Maalot
S&P Global Ratings

Adama Agricultural Solutions Ltd.

June 17, 2024

Rating Affirmation

‘ilAA-‘ Long Term Credit Rating Affirmed, Outlook Negative; ‘ilA-1+’ Short Term Credit Rating Affirmed

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Overview

Key Strengths	Key Risks
• Leading producer of off-patent crop-protection products and good market position in the global crop protection products market (no. 7). • 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 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 cyclical trough in agrochemicals market, investments in operating and capital expenditure (capex). • Cash flow swings, reflecting high working capital seasonality and volatile raw material costs. • The crop protection market is competitive, which may impact Adama’s pricing ability.

Adama’s credit metrics weakened in 2023, as weak industry conditions weighed on its profitability. S&P Global Ratings-adjusted EBITDA declined to a low $309 million in 2023, from $550 million in 2022, leading to adjusted debt to EBITDA of 7.9x.

This reflects weaker demand for agrochemicals in 2023 owing to prolonged destocking which, coupled with new industry capacity coming online, particularly in China, and the normalization of supply chains has resulted in oversupply and an industry-wide deterioration in operating rates, prices, and margins. In addition, soft demand and high-cost inventories, reflecting the sharp increase in raw material prices in 2022, have weakened Adama’s EBITDA and margins. Adama entered this period of challenging supply and demand fundamentals with a weaker balance sheet owing to increased capex and elevated working capital requirements.

We forecast deleveraging in 2024, amid persistent challenging market conditions, thanks to self-help measures. We project Adama's adjusted debt to EBITDA will be 4.7x-5.4x in 2024, down from 7.9x in 2023. Our base case factors in flat top line growth in 2024, compared to a 15% decline in 2023, driven by a modest rebound in demand offset by persisting low prices due to industry overcapacity. We forecast EBITDA to increase to $450 million-$480 million, still below 2020-2022

profitability. Our expectation of an improvement in profitability mainly hinges on management's turnaround plan, which includes actions to cut costs and shift to higher margin products, along with an improvement in gross profit margins owing to the gradual depletion of higher cost inventory and procurement savings.

We expect market conditions to improve only modestly in 2024 thanks to resilient agricultural demand for crop protection--grain crop consumption is outpacing production and keeping stock-to-use ratios at current lows--and still-reasonable farmer margins. That said, we foresee continuing challenges in market fundamentals, namely a supply surplus and an uncertain pace of stock replenishment. In our base case, we also consider Adama's exposure to the European and Latin American markets (57% of 2023 revenue), where channel inventory remains a risk, partly due to adverse weather conditions in Brazil at the end of 2023 and beginning of 2024. We think competition among agrochemical companies will remain high, further suppressing producers' pricing power. Finally, we factor in high interest rates causing buyers to be cautious and postpone agrochemicals purchases until closer to the application season.

We anticipate that Adama's capex will reduce to about $230 million in 2024 from $300 million in 2023, leading to free operating cash flow (FOCF) of $30 million-$40 million. We do not expect Adama to distribute dividends (apart from those paid to non-controlling interests), resulting in discretionary cash flow (DCF) of approximately $25 million, supporting net debt reduction.

Our issuer credit rating on Adama factors in potential for extraordinary support from Syngenta Group. We use our group rating methodology to assess our rating on Adama, which reflects both its stand-alone credit profile (SACP) and its relationship with Syngenta Group. We assess Adama as a moderately strategic subsidiary of Syngenta Group. As a result, we rate Adama one notch above its SACP due to the potential for extraordinary support from its intermediate parent.

Outlook

The negative outlook indicates that we could lower the ratings if we did not see a recovery in profits and credit metrics in 2024, such that adjusted debt to EBITDA reduces to below 5.0x; or if FOCF turns materially negative. We could also lower our rating on Adama if the creditworthiness of the Syngenta Group deteriorates.

In our base case, we expect EBITDA to partially recover in 2024, mainly thanks to management's actions to cut costs and preserve cash.

Downside Scenario

We could lower our rating on Adama if its credit metrics, EBITDA margin, and FOCF seem unlikely to improve in 2024. This could occur if:

- The company's adjusted debt to EBITDA remained above 5.0x;
- FOCF turned negative, without near-term prospects of a recovery; or
- The company made material debt-funded acquisitions or aggressively distributed dividends.

