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Q1 2024 Covestro AG Earnings Call

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PRESENTATION

Operator

Welcome to the Covestro Earnings Call on the Q1 Results. The company is represented by Markus Steilemann, CEO; and Christian Baier, CFO, (Operator Instructions) You will find the quarterly statement and earnings call presentation on our Investor Relations website. I assume you have read the safe harbor statement.

With that, I would now like to turn the conference over to Markus.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Thank you very much, Ronald, and hello, and a warm welcome also from my side to our first quarter call. The highlights of the first quarter were a volume increase of 11% year-on-year. This represents the second quarter in a row with a positive volume growth.

However, lower prices burden sales, which came in at EUR 3.5 billion. We achieved an EBITDA of EUR 273 million, approaching the upper end of our quarterly guidance range. The free operating cash flow shows the usual seasonal pattern with minus EUR 129 million. Overall, we are fully on track to achieve our full year 2024 guidance.

Let me take the opportunity and give you a short update on the discussions with Adnoc. The status remains unchanged as the discussions are still ongoing. Let's turn to Page #3. Before coming to the business details, I would like to direct your attention to 2 CapEx topics. We remain very disciplined on CapEx with a stable budget of around EUR 800 million for 2024. Herein, we continue to invest with a focus on selective expansion projects, asset reliability and efficiency.

The business entity Engineering Plastics recently inaugurated a new polycarbonate copolymer plant in our integrated site in Antwerp. Polycarbonate-copolymers represent a material class in which polycarbonates are chemically reacted with additional components forming a new polymeric chain. These copolymers are very important for the advancement of our business as they allow for easy adjustment of technical properties in our materials.

The investment is in the mid-double-digit million Euro range and covers a pilot plant for tests and a full production plant. The new solvent-free technology with an innovative reactor concept has been developed by Covestro. It allows fast product changes and reduced time to market for new solutions. Target applications are antennas, battery housings, photovoltaics, health care equipment and IT applications. Future innovations might also focus on mobility and other trends. We expect a low double-digit euro million amount as additional EBITDA contribution per annum while further increasing our captive use of polycarbonates. Let's turn to the next page.

Another example of an investment this time contributing to expand our competitive position for TDI in Europe. Based on our assessment, our TDI plant in Dormagen remains the cost leader compared to our European and international competitors.

In addition, our customers advocate strongly for local production instead of relying on fragile international logistics. Therefore, we started a comprehensive 3-year debottlenecking and modernization project on our TDI plant and the precursor unit for TDA. This will increase the capacity towards 280,000 tons and the same time improve reliability significantly.

The additional capacity will be available beginning of 2025. During the modernization, we will also implement several measures and parts to increase the efficiency of the unit. One example is that we are integrating a new reactor that allows us to generate steam for the unit by using heat generated by the chemical processes.

This measure will save around 22,000 tons of carbon dioxide per annum. A positive effect contributing to our Scope 1 emission reduction, but it will also have a positive EBITDA effect as the cost for purchasing energy and carbon dioxide certificates decreases. We expect a very favorable return on investment with a mid-double-digit million Euro investment leading to an additional low double-digit million Euro EBITDA per annum.

Let's turn to Page #5. Let us now come back to the business and the volume development in the first quarter of 2024. Year-on-year, the global sales volume increased by 10.9%. There are 3 reasons for the increase: Firstly, improving demand; secondly, fixing our reliability issues in EMEA; and thirdly, end of destocking or perhaps even some restocking.

Going through the different industries, construction showed the highest growth rates with a high teens percentage increase. Furniture and Electro follow with a high single-digit increase. Auto remains on a more modest growth path with a mid-single-digit percentage increase. Important on global level, all industries showed a positive volume development.

Looking into the different regions, EMEA benefited strongly from the resolved internal availability issues. All industries, important to Covestro are exhibiting growth with a strong increase in construction, furniture, and electro. This is mostly associated with better availability of our core products, MDI, TDI and polycarbonates. Auto is showing a slight increase as the backlog in the order book seems to be worked through. Sales volumes in North America also increased slightly driven by growth in the construction industry, while furniture, auto and electro were still declining. Asia Pacific experienced growth across all industries that Covestro is focused on. Furniture, auto and also construction exhibited significant growth and electro showed a slight increase.

