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S&P Global Ratings

Adama Agricultural Solutions Ltd.

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Adama Agricultural Solutions Ltd.

Issuer Credit Affirmed	ilAA-/Stable/ilA-1+

Overview

Key Strengths	Key Risks
• Leading producer of off-patent crop-protection products and good (No. 7) market position in the global crop protection products market. • Proven track record in new product development, registration expertise in over 100 countries, and a wide distribution network. • Highly diverse customer base and good geographic spread in both mature and growth markets. • Financial flexibility supported by well-spread maturities and long-term committed credit facilities.	• Inherent volatility in earnings due to weather-related event risks, agricultural commodity products' cyclical price patterns, government policies, and foreign exchange rate movements. • Elevated leverage following investments in operating capital and capital spending (capex). • Cash flow swings, reflecting high working capital seasonality and volatile raw material costs. • The crop protection market is competitive and fragmented, which may impact Adama's pricing ability.

Adama Agricultural Solutions credit metrics weakened in 2022, despite robust revenue growth due to increased capital spending and elevated working capital requirements. Adama delivered strong performance and increased its market share in 2022, with revenue of about $4.9 billion--an increase of 12% compared with 2021, driven by a 16% increase in prices--and S&P Global Ratings-adjusted EBITDA of $550 million. Even so, S&P Global Ratings-adjusted leverage increased to 4.4x in 2022, compared with 3.6x in 2021. The elevated leverage resulted from free operating cash flow (FOCF) turning substantially negative in 2022 and leading to lower cash balances. FOCF generation was negatively impacted by high working capital needs, stemming from input cost inflation and increased inventory levels to support business growth and market share gains. These were partly offset by a continued improvement in the collection of receivables, notable in the context of an increasing market share.

In addition, the company's capital spending increased further in 2022, to about $330 million (including investments in intangible assets) from roughly $310 million in 2021, which is elevated compared with $200 million, on average, between 2017-2020. Concurrently, the company increased the utilization of its securitization facilities, which we include in our calculation of debt. Finally, despite record revenue

in 2022, higher raw material prices and supply chain constraints, which translated into higher transportation and logistics costs, led to adjusted EBITDA margin contracting to 11.2% in 2022 from 12.1% in 2021.

We forecast modest deleveraging in 2023, due to our expectation of improved cash generation. Specifically, we project Adama's adjusted debt to EBITDA at about 4.0x in 2023, down from 4.4x in 2022, will be supported by a moderate reduction in capital spending and a working capital inflow, more than offsetting the impact of normalizing prices and our expectation of lower crop protection deliveries on profitability. We understand that inventory levels remain elevated across the value chain, which, in conjunction with normalizing crop protection prices, may lead farmers to postpone purchases in the first half of 2023, leading to top-line pressure and delaying the deleveraging prospects. Meanwhile, we forecast profitability to remain resilient as input cost pressures gradually abate. As such, we anticipate a gradual reduction of adjusted debt to EBITDA to about 4.0x--a level we view commensurate with the rating--toward the end of 2023.

We anticipate that Adama’s capital spending will reduce to about $260 million-$280 million in 2023 from roughly $330 million in 2022, leading to FOCF of $120 million-$130 million. We estimate a working capital inflow of about $50 million-$55 million in 2023. This is due to an anticipated slowdown in demand, management’s actions to optimize inventory levels, our expectation that lower feedstock costs will decrease the cost of inventory and improving farmers' affordability will continue to support collections, leading to less capital tied into accounts receivable. Finally, we do not expect Adama to distribute dividends (apart from those paid to non-controlling interests), resulting in discretionary cash flow (DCF) of approximately $120 million, supporting net debt reduction.

We consider Adama to be a moderately strategic subsidiary of Syngenta Group. Adama’s rating reflects both its stand-alone credit profile (SACP) and its relationship with Syngenta Group. As such, our issuer credit rating on the company factors in potential for extraordinary support from its intermediate parent.

