Petchem M&A’s – Bottoms up analysis

Investment community is increasingly interested in petchem complexes due to current dire shape of the industry. As a result some consolidations are possible in the near future. Arriving at the “right price” for a Petchem complex is always a very difficult task. Obviously multi-prong traditional due diligence consisting of technology evaluations, determination of remaining asset life and replacement value as well as EBITDA analysis is essential to determine the “price”. Even with these steps many M&A deals of chemical entities got into financial difficulties.

We believe that “Bottoms up analysis” can provide one more weapon for due diligence.

In the “Bottoms up analysis” we start with ethylene cracker which is usually heart of a Petchem complex. Ethylene cracker could be processing single feed such as ethane, propane, naphtha or multiple feeds. Main products of ethylene cracker are ethylene and propylene, which are processed in downstream units (such as polyethylene, polypropylene) to achieve synergies of integrations. In the “bottoms up analysis” ethylene cracker performance is evaluated thoroughly and extended to include downstream units in the calculation of “overall margin” for the complex.

Calculation of “overall margin” provides a check on EBITDA so that a perspective buyer can assess the risks in offering “price”.