Maalot
S&P Global Ratings

Adama Agricultural Solutions Ltd.

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Research Update

'ilAA-' Rating Affirmed; Outlook Remains Negative On High Leverage

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Rating Action Overview

- We expect Adama Agricultural Solutions Ltd. (“Adama” or “the Company") S&P Global Ratings-adjusted debt-to-EBITDA to remain elevated in 2024, as weak market conditions persist, and the Company incurred high restructuring costs related to its transformation program which we include in our calculation of adjusted EBITDA. Specifically, we forecast adjusted debt-to-EBITDA to remain high for the rating at about 7.5x – a modest improvement compared to 7.9x in 2023 – and only reach a level commensurate with the rating in late 2025, while EBITDA interest coverage is projected to recover to over 2.0x in 2024 from 1.6x in 2023.
- At the same time, we forecast that robust cash generation in 2024, along with the ongoing support from parent Syngenta Group should provide the Company with flexibility to navigate its elevated debt levels.
- As a result, we have affirmed our 'ilAA-' long-term issuer credit rating and 'ilA-1+' short term rating on the Company. Our 'ilAA-' issue rating on Adama's Series B bonds is unchanged.
- The outlook remains negative, indicating that we may lower the ratings if the Company generates weak EBITDA – relative to our expectations – in the course of 2025, and its credit metrics do not improve, so that adjusted debt-to-EBITDA remains above about 5.0x; or if the Company’s free operating cash flow (FOCF) turns materially negative without near term prospects of recovery. We may also lower our rating on Adama if the creditworthiness of the Syngenta Group deteriorates.

Rating Action Rationale

We expect Adama’s adjusted debt-to-EBITDA to stay high in 2024, but the Company will likely improve its weak leverage metrics in 2025. While we anticipate demand to have remained subdued in 2024, and revenue to decline due to overcapacity conditions and high degree of competition among industry peers, we forecast that S&P-adjusted EBITDA to stay broadly flat at about $300 million in 2024, from $309 million in 2023. As a result, we forecast adjusted debt-to-EBITDA to remain high for the rating at about 7.5x, a modest improvement compared to 7.9x in 2023. Our estimate of Adama’s EBITDA incorporates the high restructuring costs related to its transformation program it has incurred without realizing the full benefits of the operating cost savings stemming from its 2024 restructuring. We estimate these costs at about $90 million in 2024, and they include personnel-related costs to achieve headcount reduction, legal claims, remediation costs and other. We anticipate that these front-loaded expenses will underpin a cost reduction, and a margin expansion in the coming years. The transformation plan includes cost savings, exit from unprofitable products and markets, and an optimization of the Company’s operating model and asset footprint.

In 2025, we expect improved market conditions, cost savings along with lower restructuring costs, and ongoing focus on the launch and ramp up of higher margin, differentiated products will contribute to an improvement in the Company's EBITDA. We forecast adjusted EBITDA to grow to about $450 million in 2025, still lower compared to historic levels of over $500 million. We also forecast the Company's debt-to-EBITDA will improve in 2025 and 2026 relative to 2024, but will only reach a level commensurate with the rating in late 2025. Our base case factors in the still-high interest rates, which are making buyers more cautious and likely to postpone purchases until closer to the application season. That said, we anticipate that industry chain inventory has returned to normalized levels following a pronounced destocking over the last two years. As a result, sales growth development should better match end-demand. Against this backdrop, we forecast ongoing pricing pressure as additional capacity will take time to absorb. Upside risk includes a switch to lower cost, off-patent formulations which could support demand for Adama's differentiated products. This could be the result of weaker farmer affordability, especially if tariffs result in higher input costs for farmers, including fertilizers such as potash, and still-elevated financial costs.

We forecast Adama to generate robust FOCF in 2024, partially alleviating rating pressure and resulting in lower adjusted debt. We expect solid cash generation in 2024, with adjusted FOCF of $100 million-$200 million. This is supported by decreased inventory levels, lower capex spending reflecting the gradual shift to a more asset-light business model, improved sales mix towards more differentiated products, and heightened cost discipline. In 2025, our base case forecast is that cash outflows – including a working capital outflow of about $120 million to support sales volume growth, and $200 million-$220 million of capex – will absorb the Company's operating cash flow resulting in negative FOCF of $80 million-$100 million. However, we think higher earnings will enable Adama to materially improve its leverage ratios in 2025, even on a relatively moderate cash outflow.