With this summary of the demand development, I'm now handing over to Christian, who will guide you through the financials.

Christian Baier ***Covestro AG - CFO & Member of Management Board***

Thank you, Markus, and a warm welcome also from my side. We are on Page 6 of the presentation. Sales for Q1 2024 are down by 6.2% year-on-year to EUR 3.5 billion. The strong increase in volume was more than offset by negative pricing and FX. A negative impact of EUR 576 million was coming from 15.4% lower prices and here, the pricing in the business entity Performance Materials declined much stronger with minus 21.3% than in the Solutions & Specialties segment with minus 10.4%. The volume increase of EUR 405 million or 10.9% was significant. The segment Performance Materials exhibited a much stronger increase with 17.3%. This was supported by the resolved internal issues on the chlorine supply and thus better availability of our core products.

Solutions & Specialties showed a solid 5.9% increase in volume. The negative FX effect of minus 1.7% or EUR 62 million was mainly driven by the weaker Chinese renminbi. With that, let's turn to Page 7 of the presentation, where we are showing the Q1 2024 EBITDA bridge.

Year-on-year, we have a slight decrease in EBITDA of 4.5% to EUR 273 million which is approaching the upper end of our guidance range of EUR 180 million to EUR 280 million. Selling prices declined stronger than raw material costs due to an unfavorable industry supply-demand ratio.

As a consequence, EBITDA was impacted with minus EUR 175 million from a negative pricing delta. The volume increase could not fully absorb the negative pricing delta and the volume leverage was clearly below the long-term average due to the very low margins. FX also contributed to the negative development. Other items showed a positive development. This was driven by the success of our savings initiative with significant reduction on fixed costs.

On Slide 8, we are breaking down the details for the different segments and are starting with Solutions & Specialties. In S&S, the year-over-year price decline of 10.4% led to a sales decline of 6.2% despite increasing volume of 5.9%. FX also had a negative impact.

Sequentially, sales growth was recorded in EMLA and North America. Due to Chinese New Year, declining sales were observed in Asia Pacific. And overall, the trend was still slightly positive. The EBITDA in Q1 2024 was higher year-on-year, mainly due to higher volumes and a positive pricing delta burdened by negative others and FX. The quarter-over-quarter EBITDA increase was mainly driven by seasonal factors and despite a slightly negative pricing delta.

Raw material prices significantly increased during Q1 with an even accelerating trend in Q2. As a consequence, we expect a meaningful burden from higher raw material costs in Q2. At the same time, pricing flexibility is limited in S&S given quarterly or partly even longer contract duration and a value-based pricing strategy. This said, we expect Q2 EBITDA to be around the Q1 level. After Solutions & Specialties, we are now looking at the segment Performance Materials.

Year-over-year sales declined by 5.7% driven by price as the main contributor with minus 21.3% and FX with minus 1.7%. Volume, however, was up 17.3% and partially compensated for the drop in sales. Quarter-over-quarter, sales increased across EMLA and Asia Pacific, while North America was flat. Growth in EMLA was significantly driven by the improved internal availability. APAC showed slight growth. The Q1 '24 EBITDA of EUR 103 million is around 40% below last year. The year-over-year decline is mainly driven by a negative pricing delta and FX.

Volumes and reduced fixed cost contributed positively. Sequentially, the EBITDA in Q1 '24 increased mainly due to positive volumes and reduced operational costs as well as a positive pricing delta.

The next topic is the free operating cash flow development for Q1 2024. As you can see from the graph, the free operating cash flow in Q1 2024 was negative with EUR 129 million. The free operating cash flow slightly improved year-on-year despite the lower EBITDA due to continuous working capital management and lower CapEx despite higher income tax payments. Changes in working capital of minus EUR 229 million in Q1 2024 were mainly attributed to higher stocks. As mentioned already, Q1 CapEx of EUR 106 million was down year-on-year and underlines our savings ambition. All in all, the Q1 2024 free operating cash flow is showing a normal seasonal dip related to increases in working capital after the winter break.

