

CHEMICAL EARNINGS GROWTH SLOWS

Hurricanes and high costs dampen third-quarter results for most U.S. firms

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THE HURRICANES THAT HIT THE Gulf Coast in the third quarter took their toll on the U.S. chemical industry as companies were forced to contend with plant damage and shutdowns, disruptions in rail and truck transportation, shortages of feedstock, and higher costs for raw materials and energy.

Still, the U.S. chemical industry did fairly well in the third quarter when compared

growth of any quarter since the third quarter of 2003, when earnings fell about 6%, and sharply down from aggregate 45.7% earnings growth in the second quarter of 2005.

Nevertheless, profitability continued to improve, with the aggregate profit margin for the 24 companies increasing to 6.3% in the July-through-September period this year from 5.6% in the same three months of 2004.

earnings, but also a slowing of the chemical economy prior to Aug. 29, the day that Hurricane Katrina hit Louisiana. In the months prior to the disasters, both the producer price index and the industrial production index for chemicals, and especially basic chemicals, had leveled off or declined. The producer price index for basic chemicals fell 3.4% between March and August, while the basic chemical production index for August had declined 8.0% from its peak in December 2004.

Year-to-year, the Labor Department's average third-quarter price index for all chemicals was up 7.5% to 189.0 (1982 = 100), and the index for basic chemicals, which includes both organic and inorganic products, rose 9.7% to 184.0. The index for the basic organic chemicals sector was up 9.1% to 197.0.

But it was production that told the real story of the industry as it shut down

TOP 10 RANKINGS

Chemical industry leaders for the third quarter ...

SALES			
RANK 2005	\$ MILLIONS	RANK 2004	
1	Dow Chemical	\$11,261.0	1
2	DuPont	5,870.0	2
3	Huntsman	3,121.8	3
4	PPG Industries	2,547.0	4
5	Air Products	2,070.8	5
6	Rohm and Haas	1,953.0	6
7	Praxair	1,890.0	7
8	Eastman Chemical	1,816.0	8
9	Engelhard	1,208.3	9
10	Lubrizol	1,013.4	11

EARNINGS		
	\$ MILLIONS	RANK 2004
Dow Chemical	\$801.0	1
DuPont	333.0	2
Praxair	208.0	4
PPG Industries	193.0	3
Air Products	179.0	5
Rohm and Haas	169.0	6
Eastman Chemical	126.0	8
Huntsman	80.6	7
Sigma-Aldrich	63.9	10
Engelhard	58.5	9

PROFITABILITY		
	EARNINGS AS % OF SALES	RANK 2004
Sigma-Aldrich	15.5%	1
Praxair	11.0	2
Rohm and Haas	8.7	5
Air Products	8.6	3
PPG Industries	7.6	4
Dow Chemical	7.1	8
Eastman Chemical	6.9	16
FMC Corp.	6.6	10
Cabot	5.9	6
DuPont	5.7	14

... and for the first nine months of 2005

SALES			
RANK 2005	\$ MILLIONS	RANK 2004	
1	Dow Chemical	\$34,390.0	1
2	DuPont	20,812.0	2
3	Huntsman	9,810.6	3
4	PPG Industries	7,696.0	4
5	Air Products	6,152.5	5
6	Rohm and Haas	5,982.0	6
7	Praxair	5,636.0	8
8	Eastman Chemical	5,330.0	7
9	Engelhard	3,325.3	9
10	Lubrizol	3,035.8	12

EARNINGS		
	\$ MILLIONS	RANK 2004
Dow Chemical	\$3,419.0	2
DuPont	2,204.0	1
PPG Industries	622.0	4
Praxair	612.0	3
Air Products	544.9	5
Rohm and Haas	507.0	6
Huntsman	437.6	24
Eastman Chemical	411.0	9
Sigma-Aldrich	210.0	7
Engelhard	174.4	8

PROFITABILITY		
	EARNINGS AS % OF SALES	RANK 2004
Sigma-Aldrich	16.7%	1
Praxair	10.9	2
DuPont	10.6	3
Dow Chemical	9.9	9
Air Products	8.9	4
Rohm and Haas	8.5	8
PPG Industries	8.1	7
FMC Corp.	7.9	11
Eastman Chemical	7.7	17
Cabot	6.5	5

NOTE: Based on the companies listed on page 40.

with the same period in 2004. For the 24 companies regularly surveyed by C&EN, earnings from continuing operations, excluding unusual items, increased 22.9% to \$2.54 billion as sales rose 9.2% to \$40.3 billion.

