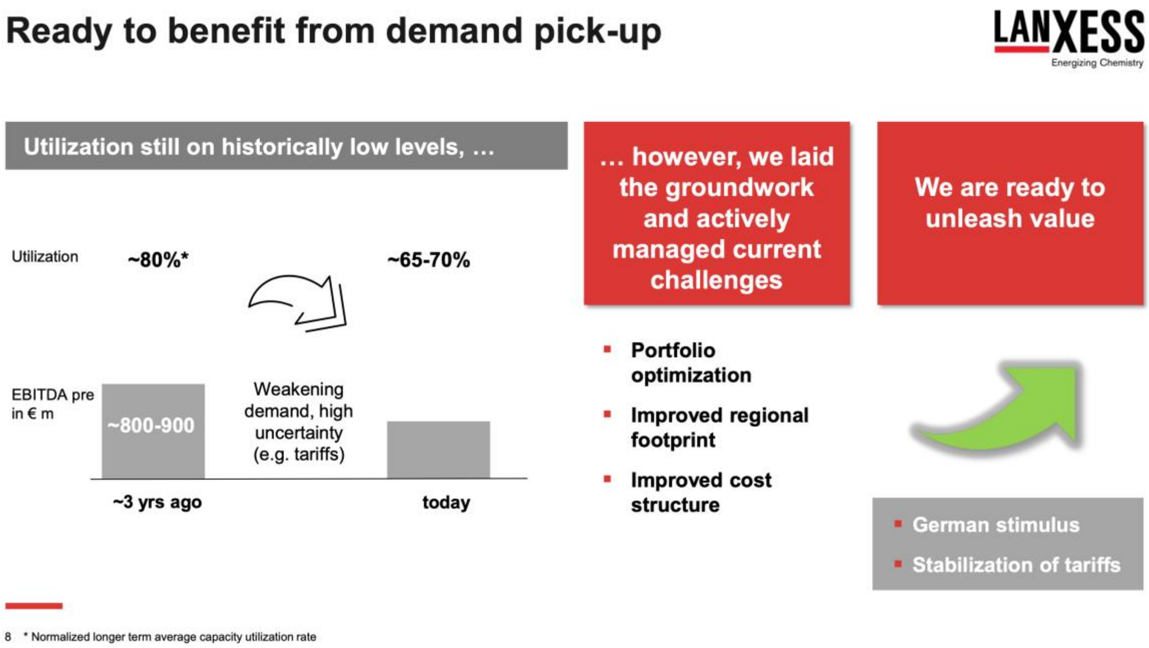
Cash flow [€ m]	Q2/2024	Q2/2025
Profit before tax	**-12**	**-55**
Depreciation & amortization	141	217
Result from investments accounted for using the equity method	27	28
Financial losses & gains from disposal of assets	4	-79
Income taxes	-16	-28
Changes in other assets & liab.	-43	-46
Changes in working capital	44	59
Operating cash flow	**145**	**96**
Capex	-62	-65
Free cash flow	**83**	**31**

- Lower profit before tax due to decreased operating result
- Gains from disposal of assets reflect sale of Business Unit Urethane Systems
- Changes in other assets and liabilities reflect, among other items, bonus payout for 2024
- Inflow from working capital mainly due to lower receivables
- Capex remains on tightly managed level

Free cash flow = Operating cash flow minus Capex

15

Perhaps this is the chart that perfectly explains the sector, utilization is down from 80% to 65%.



When and if they get 1.2 billion for their Envalior stake, and also get their 200 million loan back, that could bring net debt to below 0.5 billion. That would create a dividend reitroduction and other…