Let's now look at our balance sheet on Page 11. Our total net debt slightly increased by EUR 186 million versus end 2023. The increase was mainly caused by the seasonally negative free operating cash flow of EUR 129 million and negative others. The decrease in the net pension liability of EUR 50 million was driven by an increase of the pension discount rates in the U.S. and Germany. This comprises pension provisions of EUR 348 million and a net defined benefit asset of EUR 73 million.

In 2022 and 2023, we executed a share buyback program of close to EUR 200 million before the authorization expired. We are keeping the option of anticyclical share buybacks in the future in line with our cash spending priorities. The renewal of the authorization was successfully endorsed by the AGM earlier this month.

Summarizing our net debt position, the total net debt-to-EBITDA ratio is at 2.9x based on a 4-quarter rolling EBITDA of EUR 1.1 billion. However, based on our mid-cycle EBITDA, the ratio would be only around 1x. Covestro remains committed to a solid investment-grade rating. Our Baa2 rating was confirmed by Moody's end of Q2 2023.

On the next page, we are now coming to the outlook for Covestro for 2024. We confirm our EBITDA guidance for fiscal 2024, assuming that the rather slow development of the economy will prevail in Q2. We are expecting the EBITDA for fiscal 2024 to come out between EUR 1 billion and EUR 1.6 billion. The mark-to-market EBITDA is calculated at around EUR 1.2 billion based on April 2024 margins, flat forward and our current budget assumptions for 2024. This is a EUR 0.1 billion increase compared to January, driven by slightly improved margins. Many of you have remarked the missing mid-cycle numbers on this chart.

Let me be very clear. We remain committed to our mid-cycle EBITDA concept with a mid-cycle level as indicated by the blue line. Our mid-cycle is also supposed to steadily increase based on capacity additions and the shift of commodities to our downstream businesses and Solutions & Specialties. We gave you 2 examples for both segments at the beginning of this presentation. We are confident that we would achieve an EBITDA of EUR 2.8 billion in 2024 under normal economic conditions.

Just a few words to the global demand outlook, which we are usually showing on a separate slide. The market outlook on global GDP is still around 2.5% and the outlook for our core industries is mostly unchanged versus our February call. Given the minor movement in the industry outlook, we are skipping the comprehensive discussion in the specific slide here.

Let me now focus on the additional guidance elements. Also here, the fiscal year outlook is unchanged. The free operating cash flow is forecast to come out at EUR 0 million to EUR 300 million. The ROCE above WACC is expected at minus 2 to minus 7 percentage points and the greenhouse gas emissions in Scope 1 and 2 are estimated to be between 4.4 million and 5 million tons.

In Q2 2024, we expect an EBITDA between EUR 270 million and EUR 370 million. The strong volume growth we have seen in Q1 continued in April. However, margins remain on a rather low level, which is expected to lead to a quite negative year-on-year pricing delta in Q2.

For the full year 2024, we remain confident about a high single-digit percent volume improvement. However, we expect that lower selling prices will counterbalance the volume expansion in sales. Therefore, we expect sales between EUR 14 billion and EUR 15 billion.

As you have seen already, we are quite focused on the CapEx budget of around EUR 800 million. With our maintenance CapEx, we are strengthening the reliability of our assets, especially in Performance Materials. The expansion CapEx of around EUR 300 million is mainly dedicated to strategic expansion projects like the new copolymer plant in Antwerp for the business entity engineering plastics.

