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INVESTMENTS IN PETROCHEMICALS

Petrochemical companies, SIBUR in particular, are in high demand for long-term investments.

The oil & gas industry is experiencing its third price slump in 12 years. It weathered its first two crises well, however this time is different – we are seeing supply chain disruptions alongside an unprecedented fall in demand amid the Covid-19 pandemic. This latest crisis has been exacerbated further by the ‘deep freeze’ in Texas, America’s key oil region, which led to short-term disruptions in key production and logistics chains.

MCKINSEY EXPECTS THAT 70% OF THE INCREASE IN DEMAND FOR OIL WILL COME FROM THE PETROCHEMICAL INDUSTRY

The financial and structural health of the sector today is much worse than it was in the two previous crises. The rise of shale oil, supply glut and ‘generous’ financial markets that overlook the unsustainable, capital-intensive projects of oil and gas companies have all contributed to low returns. Today, with oil prices at a 30-year low and the pandemic accelerating existing trends, change is inevitable. In this context, the petrochemical industry looks increasingly promising.

The petrochemical industry is one of the fastest growing industries in the world – its growth rate exceeds that of global GDP. The industry is also flexible enough to respond to changes in the market environment. For example, while the pandemic drove down demand for petrochemical products from construction, manufacturing and textile industries, it stimulated a significant surge in demand for plastics used in medicine, hygiene and food packaging. In the coming years, regardless of the pandemic, the demand for petrochemical products will increase as the global population grows, particularly in fast-developing Asian economies with a growing middle-class, like India and China.

PETROCHEMICAL PRODUCERS HAVE GREATER POTENTIAL TO MONETISE THEIR RESOURCES AND, AS A RESULT TYPICALLY GENERATE HIGHER MARGINS AND MORE FREE CASH FLOW

According to experts at Wood Mackenzie, over half of all new oil refining capacities set to open between 2019 and 2027 will be located

The petrochemical industry ensures deeper processing compared to the traditional oil & gas industry. This means that petrochemical producers have greater potential to monetise their resources and, as a result typically generate higher margins and more free cash flow – the average EBITDA margin among leading petrochemical companies is around 17%.

The transition to alternative materials such as paper, metal and glass will actually have a greater ecological footprint.

In light of this, many oil & gas companies including ExxonMobil, Saudi Aramco and others consider petrochemicals as a driver of growth. Furthermore, deeper feedstock processing oil & gas companies gas flaring issue, as most of the by-products from the extraction of oil & gas can be processed into high-margin products. In the future, as demand for fuels drops, petrochemical processing will help to maintain demand for oil. For example, Saudi Aramco and SABIC are considering constructing a COTC petrochemical plant (oil to olefins), capable of processing up to 400,000 barrels of oil a day and producing up to 9 million tonnes of petrochemicals annually by 2025.

SIBUR IS ONE OF THE MOST EFFICIENT PETROCHEMICAL PRODUCERS GLOBALLY AND HAS CONSISTENTLY MAINTAINED ITS MARGINS AT OVER 30% OVER THE LAST 10 YEARS, DELIVERING AN EBITDA MARGIN OF 34% IN 2020

It is not surprising, therefore, that the performance of global petrochemical companies' shares before the pandemic has been stronger than average performance of base commodities producers. On average, global petrochemical companies are trading at a 7.5-9 EV/EBITDA multiple. It is obvious that there is demand for efficient and innovative petrochemical companies with robust growth, adequate leverage and high profitability.

Russia has its own particular reasons for building petrochemical facilities. It has access to cheap feedstock (both oil and gas), qualified staff and has a convenient location close to the European, Turkish and Chinese markets. This gives Russian petrochemical companies certain advantages and allows them to maintain high margins even by global standards. SIBUR stands out on this last front in particular. It is one of the most efficient petrochemical producers globally and has consistently maintained its margins at over 30% over the last 10 years, delivering an EBITDA margin of 34% in 2020. This represents one of the best results globally. For comparison, in 2020, EBITDA margins of SABIC and BASF stood at 17% and 11%, respectively.

SIBUR is actively expanding its capacities. In 2019, the company launched ZapSibNeftekhim, a facility focused on producing the most popular polymers – polypropelene and polyethylene – that will triple SIBUR's polymer output. SIBUR is also currently building Amur Gas Chemical Complex (AGCC) in partnership with one of its shareholders, Sinopec. Products from AGCC will primarily be exported to Asian markets. AGCC will become the largest full cycle base polymer facility in the world with a total annual output of 2.3 million tonnes of polyethylene and 400 thousand tonnes of polypropylene. Meanwhile, SIBUR's leverage was relatively modest at the end of 2020: its net debt/EBITDA ratio stood at 2.3 in ruble terms. SIBUR is also working to improve its position in international ESG rankings its Sustainable Development strategy, improving its eco and climate management systems and minimising its environmental footprint.

Despite not announcing any official IPO plans, SIBUR's major shareholder Leonid Mikhelson noted that given the current macroeconomic environment SIBUR is well-positioned for tap equity capital markets. SIBUR's IPO has been rumoured for a while now, and if the company does decide to go public, the transaction could become one of the most prominent of its kind on the capital markets.

Source (https://uk.investing.com/analysis/petrochemicals-become-a-greener-investment-than-oil-and-gas-200468760)