BASF
We create chemistry

Analyst Conference Call Q2 2024
Transcript Q&A
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1 BASF Group

1.1 Current trading environment and outlook

Christian Faitz (Kepler Cheuvreux): First of all, what is your current order book visibility in your more traditional chemical activities? Would it be fair to assume four to six weeks? And what kind of demand trends do you see at present in automotive, construction, and in electro/electronics out of this order book?

Dr. Markus Kamieth: Overall, I think it's tough to summarize the current order book visibility in a single number. It hasn't changed dramatically, but visibility has been shorter than what we have seen historically for quite some time. I would say, four to six weeks is probably a good guess. In some businesses, it's a little bit longer, and of course, in some businesses it's less, but overall, across our chemical businesses, that's a pretty good assumption.

I comment a little bit on trends that we see currently, heading into the third quarter: I already said in my speech that the current momentum that we saw in the second quarter is shaping up to be valid for the third quarter as well. So, in most industries, there is a rather sideways movement on demand. That also relates to the segments that you have pointed out.

Automotive has been, for the first half of the year, flat compared to prior year. We expect the second half to be even a bit more under pressure, so maybe even a slightly lower number compared with last year's number if you look at the global picture. This comes with a somewhat conservative view of inventory developments in the automotive industry, which are increasing, especially in Asia. So, a bit of a cautious approach there. Overall, we expect build numbers in automotive to be in line with last year, roughly around 89 million cars.

Construction overall, I would say, development is also unspectacular right now, with some positive developments in the more commercial construction segment. Infrastructure is also doing okay in all regions. But the residential construction market is depressed, especially in Europe and in North America. Here, the high interest rate environment and the inflationary environment certainly are not going away so quickly.

Then electronics. I have to say, this is one of the few exceptions where we see continued good growth, especially in the semiconductor/chips segment. When you look at the consumer electronics segment, I would also say here that there is rather a sideways movement because we see consumer spending and consumer confidence not really growing strongly in most areas.

Chetan Udeshi (JP Morgan): Given all the news flow in autos at the moment, do you see more incremental softness in autos, or do you see at the moment more again a usual seasonal pattern in autos in Q3 where you typically see some shutdowns in Europe? Or are you seeing a much more negative impact from that in your numbers as we speak?

Dr. Markus Kamieth: As I said, in the first half of the year, we are roughly on prior-year level, so the same amount of car builds, with a little bit different regional split. We had significant negative growth in Western Europe in particular, which is down 7%, but we had good growth in China – plus 7% – and also in India – plus 8% almost. So, the regional composition is a little bit different, but same number of cars globally year to date.

For the full year, we are expecting a modest decline, maybe 1% down overall. That's our current assumption. That means the second half of the year will be slightly lower than the second half of 2023. That, to a large extent, at least in our projections, comes with a weaker fourth quarter in China. China typically has a strong fourth quarter in automotive.

But as I said, we're seeing increasing inventories in automotive in China, so we are a bit cautious about expecting another strong fourth quarter like we had last year. This is where the majority of the second quarter slowdown comes from. So, dynamics stay more or less the same for the full year: Western Europe down 6%, but in China we see a certain downside for the fourth quarter, so not as strong as usual because of the high inventories.

That's basically the assumption. But, as I said, overall, we'll end up at roughly 89 million cars according to our current forecast.

Chetan Udeshi (JP Morgan): Can you maybe give a bit more color on what you think is a normal seasonality in Q3? Because you are saying Q3 is broadly consistent with Q2, except for normal seasonality. I think, given a lot of changes in the last few years, it's difficult to understand what is the normal seasonality. So, how would you characterize your normal seasonality these days? Let's say, your Q2 was close to €1.97 billion, the consensus is €1.85 billion or somewhere thereabouts. Is that consistent with what you would think is a normal seasonality? Or should we add a bit more decline on top of that in Q2?

Dr. Dirk Elvermann: As you know, the BASF result over the year is a little bit frontloaded to the first half of the year. This is predominantly due to Ag. So, this year, with the weaker Ag result, there might be a little bit more balance between the first and second half of the year.