Syngenta group support continues to underpin the rating. We estimate that in 2024 Syngenta loans increased to 30%-35% of Adama's total debt. This, in our view, enabled Adama to strengthen its interest coverage ratios, with adjusted EBITDA interest coverage forecast to improve to over 2.0x in 2024 from 1.6x in 2023. Adama is able to borrow from Syngenta Group at more favorable rates compared to external debt, therefore lowering its interest burden. Moreover, related-party debt is not included in the debt definition for Adama's financial covenant calculations. As a result, it strengthens Adama liquidity not only by provision of funding, but also by expanding its headroom under the financial covenants, contributing to our 'Adequate' liquidity assessment. Considered together, these factors should provide the Company with the flexibility to navigate its elevated debt levels.

Outlook

The negative outlook indicates that we could lower the ratings if we did not see a recovery in earnings in 2025, such that adjusted debt-to-EBITDA declined towards the 4.0x-5.0x range we view as commensurate with the rating, while FOCF turning materially negative. We could also lower our rating on Adama if the creditworthiness of the Syngenta Group deteriorates.

In 2025, we expect improved market conditions, cost savings along with lower restructuring costs, and ongoing focus on the launch and ramp up of higher margin, differentiated products will contribute to an improvement in the Company's EBITDA.

Downside Scenario

We may lower our rating on Adama if it generates weak EBITDA relative to our expectations in the course of 2025, and its credit metrics do not improve. This could occur if:

• The Company's adjusted debt-to-EBITDA remained above about 5.0x;

• FOCF turned materially negative, without near-term prospects of a recovery; or

• The creditworthiness of the Syngenta Group deteriorated.

Upside Scenario

We may revise our outlook to stable if we see 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.

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 dozens of countries globally with direct presence in all top markets. 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 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.

Base Case Scenario

Assumptions

- Revenue to decline by 10%-12% in 2024 mainly due to lower prices. In 2025 we assume revenue growth of 5%-6% thanks to improving market conditions and volume growth, moderating to 2%-3% in 2026.
- Adjusted EBITDA margin of about 8% in 2024. We assume margins to improve further in 2025-2026 to 11.5%-12.5%, mainly due to management's actions to reduce costs along with lower restructuring costs, and an improvement in the product sales mix, along with better operating leverage stemming from an improving market.
- Adjusted EBITDA of about $300 million in 2024, improving to $450 million-$460 million in 2025 and about $500 million in 2026, from $309 million in 2023.
- Capex of $150 million-$200 million in 2024, increasing to $200 million-$250 million in 2025-2026, compared with $294 million in 2023.
- A working capital inflow of over $300 million in 2024, followed by outflows of about $120 million in 2025 and about $50 million 2026.
- No material dividend distributions and debt-funded acquisitions in 2024-2026.

Key Metrics

- Adjusted debt to EBITDA of about 7.5x in 2024, lower than 7.9x in 2023 and about 5.0x-5.2x in 2025, before recovering to rating commensurate 4.0x-5.0x in 2026.
- EBITDA interest coverage of about 2.2x in 2024, 3.0x-4.0x in 2025 and 2026.

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 Oct. 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 for the period starting Oct. 1, 2024, are:

- 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 $30 million in funds from operations.
- Working capital related inflows of about $200 million.

Our assumptions regarding the Company's principal uses for the same period are:

- Ongoing maturities on bonds and short- and long-term bank loans of about $205 million.
- Capex of about $170 million.
- Seasonal working capital needs of about $200 million.

Financial covenants

Adama has several covenants regarding bank loans and a securitization transaction. As of Oct. 1, 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.

Recovery Analysis

Key analytical factors

- We affirm our 'ilAA-' rating, 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: 60%) in a hypothetical default scenario.
- Our recovery expectations reflect proportionately higher amount of subordinated related-party debt in the structure.

Simulated default assumptions

- Simulated year of default: 2030
- 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, alongside 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 will 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 will be about $400 million, and the Company will use 80% of it at default.

Simplified Waterfall

- EBITDA on emergence: about $335 million
- Industry EBITDA multiple: 5.0x
- Administrative costs: 5%
- Enterprise value available for primary unsecured debt: about $1.66 billion
- Estimated priority claims (mainly securitization program outstanding): $330 million
- Estimated secured debt claim: $510 million
- Remaining recovery value: $735 million
- Total senior unsecured debt (including Series B bonds and bank debt): about $1.15 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, December 7, 2016, for further detail). ICR--Issuer credit rating.

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)

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, December 16, 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, October 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, January 7, 2024
- Sector-Specific Corporate Methodology, April 4, 2024
- S&P Global Ratings Definitions, December 2, 2024

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	IIAA-/Negative	27/11/2001	17/06/2024
Short term	ilA-1+	09/09/2019	17/06/2024
Issue rating(s)			
Commercial Papers			
Commercial Papers ($)	ilA-1+	10/12/2019	17/06/2024
Senior Unsecured Debt			
Series B	IIAA-	19/05/2008	17/06/2024
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	
Time of the event	25/02/2025 11:21
Time when the event was learned of	25/02/2025 11:21
Rating requested by	Issuer

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