



Rating Action: Moody's assigns Baa1 rating to Specialty HoldCo Belgium SRL (SpecialtyCo)

16 Jun 2023

Frankfurt am Main, June 16, 2023 – Moody's Investors Service (Moody's) assigned a Baa1 long-term issuer rating to Specialty HoldCo Belgium SRL (aka SpecialtyCo, or the company). The outlook is stable.

SpecialtyCo will comprise Solvay SA's (Solvay, Baa2 ratings placed on review for downgrade) materials segment, including its Specialty Polymers and Composites businesses, and the majority of Solvay's Solutions segment, including Novacare, Technology Solutions, Aroma Performance, and Oil and Gas Solutions.

The assigned rating assumes that the separation will be executed via a partial demerger by December 2023 as communicated by Solvay.

RATINGS RATIONALE

The Baa1 rating reflects SpecialtyCo's leading positions in specialty chemicals markets that address markets with sound demand fundamentals and EBITDA margins (Moody's adjusted) exceeding 20%. Its good diversification across geographies, products and end-markets are additional factors supporting the rating.

Moody's estimates that SpecialtyCo's pro forma starting leverage at the end of 2023 will be in the range of 1.5x to 1.7x which positions the company strongly in the rating category. Moody's expects that SpecialtyCo over time will operate with a balance sheet structure which translates into Moody's adjusted debt/EBITDA sustained in the range of 2.0x to 2.5x, in line with expectations for the Baa1 rating. An increase in leverage resulting from event risk such as i) debt funded M&A, ii) a sizeable and partially debt funded increase of investments into organic growth opportunities or iii) increasing returns to shareholders.

The company has communicated a commitment to a strong investment grade rating, but specific details with regards to dividend policy and target leverage have not been provided.

However, the assigned Baa1 rating reflects Moody's expectation that the company will establish a track record of maintaining a balanced approach towards capital allocation and consider the headroom under its current rating when deciding on debt funded M&A, organic growth investments and shareholder returns.

SpecialtyCo has a material and growing exposure to cyclical end markets that are undergoing structural challenges such as the automotive and aircraft industry (combined revenue share of around 30%), this factor to some degree constrains its credit rating.

ENVIRONMENTAL SOCIAL AND GOVERNANCE CONSIDERATIONS

Moody's expects that SpecialtyCo's organizational and governance structure will be in line with expectations and requirements for a listed company and that upon completion Solvay SA's main shareholder Solvac SA will be the largest shareholder of SpecialtyCo. Solvac SA currently holds around 30.8% in Solvay. Details on management teams, the board of directors and the longer-term shareholder structure are yet to emerge. Furthermore, SpecialtyCo will need to establish a track record of operating as a standalone company and within the boundaries of its stated financial policy. At the outset, the company will appropriate 40% of Solvay SA's 2023 dividend, but further details on the application of the dividend and capital allocation policies have not been disclosed at this stage.

SpecialtyCo's exposure to environmental risks includes waste and pollution and water management, because

chemical companies typically generate hazardous waste, albeit generally less so for specialty chemicals compared to commodity chemicals. SpecialtyCo's subsidiary in the United States is a defendant in a number of lawsuits relating to the alleged use of PFAS, resulting in social and environmental risk exposure, and during Q3 2022 the company booked a provision of €93 million, reflecting the estimated cost of certain remediation activities in West Deptford, NJ. An unfavorable outcome of litigations may result in one-off costs for SpecialtyCo. Additional social risks include the potential for regulation and changing customer demands which may necessitate additional R&D to develop more environmentally friendly materials.

LIQUIDITY PROFILE

At the completion of the demerger SpecialtyCo will have cash & cash equivalents of around €1.2 billion. The company has not disclosed further details on additional liquidity facilities, but Moody's Baa1 long term issuer rating reflects the expectation that SpecialtyCo at closing will have sufficient availability under revolving credit facilities to maintain an excellent liquidity profile, in line with its commitment to a strong investment grade rating. FFO generation of at least €1.3 billion over the next 12 months will further support liquidity. Liquidity sources should comfortably cover swings in working capital, expected dividend payments of less than €200 million and significant capital expenditures (higher than 8% of 2022 sales).

RATING OUTLOOK

The stable outlook reflects Moody's expectations for high and stable cash flow generation after the spin-off and that SpecialtyCo will benefit from positive secular trends in its end-markets. The stable outlook also reflects Moody's expectation that the company will maintain its EBITDA margin above 20% and debt/EBITDA at around 2.0x-2.5x on a sustained basis.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade SpecialtyCo's ratings if the company would maintain debt/EBITDA below 2x, EBITDA margin in mid-twenties percentage terms, and RCF/net debt above 40%, all on a sustainable basis. Any positive rating action would be predicated on a commitment to achieve and maintain an A level rating.

Moody's could downgrade SpecialtyCo's rating with expectations for debt/EBITDA sustained above 2.5x, RCF/net debt sustained below 30%, or if its EBITDA margins fell below 20%. Any indication of a financial policy not targeted at maintaining a Baa1 rating would also be negative for the rating.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Chemicals published in June 2022 and available at <https://ratings.moodys.com/rmc-documents/389870>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Headquartered in Belgium SpecialtyCo will comprise Solvay's materials segment, including its Specialty Polymers and Composites businesses, and the majority of Solvay's Solutions segment, including Novecare, Technology Solutions, Aroma Performance, and Oil and Gas Solutions. In 2022 SpecialtyCo generated sales of around €7.9 billion and company defined EBITDA of around €1.9 billion equivalent to an EBITDA margin of approximately 24%.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moody.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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