We could also lower our rating on Adama if the creditworthiness of the Syngenta Group deteriorates.

Upside Scenario

We could revise our outlook to stable if we saw a recovery across the crop protection market leading Adama's credit metrics to improve to levels we see as healthy for its SACP, including adjusted leverage reducing to 4.0x-5.0x.

Base Case Scenario

Key Assumptions

- Revenue to remain broadly stable in 2024 as higher sales volumes offset lower prices. In 2025-2026, we assume moderate revenue growth of 2%-3% per year.
- Adjusted EBITDA margin of about 11% in 2024. We assume margins to improve further in 2024-2025 to approximately 11.5%, mainly due to management’s actions to reduce costs and improve the product sales mix, and pricing actions.
- Adjusted EBITDA of $450 million-$480 million in 2024 and $500 million-$520 million in 2025 and 2026, from $309 million in 2023.
- Capex of about $230 million in 2024, compared with $294 million in 2023.
- Broadly flat working capital in 2024, followed by outflows of $30 million in 2025 and 2026.
- No material dividend distributions and debt-funded acquisitions in 2024-2025.

Key Metrics

	2022a	2023a	2024e	2025f
EBITDA margin (%)	11.2	7.4	11.1	11.5
Debt/EBITDA (x)	4.4	7.9	4.7-5.4	4.5-5.2
FFO/debt (%)	13.5	3.5	11.0-14.0	11.5-14.5

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

Base Case Projections

We anticipate that Adama's sales will remain broadly stable in 2024. Specifically, we expect that sales volumes will rebound modestly in 2024, as farmer fundamentals remain supportive, albeit inventory will remain high in certain regions and farmers may postpone purchases in anticipation of declining prices and interest rates. That said, we believe that prices will continue to decline, driven by overcapacity in the sector and still-high competition among producers. In addition, we expect the EBITDA margin to improve as higher priced inventory typically depletes, thereby improving gross profit margins, with management's actions to reduce costs gradually leading to improving profitability.

We forecast Adama to report positive FOCF in 2024. We expect cash generation to remain positive as capex-related outflows moderate in line with management's focus on preserving cash. We note management's actions to improve the product mix, including increasing focus on on-patent products that include propriety formulations based on off-patent active ingredients that could gradually lead to improved margins and therefore, cash generation.

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 of Adama's business risk is underpinned by its good market share in the global agrochemical industry. The company is the seventh largest 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 crop-protection products 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 regulatory requirements. Crop protection products are sold under state authority supervision in each country. Strict licensing makes it difficult for new companies to enter the industry, which supports Adama's credit quality as it improves its earnings resilience. The company also benefits from its global marketing and distribution capabilities, which enable a wide geographical spread of sales and limits Adama's dependence on any single market.

We regard Adama's fairly narrow product diversity and exposure to a cyclical market as the main rating constraints. 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 agrochemicals 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 decisions to purchase crop protection products are affected by changes in agricultural product prices. The company is exposed to weather changes--extreme weather conditions and natural catastrophes (floods, frost, and drought) directly affect demand.

A major part of Adama's raw materials are third- or fourth-order oil derivatives. As such, the company is exposed to increases in prices, especially oil--increased oil and energy costs can weaken its profitability, albeit with a time lag. High competition means that Adama is only partly able to adjust product prices to raw material prices and thereby limit profitability declines when raw material prices are rising. Several leading global companies operate in the crop protection product industry, some of which have become even stronger in recent years following consolidation. 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 4.7x-5.4x, and FOCF to debt will stay positive in 2024. Its credit metrics weakened in 2023, following the material decline in profitability.

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, it reported negative FOCF as its cash from operations (before changes in working capital) were more than offset by it using $500 million and $380 million in cash, respectively, for working capital needs. Since then, it has focused on reducing its inventory levels and improving its collection days, translating into a material working capital inflow of $227 million in 2023, also reflecting the reduced sales volumes.