The earnings increase, though, was well below what has been seen in recent quarters. In fact, it was the slowest year-to-year

For the nine months ending in September, total sales for the group rose 12.5% from the comparable period in 2004 to \$126.2 billion, and earnings gained 48.0% to \$10.3 billion. This produced a profit margin for the 24 companies of 8.1%, well above the 6.2% seen in the first nine months of 2004.

It was not just the weather that affected

plants, lost track of evacuated workers, and scrounged for raw materials. Output of all chemicals, according to Federal Reserve Board data, declined a mere 0.6% compared with the third quarter of last year to an index of 110.9 (1997 = 100). But output of basic chemicals, many of which are made along the Gulf Coast, fell 9.1% to an index

of 85.7, while the organic chemicals production index plunged 16.0% to 78.4.

The data for September indicate the effect of the hurricanes on the basic organic chemicals industry. Government figures show that production of basic organics in that month alone fell 27.5% from the year-earlier month and 29.9% from August to an index of 66.3.

Companies themselves are quantifying the damage. DuPont says business interruptions caused by Hurricanes Katrina and Rita reduced third-quarter sales by about \$100 million and cut pretax operating income by approximately \$50 million. "We are working hard to overcome the challenges the hurricanes have presented and to achieve a strong finish to the year for our customers and our shareholders," says Chief Executive Officer Charles O. Holliday Jr. "We have accelerated our pricing initiatives and cost productivity measures to offset the extraordinary increases in energy and ingredient costs."

PPG Industries estimates that after-tax earnings were reduced by about \$6.0 million because of lower sales volumes resulting from the hurricanes. Following Hurricane Rita, the company declared force majeure on products made at its Lake Charles, La., chemical complex. It was restarted on Oct. 6 and, by early November, was operating at about 80% of capacity.

Nalco Holding estimates the hurricanes caused lost sales of about \$4.1 million in

the third quarter and a reduction in pretax income of \$6 million. The company expects fourth-quarter sales to be cut by about \$12 million as a result of continued customer closures related to Hurricanes Dennis, Katrina, and Rita. And excluding any potential insurance recovery, hurricane

ings before income tax, depreciation, and amortization (EBITDA) by \$27 million.

The effects of the hurricanes on petrochemicals may best be gauged by looking at the chemical earnings of oil companies, whose chemical operations tend to be clustered on the Gulf.

CRITERIA FOR C&EN EARNINGS ANALYSIS

C&EN's quarterly report on financial performance of the U.S. chemical industry contains data from 24 major U.S. basic chemical companies and from five petroleum companies, each of which has more than \$1 billion in annual chemical sales.

To be included in the table of basic chemical companies, a company must have at least 50% of its sales in chemicals.

In referring to chemical sales, C&EN means sales of chemicals for which the

molecular composition has been changed during manufacture. Hence, these include traditional categories of basic petrochemicals and inorganics, organic intermediates and inorganic compounds, polymers such as plastics and fibers, and agricultural chemicals and specialty derivatives.

In listing earnings, the report gives after-tax income for continuing operations, excluding significant nonrecurring and extraordinary items.

impacts are expected to total \$26 million in the fourth quarter.

Huntsman Corp. CEO Peter R. Huntsman says the hurricanes "negatively impacted not only our manufacturing facilities in the U.S. Gulf Coast, but also the operations of many of our customers and suppliers. The storms also resulted in dramatic increases in feedstock and energy costs in the second half of the quarter." Huntsman estimates that the storms reduced third-quarter earn-

Chevron says its earnings from chemical operations fell 94.3%, or \$100 million, to just \$6.0 million in the third quarter. Results from the company's Oronite subsidiary were affected by high feedstock costs and shutdowns from storms at its Oak Point plant in Belle Chase, La. Earnings from Chevron's 50%-owned Chevron Phillips Chemical were also lower because of hurricane-related shutdowns of facilities.