Continued strong equity ratio and significant reduction of net financial debt

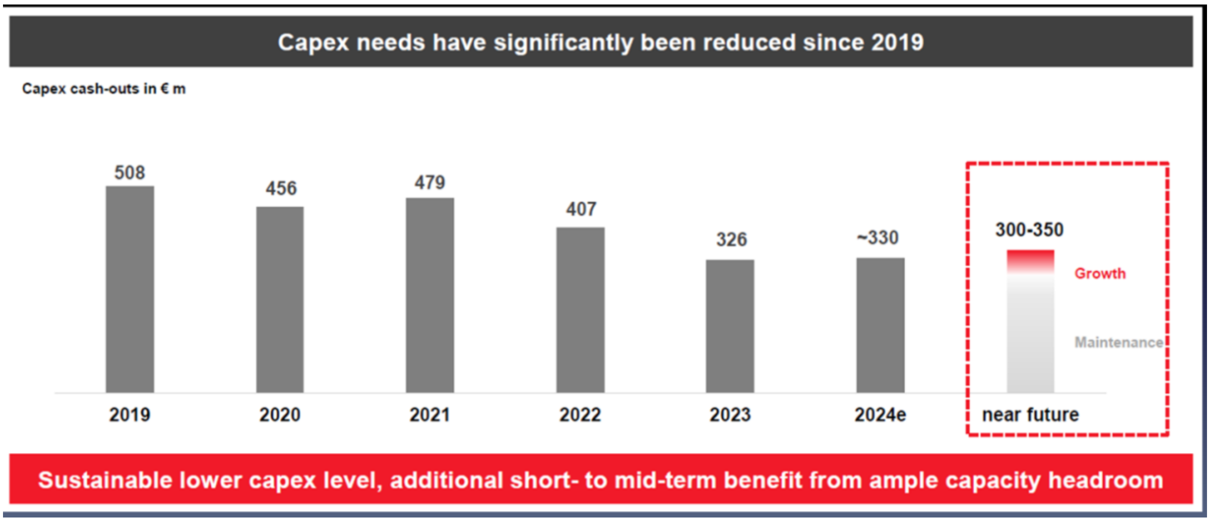
LANXESS
Energizing Chemistry

Balance sheet [€ m]	31.12.2024	30.06.2025
Total assets	**9,711**	**8,427**
Equity	4,592	3,996
Equity ratio	**47%**	**47%**
Net financial debt[1]	**2,381**	**2,069**
Pension provisions	**429**	**430**
Net working capital	**1,350**	**1,383**
DSI (in days)[2]	82	84
DSO (in days)[3]	39	38
Net working capital / sales[4]	21%	22%

- Decrease in total assets due to €500 m bond repayment and adverse FX effect
- Decrease in equity mainly FX related
- Equity ratio remains on strong level
- Net financial debt significantly reduced with proceeds from divestment of Business Unit Urethane Systems
- Working capital on comparable level to end of 2024

16
[1] Deducting cash, cash equivalents, near cash assets
[2] Days sales of inventory calculated from quarterly sales
[3] Days of sales outstanding calculated from quarterly sales
[4] Last twelve months sales

So, as a clean company, if they do 600 to 800 million of EBITDA in a good year, deduct 300 of capex, 100 or less for debt, that leaves between 200 and 400 in FCF. If I take 300, that is 15% yield on the current market capitalization.



Risks: debt is high now, any delays in Envalior, recessions, buyer financing issues, could make the situation uglier.

Reward: with a clean slate, some kind of economic rebound, this would look nice and be a 2x. If they manage to clean things, and then take advantage of a possible rebound in 2027/2028, this could be a 2 to 3x…

Lanxess Valuation

€ millions (except per share amts)	2028E		
	6.0x	7.0x	8.0x
Adj. EBITDA	902	902	902
EBITDA Multiple	6.0x	7.0x	8.0x
Enterprise Value	5,411	6,313	7,215
Net Debt / Pension	(853)	(853)	(853)
Market Cap	4,558	5,460	6,362
Share Price	**€ 52.79**	**€ 63.24**	**€ 73.68**