While this possible support has currently no impact on our credit rating on Adama, we note that--given the elevated leverage and diminishing headroom under the SACP--the credit rating could benefit from the company's relationship to Syngenta Group if its SACP deteriorates by one notch, all else being equal. The rating on Adama could be up to one notch above its SACP, subject to a cap of one notch below the SACP (bb+) of its intermediate parent. Given the current Israeli regulatory framework, we do not expect parent company Syngenta Group to intervene in a way that would jeopardize Adama's creditworthiness.

Outlook

The stable outlook reflects our view that Adama's operating performance will remain resilient in 2023. We expect our adjusted debt-to-EBITDA ratio to improve to about 4.0x in 2023 from 4.4x in 2022, at the higher end of the 2.0x-4.0x range we see as commensurate with the rating. In our base case, we forecast adjusted EBITDA of about $540 million in 2023, factoring in weakening demand and normalizing prices, partly offset by lower feedstock costs.

We anticipate that Adama will maintain its large customer base and its leading position in the off-patented crop protection products market. It will do this by continuing to develop new, differentiated products, quickly registering product rights, and maintaining wide distribution channels.

Downside Scenario

We could revise down our view of Adama's SACP if its credit metrics, EBITDA margin, and FOCF seem likely to deteriorate versus our base case over the next 12 months. This could occur if:

- The company's adjusted debt to EBITDA remained above 4.0x;
- FOCF remained negative, without near-term prospects of recovery;
- The company made material debt-funded acquisitions or aggressively distributed dividends; or
- Commodity prices sharply increased from their current level, without the company being able to pass these costs through to its customers, which would erode earnings.

We may also consider lowering our rating on Adama if Syngenta Group's SACP materially deteriorates, such that the supportive Israeli regulatory framework does not mitigate the impact.

Upside Scenario

We could raise our rating on the company if financial risk improves, such that Adama's adjusted debt to EBITDA ratio is consistently below 2.0x, its adjusted free cash flow-to-debt ratio is about 25%, and the company consistently and robustly generates positive FOCF. A positive rating action would also depend on maintaining the current business risk and at least adequate liquidity, and is subject to our view of Syngenta Group's ability or willingness to extend extraordinary support.

Base Case Scenario

Key Assumptions

- About 4%-5% revenue decrease in 2023, mainly driven by lower sales volumes. In 2024-2025, we assume moderate revenue growth of about 3% per year.
- Adjusted EBITDA margin of 11.0%-12.0% in 2023. We assume margins will improve further in 2024-2025 to approximately 12.0%. This is due to our expectation that feedstock costs will

decrease compared with 2022, and operating expenses such as logistic costs will normalize, more than offsetting wage cost inflation.

- Adjusted EBITDA of about $540 million in 2023 and about $560 million-$570 million in 2024, from $550 million in 2021.
- Capex of about $250 million-$280 million per year in 2023-2024, compared with $330 million in 2022.
- Working capital inflow of $50 million-$55 million in 2023, due to the forecast slowdown in revenue decline, followed by outflows of $70 million-$80 million in 2024.
- No material dividend distributions and debt-funded acquisitions in 2023-2024.

Key Metrics

	2021a	2022a	2023e	2024f
EBITDA margin (%)	12.1	11.2	11-12	11-12
Debt/EBITDA (x)	3.6	4.4	3.9-4.1	3.6-4.0
FFO/debt (%)	19.7	13.5	13-17	15-20

a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations.

Base Case Projections

We anticipate that Adama's sales will decrease by 4%-5% in 2023, compared with to the record levels seen in 2022. Specifically, we expect that sales volumes will remain subdued in the first half 2023, as inventory levels remain elevated across the value chain and farmers in certain regions may postpone purchases in anticipation of declining prices. That said, we believe that favorable farm economics will support pricing. In addition, we expect EBITDA margin to improve as input costs--notably raw materials, shipping, and logistics--normalize further.