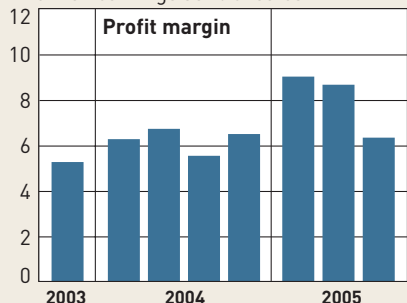
Chemical earnings at ConocoPhillips,

CHEMICAL INDUSTRY 2005 Third-quarter results

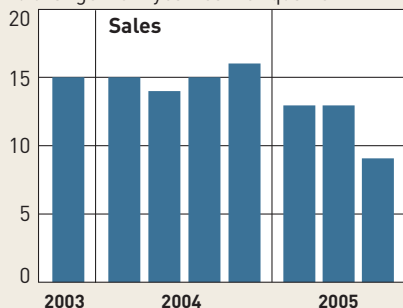
Sales rose 9% from 2004 period
Earnings increased 23%
Profitability averaged 6.3%
Production slipped 0.6%
Prices improved 7.5%

NOTE: All sales, earnings, and profit-margin data are based on the 24 chemical companies on page 40.
SOURCES: Federal Reserve Board (production data), Department of Labor (prices data)

After-tax earnings as % of sales



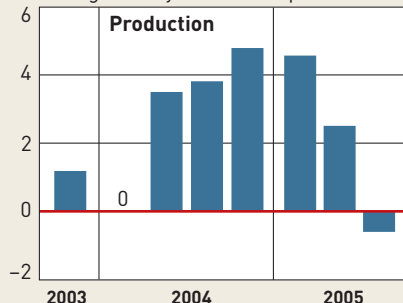
% change from year-earlier quarter



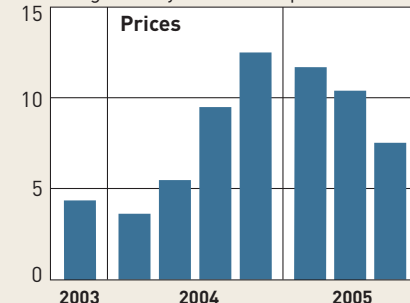
% change from year-earlier quarter



% change from year-earlier quarter



% change from year-earlier quarter



Chevron's partner in Chevron Phillips Chemical, fell 84.0% to \$13.0 million. ExxonMobil's chemical earnings fell 53.2% to \$472 million, and chemical earnings at Sunoco declined 23.3% to \$23.0 million.

Only Occidental Petroleum saw growth in chemical operations. Oxy's third-quarter chemical earnings, excluding charges, rose 18.4% to \$167 million. The company says the improvement was due primarily to higher margins in chlorine, caustic soda, and polyvinyl chloride, resulting from higher sales prices partially offset by higher energy and feedstock costs.

Although overall third-quarter earnings growth moderated at the 24 chemical producers, there were still five companies where earnings more than doubled from their 2004 levels.

Arch Chemicals' earnings for the third quarter were more than four times what they were in the same period last year, rising 318.8% to \$6.7 million. CEO Michael E. Campbell says earnings were driven "by continued strong results in performance ure-

thanes, record sales of biocides for building products and antidandruff shampoos, and a strong performance in water products and industrial coatings."

Fertilizer producer Terra Industries saw earnings grow 129.2% to \$14.9 million on a 28.9% rise in sales to \$486 million. The company says the increase was due to higher nitrogen fertilizer selling prices and the contributions from the acquired Mississippi Chemical operations, partially offset by higher North American and U.K. natural gas costs and other effects of Hurricanes Katrina and Rita.

Nalco's earnings jumped 123.1% to \$20.3 million as sales increased 7.8% to \$835 million. "Price and efficiency more than offset the September impacts of the additional cost increases and lost sales following the Gulf hurricanes," CEO William H. Joyce says.