From Einhorn's presentation

This remains interesting…

Evonik

Evonik Industries AG

ETR: EVK

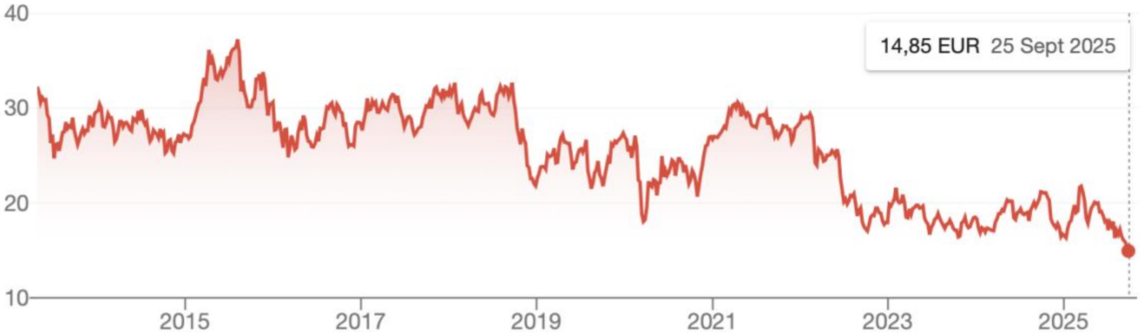
Market Summary > Evonik Industries AG

14,85 EUR

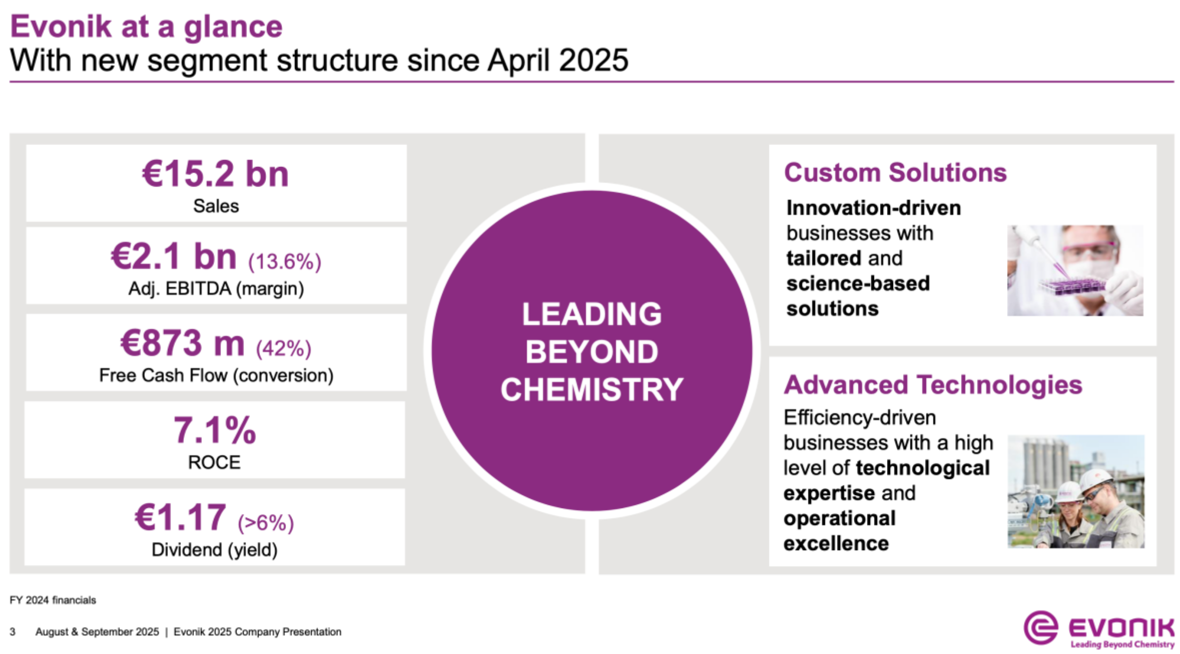
-17.40 (-53.95%) ↓ all time

25 Sept, 17:43 CEST • Disclaimer

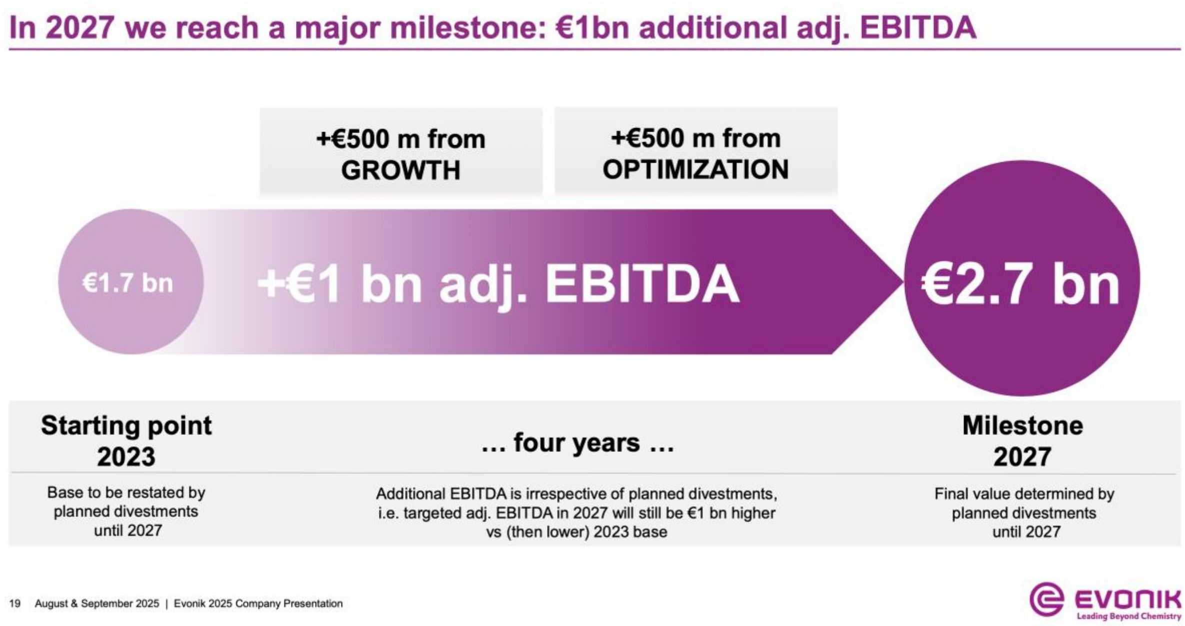
1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