Frankly, it all depends on the future development of prices. As you have seen, the volume development is now continuously positive across many businesses, particularly if you take out precious metal effects, while the price development is still negative quarter over previous year quarter.

But price pressure is easing a bit. If this easing were to continue and even go into positive territory, then, I think, we also will have a stronger second half of the year. But pricing power certainly is a very important factor in this equation.

Laurent Favre (Exane BNP Paribas): You had Q2 flat year-on-year. You're specifically talking about earnings growth in Q4 year-on-year. Should we be assuming that your comments on Q3 are basically saying, like Q2, i.e. fairly stable compared to Q3 last year, which on an EBITDA basis was around €1.5 billion to €1.6 billion?

Dr. Dirk Elvermann: As you see, we are holding our full-year forecast, which obviously also gives you our opinion for Q3 and Q4. Again, I think the pricing part is essential now. Will the easing of the price pressure continue? Then we are in good shape. But this is now the question for the second half of the year. From what we see today, the full-year outlook that we have given, which includes Q3 and Q4, is really the best view that we have.

Laurent Favre (Exane BNP Paribas): If I can just come back to your points on the second half: I think we've already heard on this call that you expect nutrition prices to improve in the second half. Can you talk about the other value chains where you are seeing these improvements on pricing and margins, especially given what you said on autos assumed to be down year-on-year in H2?

Dr. Markus Kamieth: Overall, I think, in most of our chemical value chains, we still have strong price pressure. Price effects are still negative compared to prior year. But the pricing pressure is easing overall, so the negative deviation is receding. So, I would say, pricing power is slowly but steadily increasing. That's a very general statement on our very broad portfolio, of course. But that's generally the trend that we're seeing.

That's why we're also saying that, for the second-half outlook, we are also expecting a further restoration of pricing power across the portfolio. But, of course, that is also contingent on further stabilization of demand trends, which were so far positive. In the first quarter and second quarter, we have seen good volume growth. If you look at our chemical businesses, so our four very chemically driven segments – Chemicals, Materials, Industrial Solutions, Nutrition & Care –, in the second quarter, they had a positive volume effect of almost 6%, and a positive EBITDA before special items of plus 16%.

So, you can see there is positive momentum there. However, we are still cautious, especially with the third quarter, because the second quarter dynamic was that April was very good, May was so-so and then June was a bit of a disappointment. That shows you that the overall robustness of the market heading into Q3 is not exciting. That's why we say that the volume trend will continue, but pricing power still needs to continue and that, to a large extent, will then be a supply-demand question in H2. But we are confident that it will gradually improve.

Andreas Heine (Stifel): In the first quarter, we heard a lot that the improvement in volume might be driven by two factors, one is restocking from the very weak Q4 and the second is the political situation at the Red Sea. If you now describe the second quarter, were these two factors still a positive driver or is what you have seen in the second quarter the underlying demand improvement?

Dr. Markus Kamieth: Of course, Q1 was a positive surprise for most people in the chemical industry, and we saw significant impacts from value chain restocking after a very challenging end of 2023 with supply chain destocking in most customer industries. That was one effect.

We saw the political uncertainties and the Red Sea crisis, but I think an anticipation of increasing raw material costs also led to a positive first quarter. In the second quarter, we brought a good momentum in April into the second quarter, but we then saw in May and June that the underlying fundamentals did not support this sequential quarter-over-quarter strong volume growth overall.

If you look at some of the macro indicators, the chemical industry versus the PMI indices of our important customer industries, you can see that there is no strong underlying growth momentum in any of the customer industries. In manufacturing, PMI data basically is around the 50 mark. So, there's nothing really that drives it up; in Western Europe it is even below that. Consumer confidence, as I said, is also overall not really improving strongly anywhere. That means that volume growth in the chemical industry right now still has probably some technical impacts included, but certainly not as much as in Q1.

So, the volume growth that we saw in Q2 is cleaner, and we expect this to go on in that order of magnitude, but based on still strong pricing pressure and, I would say, still not supported by strong end customer or end use growth in our industries.