And with that, back to Markus.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Thank you, Christian. So let me quickly summarize. We have seen a strong volume increase by 11%, and that was driven by higher demand and improved internal availability. Our sales decreased to EUR 3.5 billion, and that was caused by lower prices and unfavorable currency effects, while volumes increased. EBITDA first quarter (corrected by company after the call) 2024 of EUR 273 million was close to the upper end of the guidance range and was burdened by negative pricing delta and currency effects. Seasonally, we saw solid free operating cash flow of minus EUR 129 million, and that was supported by successful CapEx and working capital management. And last but not least, full year 2024 guidance is confirmed with an expected EBITDA of EUR 1 billion to EUR 1.6 billion.

And now Christian and myself are happy to answer any questions that remained open. With that, I hand it over to Carsten, who will guide us through the Q&A session.

QUESTIONS AND ANSWERS

Operator

Thanks, Markus. (Operator Instructions) The first question comes from Christian Faitz from Kepler Cheuvreux.

Christian Faitz ***Kepler Cheuvreux, Research Division - Co-Head of Chemicals***

Yes. My first question Ronald and team. Two questions, if I may. First of all, can you elucidate a bit the Q2 trends you are currently seeing? I appreciate the EBITDA guidance. I appreciate your comments overall, but you did mention that in Q1, you did see automotive, furniture coming back a little bit. Do you see that continuing into April, May? I mean, you must have an order visibility of something like 3, 4 weeks, at least at the moment.

And then the second question would be more on the supply side/pricing. There's quite a few outages by your peers lately on the MDI side, for example. Would that give you some muscle flex on increasing your own prices? Because I mean, typically, when I look at your historical development, you see volumes coming back and then eventually 2, 3 quarters later prices coming in. We are looking now at the most likely, second, third positive volume quarter. So shouldn't pricing be back on track at some point during the course of this year?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes, thanks a lot. Christian, a very warm welcome also personally here from my side. On the first topic, we assume high single-digit % volume growth year-over-year in the second quarter, and that should also allow for a low -single-digit quarter-on-quarter increase so we see that the trend continues. You were asking specifically for automotive and furniture. Maybe a bit of history, last year, automotive was up by, I think, more than 10% or exactly on 10% for the entire year. And that's why the mid-single-digit growth rate in the first quarter for auto is not actually a real slowdown.

It's just that we have now worked through the order books, and that's why I would say we see a bit more normalized levels on auto plus what is maybe negatively impacting auto that we see in Europe as well as the U.S., quite significant decline in new EV systems. Yes. So that's one of the key issues.

The market segment is still small, but it has an impact on the overall auto sales. So I expect, however, that the automotive sales will continue also in the second quarter to be in that range, so around the mid-single-digit growth rates. For furniture, it's a slightly mixed picture year, I think we might also see continued positive growth.

On the other hand, China seems to be in that particular segment currently taking a quick break. So I have no real assessment how that would maybe impact the global picture. But I'm still - given the overall numbers -positive that also furniture will show year-over-year and to a slightly smaller extent quarter-over-quarter positive growth.

You asked on MDI here. As you said, some smaller outages, but nothing big. So if there is tactically one or the other smaller market where due to short-term supply issues, we might have the chance to grasp some business and then maybe also gain here and there some more value from customers that remains to be seen.

But we also have to take into consideration that the increasing prices in the market are partly also driven by higher raw material cost. So yes, long story short, I would not say that from an MDI market perspective, we are currently already at a point where the market would switch from a buyer's market to a seller's market. So it could only from my perspective, to theexpected anecdotal evidence that we here and there gain a bit more on the price front.

So all in, PM margins are expected to slightly improve for the second quarter. However, S&S margins facing a slight or a bit downward pressure. And as we also stated during our presentation, here we normally have contracts, let's say, 8, 10, even 3 months valid -- sorry, 10 to 12 weeks, 3 months validity that makes price increases for the second quarter on average, a bit more difficult than in the PM sector. So long story short, PM margin is a bit up, S&S margins for the second quarter maybe a little bit under pressure.

Operator

The next question comes from Geoff Haire from UBS.