We forecast that Adama will report positive FOCF in 2023. We expect cash generation to improve as working capital outflows moderate in line with softening demand and input cost prices abating, while capex needs normalize from the elevated levels of 2022.

Company Description

Adama Agricultural Solutions Ltd. operates in the agrochemical industry. The company develops, produces, and markets off-patented, but license-requiring crop protection products. Adama sells its products in about 100 countries through 60 subsidiaries around the world. Adama Agricultural Solutions Ltd. is fully owned by Adama Ltd., a company traded on the Shenzhen stock exchange. In

June 2020, Adama Group became a distinctive member of the newly established Syngenta Group Co. Ltd. (BBB+/Stable/--). The Syngenta Group is a world leader in agricultural inputs, spanning crop protection, seeds, fertilizers, and additional agricultural and digital technologies. Syngenta Group is part of China National Chemical Corporation Ltd. (ChemChina, A-/Stable/--), which is held by Sinochem Holdings Co., Ltd. and ultimately owned by the Chinese government.

Business Risk Profile

Our view on Adama's business risk is underpinned by its robust market share in the global agrochemical industry. The company is the seventh largest in this industry in terms of revenue, and a leader among companies that focus on off-patent products. Adama's revenue base and products are concentrated in the crop protection segment. We anticipate that the agrochemical industry in general, and the crop protection product market in particular, will continue to display favorable growth prospects in the medium to long term, supporting Adama's credit quality. This is because the agrochemical industry benefits from demand supported by long-term demographic trends and by changes to nutrition habits. These lead to intensive use of crop protection products to increase land yield.

The industry is characterized by high barriers to entry based on strict product licensing and regulatory requirements. Crop protection products are sold under state authority supervision in each country. Strict licensing requirements make it difficult for new companies to enter the industry, which supports Adama's credit quality as it improves the resilience of earnings. The company also benefits from its global marketing and distribution capabilities, which enable a wide geographic spread of sales and limits Adama's dependence in any single market.

We regard Adama's fairly narrow end-market diversity as the main rating constraint. The company operates in the cyclical and competitive crop protection market, from which it derives about 95% of its revenue. The cyclical and seasonal nature of the agrochemical industry affects the company's credit quality, in our view, because it reduces earnings quality and predictability. Sales change with agricultural seasons and with yield cyclicity. Volatility in farmers' revenue and their decision to purchase crop protection products are affected by changes in agricultural product prices. The company is exposed to weather changes, as its products target the agricultural market such that extreme weather conditions and natural catastrophes (floods, frost, and drought) directly affect demand.

Adama's raw materials are third- or fourth-order oil derivatives. As such, the company is exposed to increases in the price of raw materials, especially oil prices, and increases in oil prices and energy costs may weaken its profitability, albeit with a time lag. The high degree of competition means that

Adama is only partly able to adjust product prices to raw material prices and thus limit the decline in profitability when raw material prices are on the rise. Several leading global companies operate in the crop protection product industry, some of which have become even stronger in recent years following consolidation processes. These companies have substantial financial resources that they invest, among other things, in research and development.

Financial Risk Profile

Our assessment of Adama's financial risk reflects our expectation that its adjusted debt to EBITDA will improve to about 4.0x, and FOCF to debt will recover to above 5% in 2023. Its credit metrics weakened in 2022, following the substantial FOCF outflow, which lead to an increase in net debt. We forecast that debt to EBITDA will recover to the high end of the 2.0x-4.0x range in 2023, and we believe that Adama can sustain rating commensurate credit metrics.

Our financial risk assessment is mainly constrained by Adama's volatile FOCF, predominantly owing to the cyclicality of its working capital, which can lead to large cash outflows. For example, in 2019 and 2022, the company reported negative FOCF as its cash from operations (before changes in working capital) were more than offset by the approximately $500 million in 2019 and $380 million in 2022 use of cash, owing to working capital needs.

The company is exposed to exchange rate fluctuations, which affect the volatility of financial ratios. Adama publishes its statements in U.S. dollars, while its operations and obligations also use other currencies, such as euro, new Israeli shekel, and Brazilian real. The company uses hedging instruments that mitigate this exposure.