Georgina Fraser (Goldman Sachs): Would you agree that, given the weak local demand and a lot of extra capacity, China has been responsible for a lot of the pricing pressure that you've seen in the first half of the year and that we might be starting to see a stronger anti-dumping duty response from other producing regions that are feeling pressure from China? Does your expectation of improving pricing power factor in a tighter global tariff regime? And just any comments that you could give on the impact of possible tariffs for BASF.

Dr. Markus Kamieth: First of all, I would say that the situation in China certainly has an impact on the overall pricing situation in the world. There's no question about that because China is by far the largest chemical market in most of the chemical categories that we are looking at here.

As you know, we talk always about the overall chemical market. China represents 50%. And, of course, it requires tremendous capacity build-ups to continue to support a growth of maybe in the past 5, 6, 7% per year in this industry.

Over the last two years, China has grown lower than expected in GDP and in industrial activity. That meant that overcapacities have built up, also in the chemical markets. These products are looking for a home. Of course, that sets price pressure. Export pressure in all regions is also impacting pricing.

However, given the size of the Chinese industry, that also can change very quickly because when China's industrial activity goes up, domestic manufacturing again strengthens, which is currently happening in 2024. Then this capacity will also be quickly absorbed.

But I would say, overall, especially in export markets for China that are easy to reach – Southeast Asia, South Asia, Latin America – you see particularly strong price pressure coming from Chinese volumes. I think this is fair.

I cannot talk so specifically to your question on an anti-dumping duty response; it is a bit hypothetical. I think, overall, we have not seen a wave of anti-dumping tariffs now being applied for or being implemented. Overall, this is not something that drives our thinking. And that's certainly also not something we see as a general theme in the industry. There are always specific cases that you look at where we are also, of course, protecting our interests in the one or the other case, but it's spotty. It's not a generally broad theme, I think, in the chemical industry.

1.2 Capital Markets Day

Matthew Yates (Bank of America): I wanted to ask about the timing of the Capital Markets Day in September. You've only been CEO since the end of April, so effectively giving yourself less than six months to come out with a plan. I appreciate strategy at BASF is much more than a one man show and you have obviously been in the company a long time.

But I wanted to understand the logic here on the timing. Did you think September is right because there is a sense of urgency in the company, some would even say, crisis that you need to tackle urgently? Or should I conclude that the speed is such that we won't actually see much in the way of a radical strategy shift and that it will be more evolutionary around the edges?

Dr. Markus Kamieth: First of all, I think you gave part of the answer yourself: I am not new to BASF. I have been on the Board of Executive Directors for seven years, so a lot of the topics and key questions are certainly known to me.

As you know, we have a relatively new Board team that came together over the last couple of years, and I have to say that my current feeling is that the Board has come together very well and that we have made good progress in defining our path forward. So, I don't see any reason to wait, and September feels good. We are ready, and I think we have a plausible path forward for the Group and we feel confident that September is the right timing. No need to wait.

Peter Clark (Bernstein Société Générale Group): In September, we're going to hear from the divisions as well as the update on Ludwigshafen?

Dr. Markus Kamieth: To clarify on the Capital Markets Day: Yes, we are going to give you in the keynote a strategy update on where the Board sees the priorities for BASF Group going forward, what's our strategic pathway.

We're going to go into the divisional details, into the segments and we're also going to give an update on what we call target picture Ludwigshafen, so basically how and where we will develop the site in the short and long term.

1.3 Measures to increase competitiveness

Peter Clark (Bernstein Société Générale Group): You announced a ringfencing in December. So, we're almost nine months on from the ringfencing of the Verbund operations versus the pure-play business. I'm just wondering how that's progressing. Are we still looking at 2026?

Dr. Markus Kamieth: "Ringfencing" – that's a word I would not have used. But anyway, I get your question.

Yes, we are well underway with our structural measures. As we have announced, we are in the course of putting our non-Verbund businesses into a more independent structure with regards to legal entities, but also in the process environment, IT, for example, putting them on separate SAP instances and so forth.

These projects are all progressing well and in line with our original plan. So, no further updates or news there.