Geoffrey Robert Haire ***UBS Investment Bank, Research Division - MD and Equity Research Analyst***

I just wanted to ask if you could help us with the volume growth that you achieved in Q1. Could you strip out what the impact of the ramp-up in the Dormagen and Krefeld sites were both in at the group level and at the Performance Materials level?

And the second question I have is that Markus, I think last year, you said that given where capacity utilization is, if you got back to sort of historically high levels, that would give you an extra EUR 1 billion of EBITDA given the growth that you've got in Q1 and probably the growth that you would hope to get in Q2. Why are you not looking at higher guidance? I was wondering whether you could explain what the offsets are, maybe that's raw materials, but it's just helpful to understand your guidance for Q2.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Geoff, also a very warm welcome from my side. So I would say that the volume growth has, I mean, stemming from the availability of our plants in Krefeld as well as Uerdingen in particular, chlorine availability should have on a group level, 3 percentage points -- 3 to 5 percentage points positive impact. So if you then boil it down to PM, which represents half our total volume, a bit more, then you should end up with a high single digit for Performance Materials. So does that make sense? So 3 to 5 percentage points group level, high single digit on Performance Materials.

Yes. On the second part, I see Christian is preparing himself.

Christian Baier ***Covestro AG - CFO & Member of Management Board***

Yes, very happy also to answer that with respect to why the guidance from your perspective is moderate on Q2. I think there is probably 2 elements. If you look at it from a quarter-over-quarter perspective, we continue to see some positive volume development there. Obviously, seasonally driven. And as Markus stated, also year-over-year, we are expecting a high single-digit volume increase also for Q2. Nevertheless, when you look from a year-over-year perspective, there is quite some pricing delta, which we would expect still to be negative between Q2 2024 and Q2 2023 which is then being offset by the positive elements from the high single-digit volume increases. So that broadly gives you the perspective bridging from the last year's Q2 number of EUR 385 million to the now midpoint of our guidance range for the Q2 2024 of EUR 320 million with a little bit of a position in the other segment of a bit of phasing around mid-double-digit amount. So that brings you to that level.

So strong confidence with respect to the volume improvement and still when we look back at the year '23, margins started in Q1 and Q2 of '23 stronger than we see right now. But obviously, we are offsetting that with significantly higher volumes that we are producing and selling.

Operator

And the next question comes from Chetan Udeshi from JPMorgan.

Chetan Udeshi ***JPMorgan Chase & Co, Research Division - Research Analyst***

First, slightly more technical question, maybe for Christian. I'm looking at Slide #11 which shows your net debt bridge. And you've got this EUR 98 million of other increase, it seems it's mainly driven by leases.

Can you talk about what's going on with the leases because it seems like it's more just a transfer of CapEx into leases, which reduces CapEx but maybe increases your leverage? And what impact should we think in terms of these increases in leases on your annual cash lease out payments? And should we think about this lease increases something that will continue over the course of this year?

The second question I had was, can you talk about what is happening a bit in China because we've seen prices go up, go down and then up again, from a demand perspective, are things on a steady sort of footing and improving? Or you still see a lot of choppiness and maybe even some weakness in China in the last month or so as sort of prices would suggest?

Christian Baier ***Covestro AG - CFO & Member of Management Board***

Yes. Thank you, Chetan, for your questions. And I will address the first one and will hand over to Markus for China. With respect to the net debt position that you are referring to on Page 11. We have had historically always a portion of leases basically in the net debt number. If you think about the EUR 2.7 billion of financial debt, there is about around EUR 800 million in there of old leases. So existing, for example, CO supplies that are basically being accounted for in our balance sheet.

These are elements that are continuously flowing through. There was usually not any big trend and any big changes or additions. In this year of '24 there is a couple of prolongations, which are basically then adding to the lease liability. However, over the longer-term trend, there is no significant changes, and therefore, also with respect to cash out from those perspectives, nothing relevant to write home about. And therefore, I think our net debt should be looked at as it is here. At some point, there will be an addition. At some point, there will be a reduction, but across the years should be pretty stable.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Chetan, warm welcome from my side as well. Thanks for your questions. So on China, I had the pleasure to visit China twice in the last 2 weeks. And the picture I took away is that the overall Chinese market in many industries, including ours, is still described best, I think, by overcapacities. And those overcapacities leading to a bit more fierce competition. And at the same time, to ambitions to export from

China into other regions, especially overseas, that means Mexico, U.S., parts of Europe, Middle East and so on and so forth. So long story short. There is from my perspective, for the products that we are selling still a stable demand. That's how would this steady demand.