Table 1.

ADAMA Agricultural Solutions Ltd. – Financial Summary (Mil. $)

Industry Sector: Chemical Cos

	2022	2021	2020	2019	2018
Revenue	4,925.2	4,384.2	3,867.9	3,679.2	3,535.7
EBITDA	549.7	529.1	523.7	595.2	554.9
Funds from operations (FFO)	326.3	379.1	388.4	423.3	400.3
Interest expense	172.5	137.6	102.9	121.1	106.1
Cash interest paid	118.0	99.9	93.2	92.1	79.8
Working capital changes	(381.1)	136.5	(286.9)	(510.5)	(162.7)
Cash flow from operations	(140.7)	512.0	146.5	(50.9)	90.0
Capital expenditure	329.9	311.9	205.5	192.6	176.7
Free operating cash flow (FOCF)	(470.6)	200.1	(59.1)	(243.6)	(86.7)
Dividends paid	7.2	6.6	5.0	6.3	4.4
Discretionary cash flow (DCF)	(477.8)	193.6	(64.1)	(249.9)	(91.1)
Cash and short-term investments	531.5	823.0	348.3	379.0	594.0

	2022	2021	2020	2019	2018
Gross available cash	531.5	823.0	348.3	379.0	594.0
Debt	2,425.6	1,923.8	1,934.6	1,694.9	1,182.5
Equity	2,451.4	2,480.6	2,446.3	2,382.5	2,266.2
Adjusted ratios					
Annual revenue growth (%)	12.3	13.3	5.1	4.1	12.7
EBITDA margin (%)	11.2	12.1	13.5	16.2	15.7
Return on capital (%)	7.3	6.5	6.6	9.8	10.6
EBITDA interest coverage (x)	3.2	3.8	5.1	4.9	5.2
FFO cash interest coverage (x)	3.8	4.8	5.2	5.6	6.0
Debt/EBITDA (x)	4.4	3.6	3.7	2.8	2.1
FFO/debt (%)	13.5	19.7	20.1	25.0	33.8
Cash flow from operations/debt (%)	(5.8)	26.6	7.6	(3.0)	7.6
FOCF/debt (%)	(19.4)	10.4	(3.1)	(14.4)	(7.3)
DCF/debt (%)	(19.7)	10.1	(3.3)	(14.7)	(7.7)

Liquidity

We assess Adama's liquidity as adequate. We forecast that liquidity sources will cover uses by more than 1.9x over the 12 months from Jan. 1, 2023. The company's liquidity is underpinned by adequate long-term committed credit facilities and cash on hand compared with maturities.

We cap our liquidity assessment at adequate, because we do not see enough of a track record, or a commitment from the parent company, to maintain strong liquidity under more adverse cyclical conditions.

Adama's principal sources and uses for the period starting Jan. 1, 2023, are:

Principal Liquidity Sources	Principal Liquidity Uses
• About $530 million in cash and cash equivalents. • About $400 million in available committed credit facilities. • Our estimation of about $320 million in funds from operations in 2023. • A working capital inflow of $50 million-$55 million.	• Ongoing maturities on bonds and short- and long-term bank loans of about $205 million. • Capex of about $260 million-$280 million. • Seasonal working capital needs of about $200 million.

Covenant Analysis

Adama has several covenants regarding bank loans and a securitization transaction. As of March 31, 2023, the company had sufficient headroom on its financial covenants, and we estimate that it will maintain sufficient headroom in the short term.

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Neutral (no impact)
- Comparable ratings analysis: Neutral (no impact)

Group Influence

Our rating on Adama Agricultural Solutions reflects both its SACP and its relationship with Syngenta Group.

We believe Adama Agricultural Solutions remains moderately strategically important to its intermediate parent, Syngenta Group. Our rating on Syngenta is underpinned by potential extraordinary support from the Chinese government in times of need, due to Syngenta's strategic importance. Due to this support factor, the rating on Syngenta is higher than its SACP.