Georgina Fraser (Goldman Sachs): What do you think is the reason that we haven't seen more recent players in the chemical market, particularly in China and Asia, adopt the same Verbund business model and the reason that some players in regions like the US have been exiting this business model in recent years? We'd love to hear your thoughts on that.

Dr. Markus Kamieth: This question is very difficult to answer, I have to say, because this word "Verbund" means a lot and it means a lot of different things. I think our specific setup that we have at our Verbund sites works very well for us.

It's a particular strength for us, and we also build our future view of BASF very much on this strength that we have in the Verbund at our Verbund sites because it will give us a lot of opportunities, especially in the new regime where the green transformation of the chemical industry will happen over the next 10, 20 years. This is where Verbund sites, in other words integrated setups, will play out their particular strength. We are very much convinced that, for a large part of our portfolio, Verbund or, more specifically, integrated production setups, really make a lot of sense and will also in the future rather gain in competitiveness than the opposite.

I cannot comment specifically on why other people chose different setups. But we feel very comfortable with what we are doing. As you know, our new site in South China is a very integrated site. Also here we expect, especially with regard to lowering the carbon footprint and introducing circularity, that the Verbund setup will definitely be a strong asset for BASF in the future.

Peter Clark (Bernstein Société Générale Group): In the first quarter, I was certainly encouraged that fixed costs pretty much went down in every segment. A couple of the segments saw them up; I know there are one-off effects, preparing for a shutdown, etc. But getting on top of that fixed cost, again, as we go forward from here and making sure all the divisions or segments start to see them come down.

Dr. Dirk Elvermann: It is never so easy to find all the savings that we are tracking accurately in the system then also actually in the P&L. I think what you have seen in G&A, in R&D, but also in the operating divisions is a good cost development. We are tracking accurately and are very, very confident that the €800 million run rate will be achieved by the end of the year and then also visible in the P&L.

Of course, you have some countereffects, as always: Inflation plays a role; you have salary increases. And all of that is countering the efforts, if you will. But, I think, overall you see in the fixed-cost lines that we are making progress here, even though you cannot always translate the cost savings directly into the P&L due to the multitude of factors.

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

Laurent Favre (Exane BNP Paribas): Around the lower investments in batteries: You gave us a fairly specific budget for the next four years, so 2024 to 2027, at €19.5 billion. I was wondering, when you gave us that capex envelope, how much of that €19.5 billion capex was meant to go into those battery investments that you seem to be curtailing now?

Dr. Markus Kamieth: We did not have a huge number for batteries in the last capex envelope of €19.5 billion that we gave you. We will update this, of course, when we talk to you in September and will give you an updated capex forecast as well.

Currently, as we react with this slowdown of capex in battery materials to the very recent dynamic market development that you probably have followed as well, I don't want to give you an updated outlook for capex. In general, I think you get the point that right now we're taking a more cautious approach. But that by itself does not automatically lead to a significant reduction of the €19.5 billion.

Jaideep Pandya (On Field Investment Research): There is a bit of a drop in Coatings with regard to volume growth. You have a very, very interesting asset, so that you are increasing strategic flexibility. When you look at this business, do you feel, like some of your peers, need for partnerships and need for size increase to jumpstart growth? Or are you actually just increasing strategic flexibility because somebody with a fat paycheck could come, and you could potentially look at cashing in the proceeds and investing it somewhere else?

Dr. Markus Kamieth: Let me just say that we are extremely happy with our Coatings business. The Coatings business of BASF has developed very positively over the last years. Over many years now, I would say, we have become a very focused coatings player. We are not as big as some of the industry-leading coatings companies, but they of course touch all the segments. We are focused very much on our strengths in the automotive area in particular. We have a strong decorative paints business in Brazil, and we have added a very great franchise with the Chemetall business back in 2017. That, overall, creates a very focused coatings player with a strong performance profile, strong cash flow and low capex demand. So we are very happy.

In every segment where we are in, we are amongst the top three market players. So we're really happy to have this business, and we continue to expect a good performance.