Chemtura's earnings grew 110.9% to \$40.7 million on a pro forma basis, and Eastman Chemical's earnings rose 106.6% to \$126 million. Eastman notes that third-quarter operating earnings rose despite

raw material and energy costs that were more than \$100 million over third-quarter 2004 levels.

Industry leader Dow Chemical saw a 29.8% increase in earnings to \$801 million as sales increased 11.8% to \$11.3 billion. Geoffrey E. Merszei, the company's chief financial officer, noted that Dow's energy and feedstock costs were almost \$850 million higher than a year earlier. Prices increased 12%, with improvements in all operating segments and in every geographic area for the 11th consecutive quarter. Merszei also praised Dow's performance plastics and performance chemical businesses, which raised prices by 17%, providing four straight quarters of double-digit year-to-year price increases for these segments.

At DuPont, the second largest U.S. chemical company, earnings, excluding one-time items, rose 31.6% to \$333 million on a 2.3% sales increase to \$1.82 billion.

Both chemical companies and people who track them seem to be optimistic about the remainder of the year. At Merrill Lynch,

RESULTS

Earnings growth continues in third quarter for most chemical companies

	THIRD-QUARTER 2005						NINE-MONTHS 2005					
	SALES (\$ MILLIONS)	EARNINGS ^a	CHANGE FROM 2004 SALES	EARNINGS	PROFIT MARGIN ^b 2005	2004	SALES (\$ MILLIONS)	EARNINGS ^a	CHANGE FROM 2004 SALES	EARNINGS	PROFIT MARGIN ^b 2005	2004
Air Products	\$2,070.8	\$179.0	4.7%	6.5%	8.6%	8.5%	\$6,152.5	\$544.9	7.4%	15.4%	8.9%	8.2%
Albemarle	506.6	21.4	22.4	5.4	4.2	4.9	1,519.3	80.5	43.0	42.7	5.3	5.3
Arch Chemicals	314.2	6.7	13.5	318.8	2.1	0.6	1,026.8	34.8	16.8	34.4	3.4	2.9
Cabot	556.0	33.0	12.1	-5.7	5.9	7.1	1,628.0	105.0	9.4	-7.9	6.5	7.7
Chemtura	918.4	40.7	-4.9	110.9	4.4	2.0	3,022.3	137.8	4.1	172.9	4.6	1.7
Cytec Industries	760.8	33.8	75.5	19.9	4.4	6.5	2,138.2	116.1	68.3	22.3	5.4	7.5
Dow Chemical	11,261.0	801.0	11.8	29.8	7.1	6.1	34,390.0	3,419.0	17.7	93.1	9.9	6.1
DuPont	5,870.0	333.0	2.3	31.6	5.7	4.4	20,812.0	2,204.0	-2.5	9.0	10.6	9.5
Eastman Chemical	1,816.0	126.0	15.3	106.6	6.9	3.9	5,330.0	411.0	9.9	149.1	7.7	3.4
Engelhard	1,208.3	58.5	21.4	-2.2	4.8	6.0	3,325.3	174.4	6.4	-1.7	5.2	5.7
FMC Corp.	510.0	33.7	2.5	14.2	6.6	5.9	1,628.0	129.3	5.9	50.3	7.9	5.6
H.B. Fuller	358.1	15.5	2.5	74.2	4.3	2.5	1,099.3	38.3	6.6	55.1	3.5	2.4
Georgia Gulf	525.2	27.9	-11.9	-16.5	5.3	5.6	1,754.8	76.8	8.6	-6.1	4.4	5.1
Hercules	522.9	24.2	4.5	-8.3	4.6	5.3	1,566.6	74.7	5.4	6.1	4.8	4.7
Huntsman	3,121.8	80.6	6.4	4.9	2.6	2.6	9,810.6	437.6	18.1	nm	4.5	def
Lubrizol	1,013.4	49.8	10.6	33.5	4.9	4.1	3,035.8	164.8	37.5	62.5	5.4	4.6
Nalco Holding	834.9	20.3	7.8	123.1	2.4	1.2	2,448.8	41.9	9.9	33.9	1.7	1.4
PolyOne	579.0	6.7	4.9	-42.2	1.2	2.1	1,739.1	49.1	5.7	32.3	2.8	2.3
PPG Industries	2,547.0	193.0	5.7	-0.5	7.6	8.1	7,696.0	622.0	8.4	24.4	8.1	7.0
Praxair	1,890.0	208.0	12.9	17.5	11.0	10.6	5,636.0	612.0	17.2	18.6	10.9	10.7
Rohm and Haas	1,953.0	169.0	8.3	23.4	8.7	7.6	5,982.0	507.0	10.1	37.4	8.5	6.8
Sigma-Aldrich	412.2	63.9	21.0	13.5	15.5	16.5	1,256.0	210.0	18.8	17.8	16.7	16.9
Stepan	265.7	3.1	11.3	63.2	1.2	0.8	808.3	12.5	16.1	28.9	1.5	1.4
Terra Industries	485.7	14.9	28.9	129.2	3.1	1.7	1,425.7	43.2	23.5	1.6	3.0	3.7
TOTAL^c	\$40,301.0	\$2,543.7	9.2%	22.9%	6.3%	5.6%	\$126,167.5	\$10,263.4	12.5%	48.0%	8.1%	6.2%