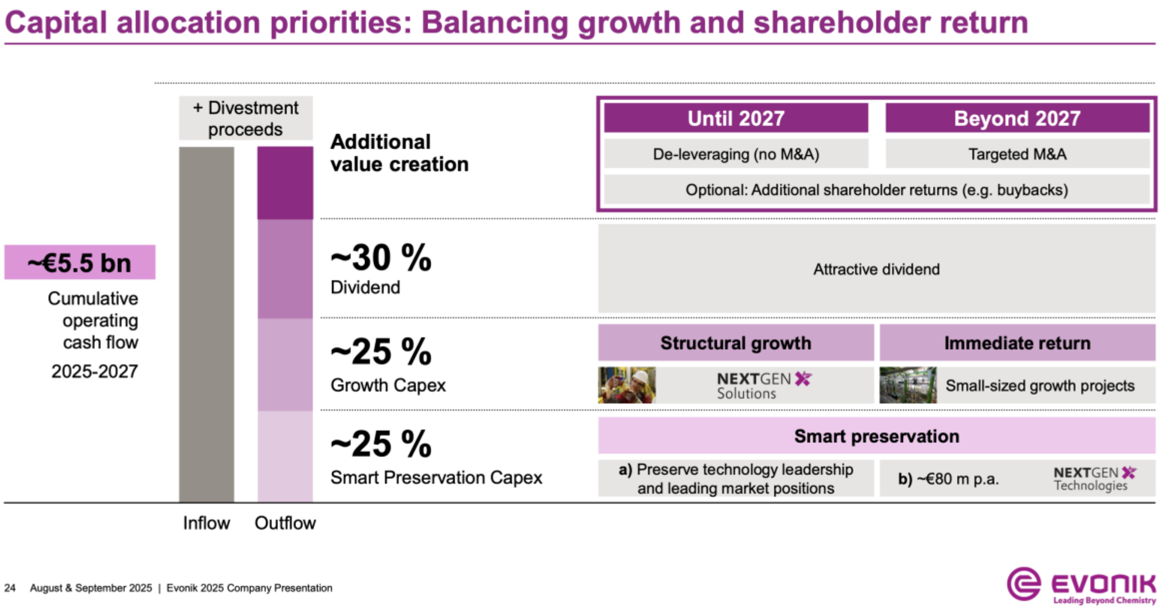
Open	15,08	Mkt cap	6,92B	52-wk high	22,39
High	15,19	P/E ratio	16,31	52-wk low	14,69
Low	14,69	Div yield	7,88%	Qtrly Div Amt	0,29



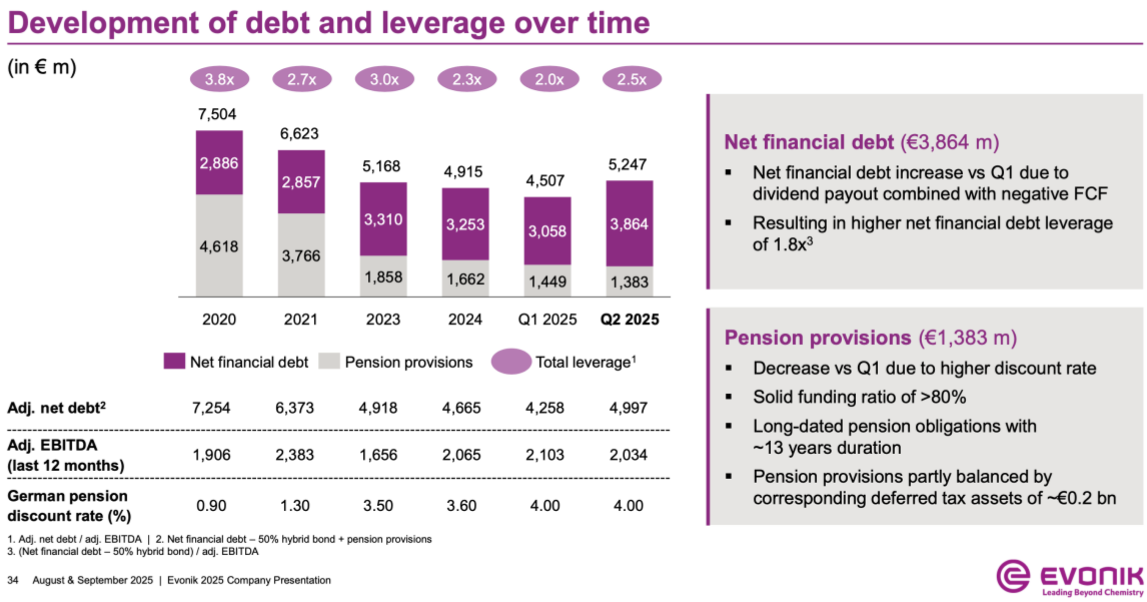
Their target is go add 1 billion to EBITDA. But, at 7 billion marke cap, 2 billion of EBITDA is also good.



