

The Specialty Chemical Industry is currently ranked (59) for Timeliness, which is a somewhat average mark, relative to the 97 industries covered by *The Value Line Investment Survey*. Many stocks in this section have been holding up reasonably well this year, thanks to a generally supportive business environment.

Key Markets In Good Shape

Specialty chemical manufacturers sell their products to customers in numerous industries. While it would be too cumbersome to discuss all of these in detail, it may be helpful to touch on a few key areas. For example, many specialty chemical manufacturers provide materials used in the housing markets. So far, home prices have held up relatively well, supporting a healthy level of construction. In addition to larger companies, such as *Valspar*, *Value Line* covers smaller names, like *Fuller (H.B.)*, a diversified provider of paints and coatings.

Moreover, many chemical businesses supply materials used by customers operating in the broader industrial sector. Of note, industrial production, after easing earlier this year, now seems to be rebounding. In this space, *Praxair*, which sells packaged gases, has made respectable progress this year. On a related note, chemical manufacturers furnish products to automotive, truck, and equipment makers. Vehicle sales have been quite strong lately, thanks in part to increased demand overseas. This is particularly the case in China, which has an emerging consumer class interested in American goods. *Axalta Coating Systems* is an example of a business that has numerous automotive customers.

Finally, the electronics industry consumes large amounts of chemicals, as well. The ongoing popularity of consumer devices, such as smart phones and tablets, has stimulated demand for semiconductors, circuits, and other components. *Park Electrochemical* and *Cabot Microelectronics* operate in these markets quite heavily.

Lower Costs Help

While some chemical operators have experienced top line unevenness lately, many have done a good job maintaining wide margins. Of note, improved profitability has resulted from lower cost raw materials. Specifically, chemical operators use oil and natural gas as part of their manufacturing process, and lower costs for these commodities have helped considerably. We think that energy-related expenses will remain a positive, as supply levels are still quite elevated.

M&A Activity Picking Up

There may well be further consolidation in the specialty chemical space. Often, companies within the same industries merge, in an effort to combat a competitive business environment. By combining forces, companies can gain access to new regional markets, which might otherwise take years to enter. For instance, a domestic company may buy a foreign competitor that is well established within another country. Furthermore, mergers often result in product innovation that might take considerable R&D spending to produce. This, too, opens up new markets and broadens the customer base. Further, mergers often result in various cost synergies, as

INDUSTRY TIMELINESS: 59 (of 97)

duplicate expenses can be eliminated, and manufacturing efficiencies can be realized. However, it should be noted that these transactions can carry some risk. This is especially true if ongoing restructuring efforts are required and the integration process becomes prolonged.

Within the *Value Line Investment Survey*, the industrial gas industry has been consolidating. For example, *Airgas*, a domestic company with a solid track record, was recently purchased by *Air Liquide*, a major international operator, based in France. More recently *Praxair*, which already operates around the globe, has announced that it is in talks with *Linde*, a large competitor, based in Germany. This deal, if it is finalized, could greatly help *Praxair* reach the European markets. In the coatings area, *Valspar* is being acquired by paint giant *Sherwin-Williams*. Of note, *Sherwin-Williams* has a conservative management team and the transaction should create numerous competitive advantages. Finally in the vinyls space, *Westlake Chemical* has managed to purchase *Axiall* (formerly *Georgia Gulf*) after a somewhat protracted negotiating process.

Conclusion

Investors may want to take a look at shares of specialty chemical companies. For one, many of these companies are dedicated to building shareholder value. Many operators in this group have sizable share repurchase programs in place. Too, some specialty chemical companies offer investors income potential, and have an established track record of regular annual dividend increases. In this respect, *Lyondell Basell Industries*, one of the largest chemical operators in this section, has been quite friendly to shareholders. Meanwhile, conservative investors can find appealing choices in this section. Many of these issues have sound finances and carry better than average marks for Safety.

Finally, subscribers should consult the full-page *Value Line* report for any company before making a specific investment decision.

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