a After-tax earnings from continuing operations, excluding significant extraordinary and nonrecurring items. b After-tax earnings as a percentage of sales. c Percentages calculated from combined sales and earnings. def = deficit. nm = not meaningful.

chemical analyst Donald D. Carson says ethylene margins are rising sharply because of rising prices and falling costs. The margin improvement is greatest for naphtha-based ethylene producers as a result of declining feedstock costs and rebounding coproduct prices.

But Carson says the strength in commodity chemicals will continue to pressure margins for producers of intermediate chemicals, and he expects fourth-quarter earnings for this group to be lower than in the third quarter.

Among chemical companies, Dow's Merszei says: "Overall, we expect global gross domestic product [growth] to continue its healthy pace of between 3% and 3.5% in 2005 and again in 2006. The effects of the Gulf Coast hurricanes, particularly in relation to oil and natural gas costs, may moderate growth a little for the rest of this year, particularly in the U.S. But they are expected to have a significant positive impact in the first half of next year as reconstruction efforts pick up the pace."

For the chemical industry, Merszei notes, although oil and natural gas prices are expected to remain high and very volatile, the outlook "continues to be positive, as global GDP growth drives higher demand, particu-

significant run-ups in raw material, feedstock, energy, and transportation costs following the hurricanes have created a degree of uncertainty in the demand outlook and could have an adverse impact on the U.S. economy.

But, he says, "our performance so far this year demonstrates our ability to execute our strategies to respond to escalating raw material and energy costs, and we will proactively respond to the rapidly changing environment throughout the remainder of the year."

And at Stepan, the smallest company in C&EN's sample, CEO F. Quinn Stepan continues the theme: "Higher crude oil and natural gas prices have led

to higher raw material, freight, and utility costs for all of our business segments. We continue to raise prices to recover these costs." But on the plus side, Stepan also says: "The higher crude oil prices are having a favorable impact on biodiesel economics. Our biodiesel plant is running at capacity, and an expansion project is under way." ■

OIL COMPANY EARNINGS

Shutdowns from storms have a major impact at most firms

\$ MILLIONS	THIRD QUARTER			NINE MONTHS		
	2005	2004	CHANGE	2005	2004	CHANGE
Chevron	\$6.0	\$106.0	-94.3%	\$227.0	\$239.0	-5.0%
ConocoPhillips	13.0	81.0	-84.0	209.0	166.0	25.9
ExxonMobil	472.0	1,009.0	-53.2	2,568.0	2,180.0	17.8
Occidental Petroleum	167.0	141.0	18.4	606.0	289.0	109.7
Sunoco	23.0	30.0	-23.3	86.0	54.0	59.3
TOTAL	\$681.0	\$1,367.0	-50.2%	\$3,696.0	\$2,928.0	26.2%

larly in China and other emerging regions of the world."

At specialty chemical producer Rohm and Haas, which had a 23.4% increase in earnings to \$169 million in the third quarter on an 8.3% improvement in sales to \$1.95 billion, CEO Raj L. Gupta is somewhat less optimistic, noting that the

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