Dividend plan, plus more when and if things improve:

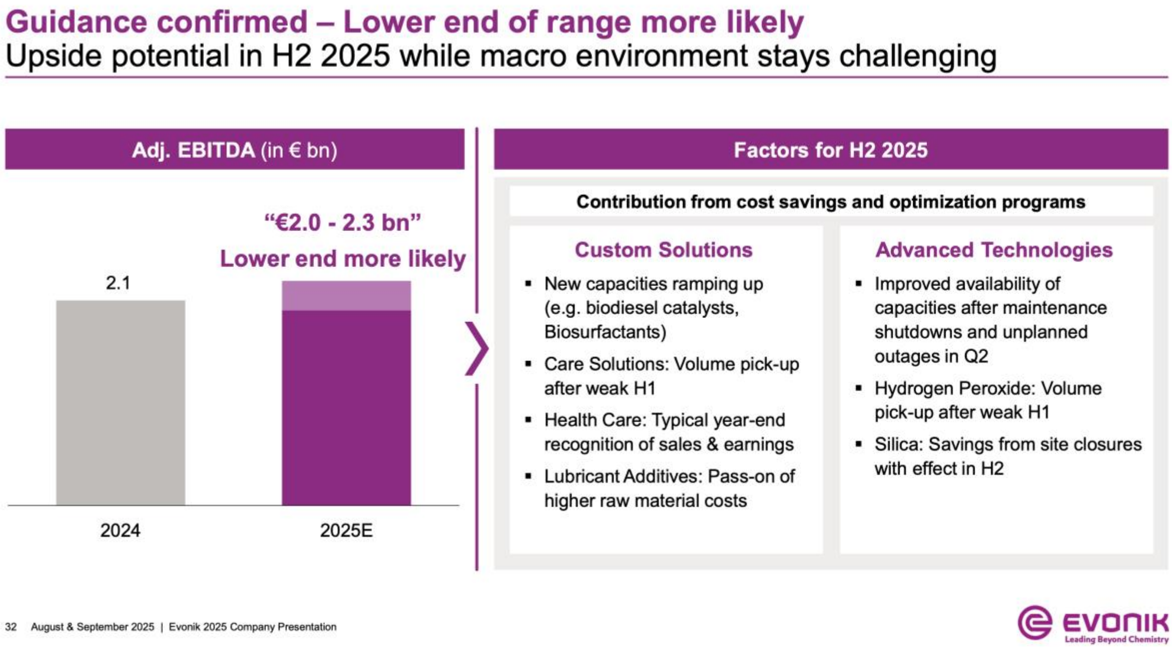


Ok, there is a lot of debt:

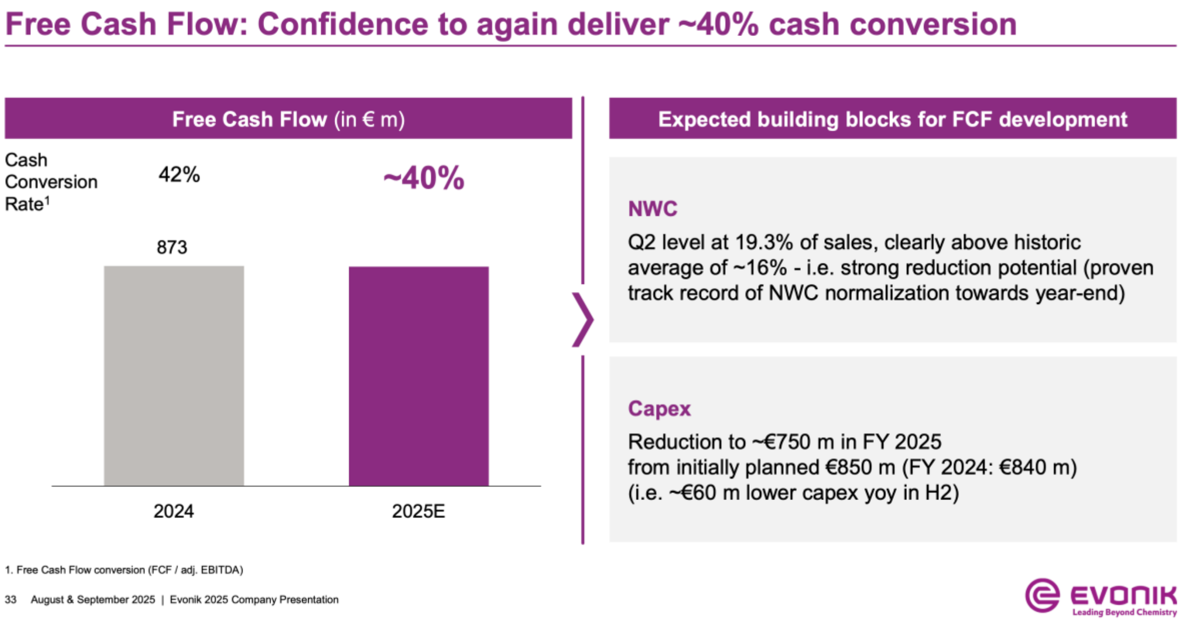


If EBITDA is 2 billion, times 8, is 16, minus 5 billion in debt, is still 11… which is where the company used to trade.