But we see that some competitors, and I take as an example, anecdotally, Wanhua. They just announced the technical completion of an MDI expansion. So that drives a bitthe perception in the market about volatility on the supply side, and that leads sometimes to a bit more speculative behavior of buyers in the market even though demand is steady. Some people buy a bit more, buy a bit less. There's a lot of trading involved, et cetera, and that leads to the pricing picture that we're currently seeing, which looks more volatile than the fundamental and underlying demand would suggest. So from that perspective, that's how I would currently assess the situation.

Operator

And the next question comes from Jaideep Pandya from On Field Research.

Jaideep Pandya ***On Field Investment Research LLP - Analyst***

Yes. I have 3 questions. Firstly, on the competitive landscape. Markus, we have seen a gradual increase in the nameplate sort of capacity on a per plant basis, in terms of the train size in MDI, I mean, 600kt is norm these days for Wanhua. They've just announced TDI capacity expansion as well, which is now 320 kt. And remember, when BASF have had the plant of 300 kt in Germany this was supposed to be the biggest plant. So as the nameplate capacity on a per plant basis increases, how do you see the competitive landscape especially when you always say you're the best in the cost curve point of view. And sort of tied to that is like when you think about expansion, should we also think that you will go for these bigger trains? That's my first question.

The second question and I won't bother you on Adnoc. But I just want to understand what's happening sort of at your Board level and in terms of your conversations with shareholders because a lot has changed from September to now in terms of your underlying earnings power. So when you're discussing with shareholders like what's been sort of the feedback because I suppose it is if I may say so a bit of a frustrating situation. And obviously, they're involved in other deals like OMV or so. Is there an element of frustration creeping in from the Board or from your shareholder community in this matter?

And lastly, on your Capital Markets Day, and I don't want to take the sort of topics away from the CMD. But obviously, you have one clear target on the S&S division of 17% margin, and you're meaningfully behind that. So is there some background work done in this regard, which you're going to share with us? Because I guess the EUR 2.8 billion target, probably you will revise that based on the market conditions.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Yes, Jaideep, thanks a lot. Let's talk first about the competitive landscape. If you look at new investments, scale is only 1 point in assessing the cost per ton. We also run world-scale capacities in MDI 600 kt because you don't only have to build it and design it like this by nameplate, but you can also which we do with smart expansion, get from a 500 conceptual plant with smart investments throughout a few years to a 600 kt plant and 600 kt seems to be currently the sweet spot from which onwards, then the economies of scale turn around into complexity costs and things like that.

So we are, in that sense, still extremely competitive. And that's why we are not concerned about another competitor building now nameplate for 600 kt from the scratch or 320 kt in TDI because nameplate is one thing. The technology behind it, for example, gas-phase phosgenation for TDI oradiabatic processes for MDI, which we have in our portfolio and our protected IP make a significantly higher contribution to the effectiveness and efficiency of the cash cost than the pure nameplate capacity in itself.

And therefore, we do not only believe but we have, from our perspective, at least solid data based on internal and external assessments that we have the best-in-class process technology and also, therefore, very competitive assets despite higher or higher slightly creeping increased initial capacity on the nameplate side.

So overall, we assume that Wanhua and Covestro have a broadly similar cost structure. On Adnoc, well, if you ask me for my personal feelings, there is no frustration simply because I'm not paid for frustration. I'm paid for having open minded, faithful conversations in the best interest of our shareholders, the company and other stakeholders and to make sure that we have constructive discussions.