But, based on the large exposure to automotive that we have in Coatings, this certainly will not be a business that will grow continuously with 7, 8 or 9% because it will grow more or less in line with automotive, maybe slightly above that because we have a really good business. But that's about it. The role of Coatings in the portfolio is not necessarily to provide strong top line growth. It's to provide a strong cash conversion, based on a solid earnings profile.

2.5 Nutrition & Care

Andreas Heine (Stifel): In nutrition, the decline in earnings you have seen there quarter-on-quarter was partly due to a turnaround. Could you elaborate on how much this impact from the turnaround was in the second quarter?

Dr. Dirk Elvermann: You're fully right: In nutrition, in the vitamins area, we had a turnaround. This was associated with vitamin A production, which we have restarted and reconfigured.

As you know, we have a big vitamin A investment that comes in two pieces. One piece of that was subject to a plant turnaround that ended in June. So, vitamin A production is now ramping up again, and the effect from the turnaround we can describe in the low double-digit million-euro area.

2.6 Agricultural Solutions

Matthew Yates (Bank of America): Are you able to quantify the benefit from closing the two GA plants and the change in strategy? Is it fair to say that that is currently a loss-making operation? And if so, how can we quantify the size of losses versus that low triple-digit million-euro restructuring cost you've called out?

Dr. Dirk Elvermann: I don't have a specific number for you today. But if you look into the segment results and if you take into consideration that it was predominantly glufosinate-ammonium that was driving down the Ag segment, you can already get an impression of the order of magnitude here. So, no clear quantification.

What I can say is: In the third quarter, we will take decisive action and also book the associated one-time costs and that is a low triple-digit number. That together might give you an impression here.

Christian Faitz (Kepler Cheuvreux): Is destocking in crop protection still happening as we speak, or would you see the channels at customer level now being cleared?

Dr. Dirk Elvermann: If we were to describe the overall market development, it's still what I would call cautious and leaner buying behavior. So, channel inventory destocking is ongoing.

We see some normalizing of the commodity price development. And this goes together with some further product price pressure here. So, in Ag, from the macro point of view, it's not falling off the cliff, but it is currently a subdued environment which we are in.

Jaideep Pandya (On Field Investment Research): Could you give us some color about what is the sales exposure for GA for you these days?

I think your capacity used to be about 12 kt and you acquired a new technology, I think, a few years ago. Are you going to transfer this technology to whoever is your new job worker? Do these two plants closures mean that the whole capacity is shut down?

Obviously, if you're pointing to GA as the main reason for disappointment in Ag in Q2, will this shutdown lead to a very quick improvement in results in 2025/2026?

Dr. Dirk Elvermann: To give you a couple of ideas, glufosinate-ammonium is a non-selective herbicide, and you can think about it as being 20% of our herbicide sales, which is one of our important indications. So, this is quite something.

With what we are now announcing and implementing, we will not forego the sales, but we make the business profitable again. We have secured third-party supply for GA on competitive terms. So, this is meant to completely replace production. So, we are not foregoing any business or market share here, but we make it profitable again. This is the idea we already last year started with structural measures on GA, and now we are completing it with the closure of the sites bringing down the fixed cost. GA is more or less a generic now. In the new setup with GA insourced from third party suppliers, we will certainly expand our margin and return also with non-selective GA and the herbicides into the profitable arena again.

Dr. Markus Kamieth: Maybe to add on this: You asked also about the new technology that we have sourced. Our plan is to bring this new glufosinate technology to market later in the decade. This will also be a sourcing strategy. So, we will have this produced for us. Overall, you can think about this really as a replacement of own manufacturing versus sourcing. And this will happen with the classical glufosinate-ammonium now, immediately contributing right away, and then later on with the new version in a few years.

Jaideep Pandya (On Field Investment Research): Are you going to make sure that your regional footprint is mirrored, i.e., the outsource supply is European? Or would you go to Asia because a lot of the hub has shifted to Asia for GA production?

Dr. Markus Kamieth: I hope you understand that we are not going to comment specifically on our future sourcing strategy. But rest assured that we are doing our diligence in finding the best possible supply sources for GA, and we take, of course, a mirrored view on where this product is sold. You know, GA for us is largely a North American product. So, we take this into account and are overall optimizing profitability as well as risk.