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 euros, new Israeli shekels, 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

	2023	2022	2021	2020	2019
Revenue	4,191.8	4,925.2	4,384.2	3,867.9	3,679.2
EBITDA	309.0	549.7	529.1	523.7	595.2
Funds from operations (FFO)	85.9	326.3	379.1	388.4	423.3
Interest expense	198.2	172.5	137.6	102.9	121.1
Cash interest paid	154.5	118.0	99.9	93.2	92.1
Working capital changes	227.1	(381.1)	136.5	(286.9)	(510.5)
Cash flow from operations	329.3	(140.7)	512.0	146.5	(50.9)
Capital expenditure	294.2	329.9	311.9	205.5	192.6
Free operating cash flow (FOCF)	35.1	(470.6)	200.1	(59.1)	(243.6)
Dividends paid	9.2	7.2	6.6	5.0	6.3
Discretionary cash flow (DCF)	25.9	(477.8)	193.6	(64.1)	(249.9)
Cash and short-term investments	632.3	531.5	823.0	348.3	379.0
Gross available cash	632.3	531.5	823.0	348.3	379.0
Debt	2,452.4	2,425.6	1,923.8	1,934.6	1,694.9
Equity	2,236.4	2,451.4	2,480.6	2,446.3	2,382.5
Adjusted ratios					
Annual revenue growth (%)	(14.9)	12.3	13.3	5.1	4.1
EBITDA margin (%)	7.4	11.2	12.1	13.5	16.2
Return on capital (%)	3.1	7.3	6.5	6.6	9.8
EBITDA interest coverage (x)	1.6	3.2	3.8	5.1	4.9
FFO cash interest coverage (x)	1.6	3.8	4.8	5.2	5.6
Debt/EBITDA (x)	7.9	4.4	3.6	3.7	2.8
FFO/debt (%)	3.5	13.5	19.7	20.1	25.0
Cash flow from operations/debt (%)	13.4	(5.8)	26.6	7.6	(3.0)
FOCF/debt (%)	1.4	(19.4)	10.4	(3.1)	(14.4)
DCF/debt (%)	1.1	(19.7)	10.1	(3.3)	(14.7)

Liquidity

We assess Adama's liquidity as adequate. We forecast that liquidity sources will cover uses by more than 1.5x over the next 12 months from Apr. 1, 2024. 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, as 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 April 1, 2024, are:

Principal Liquidity Sources	Principal Liquidity Uses
• About $490 million in cash and cash equivalents. • About $260 million in available committed credit facilities available for over one year. • Our estimation of about $300 million in funds from operations.	• Ongoing maturities on bonds and short- and long-term bank loans of about $205 million. • Capex of about $250 million. • A non-seasonal working capital outflow of $30 million-$40 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, 2024, the company had adequate headroom on its financial covenants, thanks to covenant waivers or a relaxation of its financial covenants obtained during 2023 in anticipation of a covenant breach. We estimate that it will maintain adequate headroom in the near 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

Adama Agricultural Solutions' rating reflects both its stand-alone credit profile and its relationship with Syngenta Group.

We believe Adama Agricultural Solutions' strategic importance to its intermediate parent, Syngenta, remains moderate. 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, Syngenta's credit rating is higher than its SACP.

However, we do not think that government support for Syngenta will extend to Adama Agricultural Solutions, as the company, along with its immediate parent Adama Ltd., generates a relatively small portion of Syngenta Group's consolidated EBITDA. Therefore, our reference point for rating Adama Agricultural Solutions is Syngenta's SACP. We no longer consider our rating on Adama Agricultural Solutions to be insulated from Syngenta's SACP, despite 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 stand-alone credit quality. This is because the funding from Syngenta Group has increased in recent years, raising to about 25% of total debt in 2023, meaning that funding is no longer highly independent from the group, which is a requirement under our group rating methodology.

Environmental, Social, And Governance

Environmental factors are a moderately negative consideration in our credit rating analysis of Adama. Crop protection chemicals have higher environmental exposures and face tightening regulations on greenhouse gas emissions and storage, use of hazardous materials, soil and water contamination, and discharge of industrial effluents, among others. However, our assessment of a moderate credit influence reflects our expectation that crop protection products will remain critical to serve growing global food needs, particularly as companies in this field progressively develop products containing smaller amounts of chemicals, and due to the shift to the development and marketing of biological products.