Guidance has been lowered:



Buy maybe they still reach 800 million in FCF.



Hm, not bad, nothing special… could be interesting, like all chemicals in a revival… but for that, given everybody has extra capacity, we might need to wait…

Celanese - Highest upside!

Auch...

Celanese Corp

NYSE: CE

Market Summary > Celanese Corp

39,94 USD

+23.94 (149.63%) ↑ all time

Closed: 25 Sept, 18:54 GMT-4 • Disclaimer
After hours 39,97 +0,030 (0,075%)

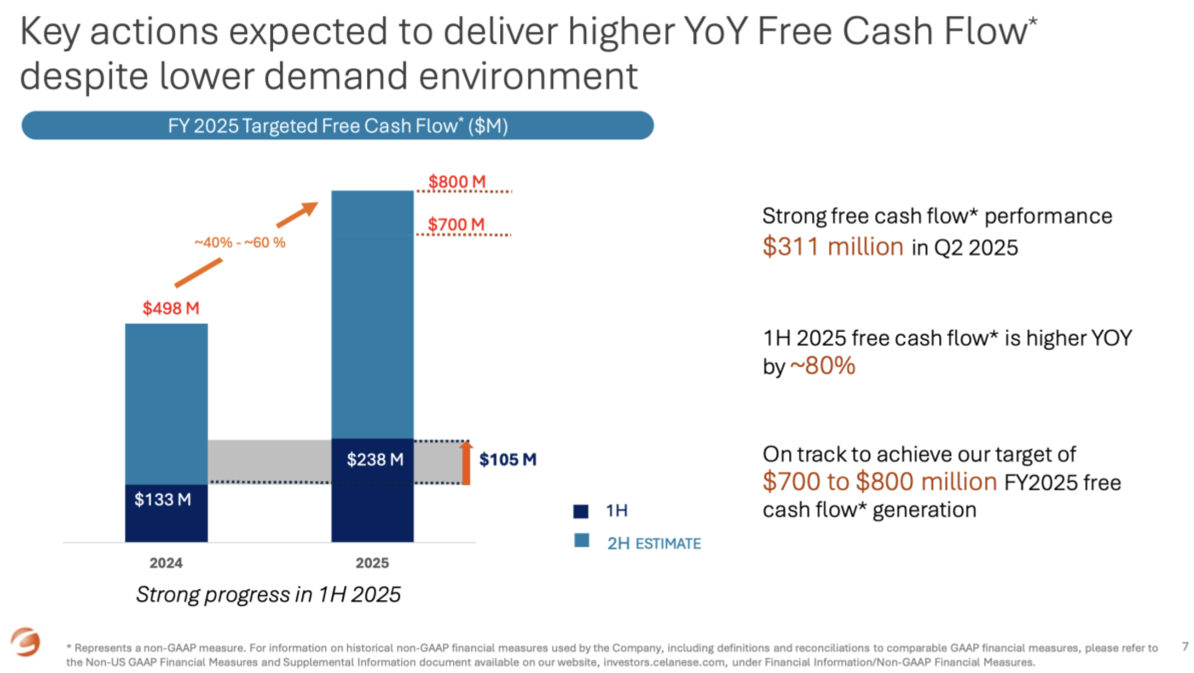
1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max

Open	41,51	Mkt cap	4,37B	52-wk high	142,54
High	42,09	P/E ratio	-	52-wk low	36,29
Low	39,88	Div yield	0,30%	Qtrly Div Amt	0,03

