Economic review

2018 review

Economic highlights

Global economic growth was flat at 3.7% in 2018, remaining unchanged from 2017. While the United States continued to see robust growth as corporate tax-rate cuts spurred capital investment, growth in other advanced economies stalled as European exports weakened and Japanese domestic demand failed to materialize. Concerns about rising interest rates in the United States and the ongoing US-China trade war also negatively impacted consumer and business confidence across the global economy in 2018.

Business highlights

Our Basic Chemicals segment started the year strong by signing long-term polysilicon supply contracts worth over KRW 1,460 billion but faced strong headwinds in the second half. China's sudden announcement of a new solar PV feed-in tariff policy on May 31 caused domestic demand for solar PV energy to plummet. This in turn led to weak prices across the solar PV value chain, leading to losses for our polysilicon business. Other businesses in this segment such as hydrogen peroxide and fumed silica performed well as we continued to introduce new value-added products and benefit from strong market demand.

Our Petrochemicals and Carbon Materials segment generated solid sales growth led by our carbon black and pitch businesses. Our TDI business underperformed as significant new capacity came online globally, pushing prices sharply downward starting in the second half of the year.

Our Energy Solutions segment saw a decrease in sales primarily due to a decline in the number of solar PV project sales in the United States. We continued to develop solar projects in the US and successfully sold Project Ivory, a 66 MWdc solar PV plant in Texas. Segment profitability improved as Mission Solar Energy, our Texas-based solar module subsidiary, reached full operation in May and recorded its first operating profit to date. The sale of renewable energy certificates earned by OCI SE, our cogeneration power subsidiary, for the use of wood pellets in the fuel mix also contributed to profitability.

Sales revenue

Sales revenue declined 14% in 2018 to KRW 3,112 billion. Basic Chemicals revenue fell 17% as polysilicon prices slumped worldwide due to the sudden policy shift on solar PV projects in China. Petrochemicals and Carbon Materials revenue rose 8% on the strength of solid sales in all major product categories other than TDI and benzene. Energy Solutions revenue fell 50% primarily due to fewer solar PV project sales. This decline was partially mitigated by increased revenue from our cogeneration plant and solar module businesses.

Financial results by segment In KRW bn

	Sales revenue	Operating income	EBITDA
Basic Chemicals	1,400	(65)	150
Petrochemicals & Carbon Materials	1,426	187	225
Energy Solutions	483	62	97
Others	23	(27)	14
Total	**3,333**	**157**	**457**
Inter-company adjustment	(220)	2	3
Grand total	**3,533**	**159**	**460**

Operating income

Operating income declined 44% in 2018 to KRW 159 billion. Basic Chemicals recorded an operating loss due to polysilicon price adjustments in the second half of the year and lower operating rates in the wake of soft demand in the third quarter. Petrochemicals and Carbon Materials income dropped 10% due to price declines for TDI and benzene despite solid profitability in other businesses. Energy Solutions posted its best results to date.

EBITDA

EBITDA declined by over 21% to KRW 460 billion due to lower profitability in our core Basic Chemicals and Petrochemicals and Carbon Materials segments. Depreciation cost was stable at KRW 301 billion compared to KRW 303 billion in 2017.

Return on assets

Assets declined by 6.9% to KRW 5,660 billion. Net income declined by 55% to KRW 104 billion due to sharply lower operating income. As a result, ROA fell from 3.8% to 1.8%.

Return on equity

Shareholders' equity increased slightly, rising 2.3% to KRW 3,493 billion. This and sharply lower net income caused ROE to fall from 7.0% to 3.0%.

Capital expenditures

Total capital expenditures rose 145% in 2018 to KRW 277 billion. Key investments included the revamping of our Sarawak P1 and P2 polysilicon plants in Malaysia, the installation of an ESS at our Gunsan polysilicon plant to reduce costs for that energy-intensive process, and the development of high-purity, value-added hydrogen peroxide grades for the semiconductor industry.

Net debt-to-equity

The net debt-to-equity ratio declined from 26% to 16% due to the conclusion of tax litigation regarding our DCRE real estate development subsidiary—resulting in the repayment of funds totaling KRW 356 billion—and the steady retirement of debt to improve our financial structure. We continue to proactively manage debt to ensure we maintain a firm financial footing in the changing business environment we operate in.

Local credit rating

In April 2018, our local credit rating was upgraded one step from A0 (positive) to A+ (stable) based on our improved financial structure.

Stock information

As of December 31, 2018, 22.4% of OCI common stock was owned by the company founders, 24.2% by foreign investors, and 53.4% by domestic institutional, individual, and other investors.

Dividend

We paid a cash dividend of KRW 850 per share of common stock for fiscal 2018. The total dividend was KRW 20.2 billion, which represents 28.7% of K-IFRS parent-basis net income and a dividend yield of 0.78% based on the KRW 108,875 average share price during the final week of 2018.

2019 forecast

Economic outlook

The IMF projects that the global economy will see growth slow from 3.7% in 2018 to 3.5% in 2019. The ongoing US-China trade war, contracting financial markets, uncertainty regarding Brexit and its impact, and accelerating economic stagnation in China will all contribute to the global slowdown.

In Korea, the above factors combined with stagnant domestic economic and jobs growth as well as worsening economic sentiment are projected to slow growth from 2.8% in 2018 to 2.6% in 2019. Notably, the semiconductor sector—traditionally a prime driver of market growth—appears to be steadily losing momentum, impacting the vitality of both the investment and export sectors.

Business outlook

As in previous years, cost reduction and value-added product development will be at the core of our efforts. In addition, we will be strategically expanding into new fields that will drive future growth.

Our Basic Chemicals segment will improve cost competitiveness by increasing global effective polysilicon production capacity by 10,000 metric tons to 79,000 metric tons with the launch of operations at the Sarawak P1 plant in Malaysia in the first quarter of 2019. We will also be redoubling efforts to expand production of high-purity semiconductor-grade polysilicon at our Gunsan plant in Korea to improve profitability.

Our Petrochemicals and Carbon Materials segment will see TDI prices continue to fall due to capacity expansion by competitors. In other product categories, we will continue to upgrade our portfolio with value-added grades to spur growth.

Our Energy Solutions segment will focus on solar PV development projects in the United States and Korea. Our January 2019 acquisition of the Korean operations of German-based Kaco New Energy, a leading manufacturer of inverters and power conditioning systems, through subsidiary OCI Power positions us to offer advanced energy storage systems that make solar PV projects more efficient and reliable.

Our new Biopharmaceuticals segment will pursue equity investments in and acquisitions of promising domestic and overseas biotechs in the field of oncology. We believe our decades of know-how in the fine chemicals industry and experience in mergers and acquisitions will play a key role in the successful launch of this new business that we expect to be a new engine for growth in the years ahead.

Last, but not least, our wholly owned DCRE real estate development subsidiary will push forward with the development of our former Incheon plant site. We have received all relevant government approvals for the project and are currently in the process of evaluating potential partners.