That's exactly what I'm doing and what the entire Board of Management is doing. So I would also not like to speculate on our shareholder basis and their particular feelings. For sure, if you listen to one or the other share- and stakeholder, they might raise some of their views and some of their views might also represent frustrating feelings. But once again, I'm not in a position to represent any single shareholder here and saying, well, this shareholder or that shareholder or the majority or the minority is frustrated.

So please understand that this is also currently everything that I can share with regards to the ongoing constructive open-minded and faithful discussions with Adnoc. On Capital Markets Day, I think we will not talk about the content today. We plan to provide you a strategic update. But historically, we did not plan, and that is also, from our perspective, not the case for the next Capital Markets Day, big announcement because that was always what we also historically didn´t. We just engaged in more in-depth discussion during the Capital Markets Day on specific topics, but not necessarily on big announcements.

Jaideep Pandya ***On Field Investment Research LLP - Analyst***

Just if I may follow up to your point about frustration. You are not being frustrated. Is there legally any time frame for this open-ended discussions? Or is this something that could go on for 2 years and you are doing business as usual?

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Well, there´s a couple of things in your questions. First and foremost, there is no timeline that limits us in any way at the current stage. Secondly, I think I said it during the AGM, but I also said it in different context, when asked, I mean, we also have to be clear that I think it is in no one´s interest to drag on forever with these discussions, to be also clear. What was the third part of your question, sorry, no, that´s it.

Jaideep Pandya ***On Field Investment Research LLP - Analyst***

Good luck with the discussions.

Operator

The next question comes from Sebastian Bray from Berenberg.

Sebastian Bray ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Could I focus first on trading? Is there anything in particular that would make April an exceptionally good or bad month by Covestro standards? And what I´m trying to get at here is, is it a prudent assumption simply to take April margins and transpose to the rest of the year? Or is there some exceptional factor, be it struggling to recover higher benzene prices or something else that would make it different? Or perhaps to put up a question differently? Was April better than May? Was April better than March? Both in volume and order book in margin terms or were the 2 months roughly comparable.

My second question is on tax effects. Tax rate has remained quite high because of the inability to recover tax losses in Germany, whilst at the operations there are loss making. Can I just confirm this tax credit never expires. So Covestro can make it back whenever it likes. And what is the current value of these deferred tax losses in Germany that can be used later? I don´t believe it´s disclosed in the quarterly report. Apologies if I missed it. Thank you.

Christian Baier ***Covestro AG - CFO & Member of Management Board***

Thank you, Sebastian, for your question. With respect to the trading specificity, we are seeing the same trends from that perspective between March and April. So there is insignificant improvements from March to April. But therefore, you see the volume development as well as some progress in the way that Markus described before on PM margins and on the other hand, a little bit of headwind from an S&S perspective.

On the quarterly guidance that we have given the EUR 270 million to EUR 370 million: That basically entails exactly that perspective of that growth, high single-digit growth on the one hand on year-over-year and on the other hand, negative pricing delta. So we look at that and we have not seen any relevant change of play during April, and we do not foresee that for the remainder of the quarter according to our data at this very moment.

With respect to the topic of the tax situation, absolutely correct with respect to the expiration for the German tax credits, basically, there is no expiration date that is out there. We currently have about EUR 3.6 billion of tax-loss-carry-forward out of which EUR 3.1 billion is coming from Germany. They are not expiring. The other bigger part is coming from Switzerland to the tune of around EUR 350 million. They do expire after a couple of years, but the German ones remain there, and we are certainly focusing on bringing forward also our setup in Germany in order to ensure that over time, we also do benefit again from those tax-losses-carry-forwards that will be positioned also forward into the future and can then be used for cash benefit on the tax line.

Sebastian Bray ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

So can I just follow up on this EUR 3.6 billion. So the company has tax-loss-carry-forwards, currently equal to close to 30% of its market cap. And it is quite a -- can you do something a little bit relatively quickly or how -- when does this become cash? Do you just pay 0% tax once the profitability returns for 10 years? Or how does it work?