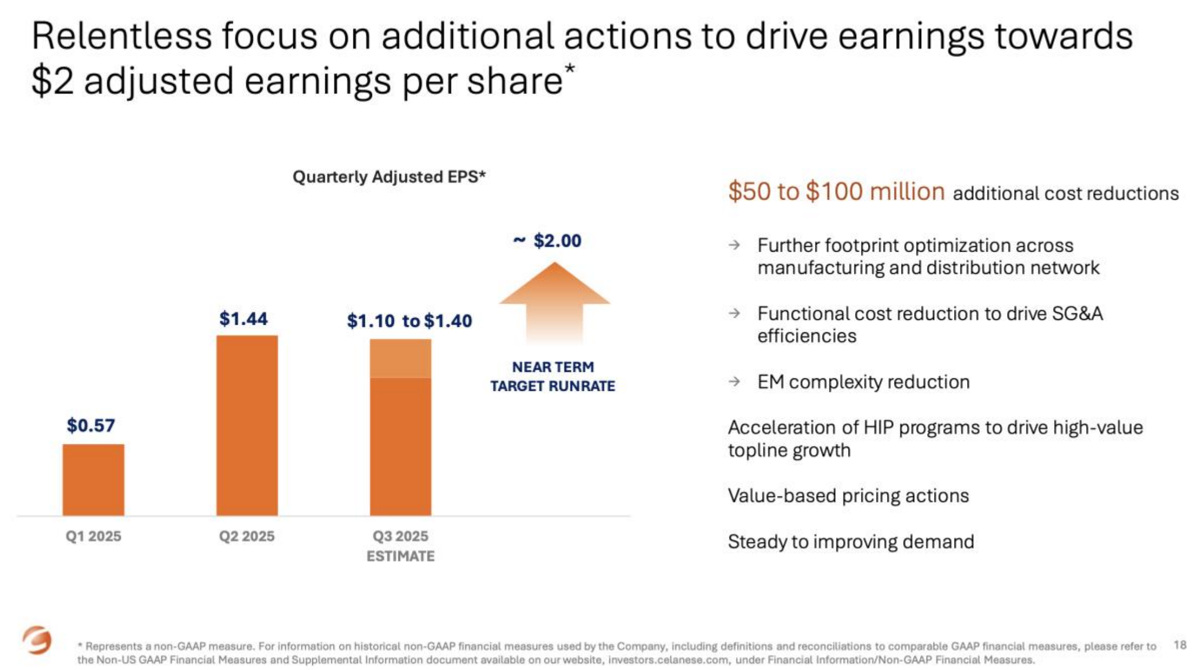
Celanese acquired DuPonts Mobility and Materials for $11 billion on debt in 2022, at the peak of the cycle. The cycle turned, all what is left is debt and no profits.

The current situation is more than $12 billion in debt which results in 5.6x EBITDA.

They say free cash flow is still possible:



Also to reach $2 EPS per quarter.



They still make $1 billion from operations, that might be even lower in the future if the downturn persists or if we have a recession. $400 million for necessary capex leads to $500 million. Just to lower the debt to less than 2 times EBITDA it would take more than a decade...

Cash Flow Statement | TIKR.com	31/12/16	31/12/17	31/12/18	31/12/19	31/12/20	31/12/21	31/12/22	31/12/23	31/12/24	LTM
Other Operating Activities	(197.00)	(531.00)	194.00	(25.00)	50.00	(96.00)	(868.00)	(923.00)	223.00	216.00
Change In Accounts Receivable	(59.00)	(110.00)	(48.00)	165.00	141.00	(396.00)	218.00	105.00	92.00	98.00
Change In Inventories	8.00	(97.00)	(158.00)	6.00	124.00	(367.00)	(253.00)	398.00	11.00	269.00
Change In Accounts Payable	7.00	126.00	15.00	(59.00)	(6.00)	353.00	(84.00)	20.00	(234.00)	(295.00)
Change In Income Taxes										
Change in Other Net Operating Assets	(74.00)	254.00	(57.00)	39.00	21.00	(78.00)	399.00	(7.00)	(73.00)	(82.00)
Cash from Operations	**893.00**	**803.00**	**1,558.00**	**1,454.00**	**1,343.00**	**1,757.00**	**1,819.00**	**1,899.00**	**966.00**	**1,020.00**
Memo: Change in Net Working Capital	*(118.00)*	*173.00*	*(248.00)*	*151.00*	*280.00*	*(488.00)*	*280.00*	*516.00*	*(204.00)*	*(10.00)*
Capital Expenditure	(246.00)	(267.00)	(337.00)	(370.00)	(364.00)	(467.00)	(543.00)	(568.00)	(435.00)	(388.00)
Cash Acquisitions	(178.00)	(269.00)	(144.00)	(91.00)	(100.00)	(1,142.00)	(10,589.00)	52.00		
Divestitures	12.00	1.00	13.00	1.00	21.00	27.00	48.00	480.00		11.00
Investment in Marketable and Equity Securities				(16.00)	1,074.00	516.00				
Other Investing Activities	(27.00)	(14.00)	(39.00)	(17.00)	(39.00)	(53.00)	(57.00)	(98.00)	(35.00)	(37.00)
Cash from Investing	**(439.00)**	**(549.00)**	**(507.00)**	**(493.00)**	**592.00**	**(1,119.00)**	**(11,141.00)**	**(134.00)**	**(470.00)**	**(414.00)**
Total Debt Issued	1,562.00	644.00	612.00	863.00	311.00	1,196.00	11,305.00	3,453.00	503.00	3,563.00
Total Debt Repaid	(1,569.00)	(201.00)	(652.00)	(451.00)	(783.00)	(792.00)	(526.00)	(4,541.00)	(1,451.00)	(3,936.00)
Issuance of Common Stock	6.00	1.00							1.00	
Repurchase of Common Stock	(500.00)	(500.00)	(805.00)	(996.00)	(650.00)	(1,000.00)	(17.00)			
Issuance of Preferred Stock										
Repurchase of Preferred Stock										
Common Dividends Paid	(201.00)	(241.00)	(280.00)	(300.00)	(293.00)	(304.00)	(297.00)	(305.00)	(307.00)	(159.00)
Preferred Dividends Paid										
Common & Preferred Stock Dividends Paid	(201.00)	(241.00)	(280.00)	(300.00)	(293.00)	(304.00)	(297.00)	(305.00)	(307.00)	(159.00)
Special Dividend Paid										
Other Financing Activities	(57.00)	(54.00)	(40.00)	(51.00)	(56.00)	(142.00)	(175.00)	(63.00)	(59.00)	(104.00)
Cash from Financing	**(759.00)**	**(351.00)**	**(1,165.00)**	**(935.00)**	**(1,471.00)**	**(1,042.00)**	**10,290.00**	**(1,456.00)**	**(1,313.00)**	**(636.00)**