However, we do not think that government support for Syngenta will extend to Adama Agricultural Solutions, because the company, along with its immediate parent Adama Ltd., generates a relatively small portion of Syngenta Group's consolidated EBITDA. Therefore, our reference point in rating Adama Agricultural Solutions is Syngenta's SACP. We consider our rating on Adama Agricultural Solutions to be somewhat insulated from Syngenta's SACP, due to regulatory limitations that apply to private companies whose bonds are traded on the Tel Aviv Stock Exchange and that may prevent a negative intervention by Syngenta Group in a way that would jeopardize Adama's SACP. This insulation means that the rating on Adama can be higher than Syngenta Group's SACP by up to two notches.

Environmental, Social, And Governance

ESG Credit Indicators

ESG Credit Indicator	E-3	S-2	G-3
ESG Factor	Waste and pollution	N/A	N/A

N/A – Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary ESG Credit Indicator Definitions And Applications, published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Adama. We see crop protection chemicals as having higher environmental exposure and facing long-term tightening regulations on greenhouse gas (GHG) emissions, storage and use of hazardous materials, soil and water contamination, and discharge of industrial effluents, etc. However, the moderate influence on our analysis reflects our expectation that any transition to greener chlorine will take time and the fact that Adama has already invested in adjusting its facilities to regulations. In addition, we believe crop protection products will remain critical to serve growing global food needs, in particular as companies in this field progressively develop products containing smaller amounts of chemicals, and due to the shift to development and marketing of biological products.

Recovery Analysis

Key analytical factors

- Adama's Series B bonds are rated 'ilAA-', in line with the issuer credit rating. The recovery rating for this series is '3', indicating our expectation of meaningful recovery (50%-70%; rounded estimate: 50%) in a hypothetical default scenario.
- We note that our 50% recovery estimate is at the lower end of the 50%-70% threshold for a meaningful recovery. There is therefore a risk that we could lower the issue rating if, for example, the utilization of the securitization facilities increases, or if our assumptions on the EBITDA at emergence or enterprise value at emergence change.

Simulated default assumptions

- Simulated year of default: 2028
- In our simulated default scenario, we assume that demand for the company's products will deteriorate in the wake of a protracted economic downturn, increased competition, and an increase in raw material prices that the company will not be able to impose on its customers.
- We believe a viable business would remain after a default, so lenders would achieve their highest recovery through a reorganization, rather than liquidation.
- We assume that prior to default, the company will continue to repay part of its financial debt in line with the amortization schedule, owing to its large cash reserves and its ability to generate cash flows.
- We assume the committed credit facilities to be 85% drawn at default.
- The receivables securitization balance will be about $477 million, similarly to its year-end 2022 level, and the company will use 80% of it at default.

Simplified Waterfall

- EBITDA on emergence: about $359 million
- Industry EBITDA multiple: 5.0x
- Gross enterprise value as going concern: about $1.8 billion
- Administrative costs: 5%
- Enterprise value available for primary unsecured debt: about $1.7 billion
- Total primary unsecured debt (including use of committed facilities and receivables securitization): about $852* million
- Enterprise value available for secondary unsecured debt: about $855 million
- Total secondary unsecured debt (including Series B bonds and bank debt): about $1.7 billion
- --Recovery expectations of secondary secured debt: 50%-70%
- --Recovery rating for secondary secured debt (1 to 6): 3

*All debt amounts include six months' prepetition interest.