Christian Baier ***Covestro AG - CFO & Member of Management Board***

Well, we can certainly deep dive on the mechanics there. I think it's very, very important that the gross number is not the relevant one to look at. It's basically then the tax benefit that would be coming from that gross number. And if you would basically discount it and apply the tax rate, we are talking rather in the low-to-mid-triple-digit million tax benefit that could be usable over the future. And with respect to the timing of that, that very much depends on the recovery and the development of the German asset footprint that we are bringing forward also with investments.

And the good thing is, on the one hand, they are not expiring these tax losses. The other thing is we are certainly impatient ensuring that we are using them as early as possible in line with our strategy.

Operator

The next question comes from Matthew Yates from Bank of America.

Matthew Yates ***BofA Securities, Research Division - Director in Equity Research and Head of European Chemicals Research***

A couple of questions, please. Firstly, just around how you're dealing with the volatility in benzene pricing, is that eroding any attempts to increase MDI prices you're putting through and offsetting the volume recovery. If hypothetically benzene prices were to go down over the coming months, do you think the market is in a tight enough position that you could hold on to some of that benefit in your own pricing?

And then the second question, I wanted to just ask a little bit about the business case for your TDI investment you talked about at the beginning of the call. These days, we tend to hear much more about chemical closures in Germany rather than companies investing fresh capital in their assets.

This debottlenecking will obviously give you more capacity. And I don't know if that was motivated by BASF's retreat from the market. But why would you not think that just gets filled by imports given I think we also spoke on this call about some of the expansions Wanhua is making. So just curious to hear a little bit more about the business case around that TDI investment.

Markus Steilemann ***Covestro AG - CEO & Chairman of Management Board***

Matthew, on your first question on the benzene prices impacting MDI prices. You could imagine or take the picture of a cork swimming off the surface of an ocean. The waves going up and down, representing the benzene prices and the cork more or less is just sometimes dipping a little bit in, but then popping up a little bit. But in general terms, at a given supply-demand situation, actually, the MDI prices are swimming on the benzene prices. That's how you could see it. That means if benzene prices are going lower, you might gain 1 to 2 weeks where you could gain a bit more in MDI prices. But then the market is following, and MDI prices are going down, back to the margins that you expect for a respective utilization rate and supply-demand ratio. So from that perspective, the opposite side, benzene price is going up, it takes you a couple of weeks to bring MDI prices up. That means you have short-term squeeze margins. But then things are, once again, back to the normal margin pattern you would expect for that particular supply-demand situation.

Second effect, if you have benzene prices going up, it takes normally 1 to 2 months as they're running through our books from the raw material purchase into the bill of materials and so on and so forth, and then finally into the finished goods. That means if benzene prices are going down, there might be some benefits, for example, in the third quarter. But once again, it depends then midterm, midterm means in a couple of weeks, always on the supply-demand balance that you have at that current point in time.

On TDI, there are only 2 plants remaining in Europe. We are, by far, the cost leader. And given that cost-leading position, which we - with this investment even further improving, we have significantly lower cost compared to landed cost for imported material even from highly cost-efficient plants in Asia Pacific.

And that is the reason that with local TDI plants at the cost position we have, we are even globally competitive against any import that comes from overseas.

Operator

This have been all of today's questions. With that, handing back to Ronald.

Ronald Koehler ***Covestro AG - Head of IR***

Thank you, Carsten. And yes, if you have further questions, don't hesitate to come back to the IR team. And before concluding the earnings call, I also would like to make you aware of our Capital Markets Day, which we highlighted already this morning, and you will get an invitation later today as well, 27th of June '24 in Leverkusen, showcasing obviously here also some production areas and so on.

And also just to make you aware, I mean that Capital Markets Day for us is rather business as usual. And you should not try to read anything into it. It is obviously a regular event we typically did. With the corona crisis, so to say, there was a break. But of course, we want to come back to a more regular update for you guys here.

And with that, I conclude the Covestro earnings call and see you then at Capital Markets Day or after or in between. See you. Bye-bye.