A lot of things could improve but also a lot of things can go wrong.

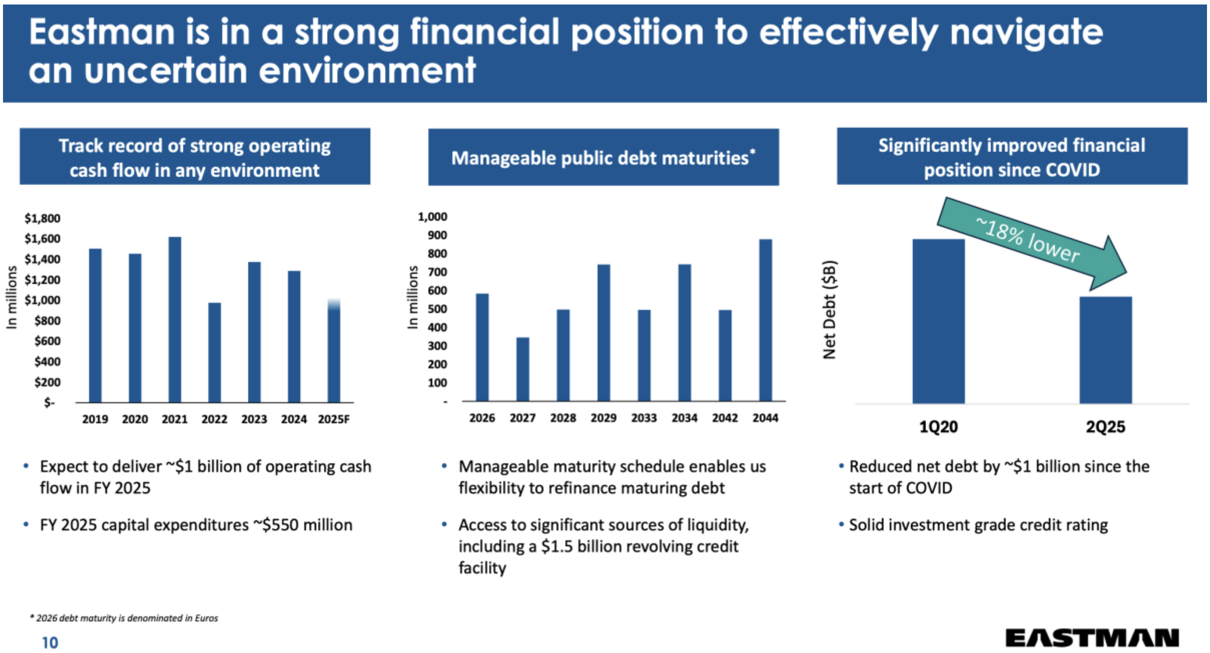
This stock has the highest upside, because if things improve and go back to 2022, you have more than a 2x easily. If not, you can also have a zero in case of a recession.

Too much debt for value investors.

Eastman Chemical

if you look at these charts, there is no real value creation, it is mostly just getting lucky in a cycle, and dividends when possible… a very higly competitive environment with no moats.

Another huge debt pile:



Du Pont - Different game... priced so..

Differentiated business, but also expensive, promising growth..


The New DuPont
Igniting change.
Unlocking potential.
Leading into the future.
~$6.9B
2025E Net Sales1
~$1.6B
2025E Operating EBITDA1
~23.6%
Operating EBITDA Margin1
~5,100 Patents
~13,000 Colleagues
19 Global R&D and Innovation Centers
Industry expertise and differentiated technology
Global scale with local presence
DUPONT
Leading Advanced Solutions Provider
Long-term and deep customer relationships
Trusted reputation
DUPONT
2025 INVESTOR DAY
1 Financial information is provided on a pro forma basis giving effect to the expected Qnity Electronics spin-off and Aramids divestiture.
See appendix for description of non-GAAP measures.
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