Mapping Recovery Percentages To Recovery Ratings

Recovery expectations (%)	Description	Recovery rating	Notching above/below issuer rating
100%	Full recovery	1+	+3 notches
90%-100%	Very high recovery	1	+2 notches
70%-90%	Substantial recovery	2	+1 notch
50%-70%	Meaningful recovery	3	0 notches
30%-50%	Average recovery	4	0 notches
10%-30%	Modest recovery	5	-1 notch
0%-10%	Negligible recovery	6	-2 notches

Recovery ratings are capped in certain countries to adjust for reduced creditor recovery prospects in these jurisdictions. Recovery ratings on unsecured debt issues are generally also subject to caps (see Step 6, paragraphs 90-98 of "Recovery Rating Criteria For Speculative-Grade Corporate Issuers," published Dec. 7, 2016, for further detail). ICR--Issuer credit rating.

Reconciliation

In order to create a basis for comparison with other rated companies, we adjust the data reported in the financial statements which we use to calculate financial ratios. Some of the main adjustments we made to Adama Agricultural Solutions Ltd.'s consolidated data for 2022 were:

- Deducting about $400 million of accessible cash and liquid investments from gross debt.
- Adding about $477 million of receivables securitization.
- Adding about $71 million of post-retirement benefits obligations, net of tax.
- Adding about $84 million of reported lease liabilities.

- Adding about $79 million due to put options held by minority shareholders.

Table 2.

ADAMA Agricultural Solutions Ltd.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $) For The Fiscal Year Ended Dec. 31, 2022

ADAMA Agricultural Solutions Ltd. reported amounts

	Debt	EBITDA	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations
Reported	**2,113.1**	**564.0**	**170.9**	**549.7**	**(63.2)**
S&P Global Ratings adjustments					
Cash taxes paid	--	--	--	(105.4)	--
Cash interest paid	--	--	--	(118.0)	--
Trade receivables securitizations	477.0	--	--	--	(78.0)
Reported lease liabilities	83.9	--	--	--	--
Postretirement benefit obligations/deferred compensation	70.9	(8.0)	1.6	--	--
Accessible cash and liquid investments	(398.6)	--	--	--	--
Share-based compensation expense	--	(6.8)	--	--	--
Dividends received from equity investments	--	0.5	--	--	--
Nonoperating income (expense)	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	0.5
Debt: Put options on minority stakes	79.4	--	--	--	--
Total adjustments	**312.6**	**(14.3)**	**1.6**	**(223.4)**	**(77.5)**

S&P Global Ratings adjusted amounts

	Debt	EBITDA	Interest expense	Funds from operations	Cash flow from operations
Adjusted	**2,425.6**	**549.7**	**172.5**	**326.3**	**(140.7)**

Related Criteria And Research

- Principles Of Credit Ratings, February 16, 2011
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, November 13, 2012
- Methodology: Industry Risk, November 19, 2013
- Country Risk Assessment Methodology And Assumptions, November 19, 2013
- Corporate Methodology, November 19, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, December 16, 2014
- Methodology: Jurisdiction Ranking Assessments, January 20, 2016
- Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016

- Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Group Rating Methodology, July 1, 2019
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- S&P Global Ratings Definitions, Nov. 10, 2021

Ratings List

Adama Agricultural Solutions Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
Issuer rating(s)			
Short term	ilA-1+	09/09/2019	01/06/2022
Long term	ilAA-/Stable	27/11/2001	01/06/2022
Issue rating(s)			
Commercial Papers			
Commercial Papers $30 million	ilA-1+	10/12/2019	01/06/2022
Senior Unsecured Debt			
Series B	ilAA-	19/05/2008	01/06/2022
Issuer Credit Rating history			
Long term			
July 01, 2014	ilAA-/Stable		
July 06, 2011	ilA+/Stable		
September 07, 2010	ilAA-/Negative		
June 29, 2010	ilAA-/Watch Neg		
December 03, 2009	ilAA-/Stable		
March 22 ,2009	ilAA/Negative		
December 11, 2008	ilAA/Watch Neg		
November 26, 2006	ilAA/Stable		
May 10 ,2004	ilAA		
November 27, 2001	ilAA-		
Short term			
September 09, 2019	ilA-1+		
Additional details			
Time of the event	24/05/2023 17:35		
Time when the event was learned of	24/05/2023 17:35		
Rating requested by	Issuer		

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