Recovery Analysis

Key analytical factors

- We assign a recovery rating of 'ilAA-', identical to the issuer rating, on Adama's Series B bonds. The recovery rating for this series is '3', indicating our expectation of meaningful recovery (50%-70%; rounded estimate: 55%) in a hypothetical default scenario.
- The improved recovery percentage reflects the proportionately higher amount of subordinated debt in the structure.

Simulated default assumptions

- Simulated year of default: 2029
- In our simulated default scenario, we assume a supply-demand imbalance with demand for the company's products deteriorating in the wake of a protracted economic downturn, along with increased supply leading to lower prices, and an increase in raw material prices that the company will not be able to pass-through to 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 would refinance part of its financial debt, since we expect cash generation for debt repayment to remain broadly neutral.
- We assume the committed credit facilities to be 85% drawn at default.
- We assume that the available receivables securitization facility would be about $400 million, and the company would use 80% of it at default.

Simplified Waterfall

- EBITDA on emergence: about $345 million
- Industry EBITDA multiple: 5.0x
- Administrative costs: 5%
- Enterprise value available for primary unsecured debt: about $1.64 billion
- Estimated priority claims (mainly securitization program outstanding): $330 million*
- Estimated secured debt claim: $510 million*
- Remaining recovery value: $795 million
- Total senior unsecured debt (including Series B bonds and bank debt): about $1.37 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. Securitization facility assumed 80% drawn at default. RCFs assumed to be 85% drawn at default.

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 2023 were:

- Deducting about $620 million of accessible cash and liquid investments from gross debt.
- Adding about $356 million of receivables securitization.
- Adding about $57 million of post-retirement benefits obligations, net of tax.
- Adding about $94 million of reported lease liabilities.
- Adding about $71 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, 2023

ADAMA Agricultural Solutions Ltd. reported amounts

	Debt	EBITDA	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations
Reported	**2,494.8**	**318.1**	**196.2**	**309.0**	**207.7**
S&P Global Ratings adjustments					
Cash taxes paid	--	--	--	(68.6)	--
Cash interest paid	--	--	--	(154.5)	--
Trade receivables securitizations	356.0	--	--	--	121.0
Reported lease liabilities	93.5	--	--	--	--
Postretirement benefit obligations/deferred compensation	56.5	(1.3)	2.0	--	--
Accessible cash and liquid investments	(619.6)	--	--	--	--
Share-based compensation expense	--	(8.5)	--	--	--
Dividends received from equity investments	--	0.7	--	--	--
Nonoperating income (expense)	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	0.7
Debt: Put options on minority stakes	71.2	--	--	--	--
Total adjustments	**(42.4)**	**(9.1)**	**2.0**	**(223.1)**	**121.7**

S&P Global Ratings adjusted amounts

	Debt	EBITDA	Interest expense	Funds from operations	Cash flow from operations
Adjusted	**2,452.4**	**309.0**	**198.2**	**85.9**	**329.3**

Related Criteria And Research

- Principles Of Credit Ratings, February 16, 2011
- Methodology: Industry Risk, November 19, 2013

- Country Risk Assessment Methodology And Assumptions, November 19, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, November 19, 2014
- Methodology: Jurisdiction Ranking Assessments, January 20, 2016
- Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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
- Methodology For National And Regional Scale Credit Ratings, June 8, 2023
- Corporate Methodology, January 7, 2024
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, January 7, 2024
- Corporate Methodology: Sector-Specific Corporate Methodology, Thu Apr 04 2024
- S&P Global Ratings Definitions, June 9, 2023

Ratings List

Adama Agricultural Solutions Ltd.	Rating	Date when the rating was first published	Last date when the rating was updated
Issuer rating(s)			
Long term	ilAA-/Negative	27/11/2001	27/03/2024
Short term	ilA-1+	09/09/2019	27/03/2024
Issue rating(s)			
Commercial Papers			
Commercial Papers $30 million	ilA-1+	10/12/2019	27/03/2024
Senior Unsecured Debt			
Series B	ilAA-	19/05/2008	27/03/2024
Issuer Credit Rating history			
Long term			
March 27, 2024	ilAA-/Negative		
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	
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Rating requested by	Issuer

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