

Tear Sheet:

# Solvay S.A.

February 12, 2024

**Following the partial demerger, Solvay S.A. retains leading market positions in its key commodity chemicals.** The company is now focused on being a global producer of soda ash, bicarbonate, peroxides, silica, rare earth minerals for auto catalysts, and solvents. While we view the business as largely focused on commodity chemicals (85%), it has a dominant role in its key markets. This is notably the case for the soda ash segment (40% of sales and divided into natural (43%) and synthetic (57%) soda ash) where Solvay has a leading global market share (18%), technological leadership, and diversification across Europe (57%) and North America (35%). Solvay is leading in silica (11% of sales) and is the No.3 player in peroxides (14% of sales), where it has a dominant position for high-purity, electronic-grade hydrogen peroxide.

**We believe the overall business is well diversified in terms of regions and end markets, though we view it as materially less diversified than before the demerger.** Solvay's business is split across the Americas (39% of sales), Europe (33%), and Asia-Pacific (28%). The company is largely present in the automotive industry (19% of sales) through silica used in tire manufacturing, and the building industry (11%) through soda ash in the production of glass. The chemicals industry represents 17% of sales. Soda ash also serves the glass packaging manufacturing industry and food packaging market (11% of sales), while the consumer and personal care market (18%) is addressed through most segments. Though Solvay's business is somewhat diversified, we view it as skewed toward relatively cyclical markets, mitigated by the recurring business from replacement tires and glass in the renovation market. We view the focus of the product portfolio toward commodity chemicals as a relative weakness because of its exposure to supply and demand patterns, making it sensitive to GDP growth. We believe Solvay's size in its key glass and tire manufacturing segments provides it with strong pricing power, which is visible in its resilient operating track record.

**The strong cost position globally for the company's key products is a strength, and translates into above-average margins.** We view favorably the significant vertical integration into key raw materials along the value chain, a fairly flexible (60% of total costs) cost base, and multiyear selling contracts embedding cost-to-price adjustment features that have supported consistently high and stable margins.

**We anticipate strong cash flow generation and prudent dividend policies will support the company's credit profile.** We estimate that free operating cash flow (FOCF) of about €300 million-€350 million per year in 2024-2025, equating to about 15% S&P Global Ratings-adjusted FOCF to debt, is comfortable for the company's financial risk profile targets. With €260 million-€270 million in dividends to be distributed annually in 2024-2025, we would expect discretionary cash flow (DCF) to remain positive, albeit at a weak level. Our base case points to about 2%-3% DCF to debt, which is a relative weakness in our view since a significant financial risk profile

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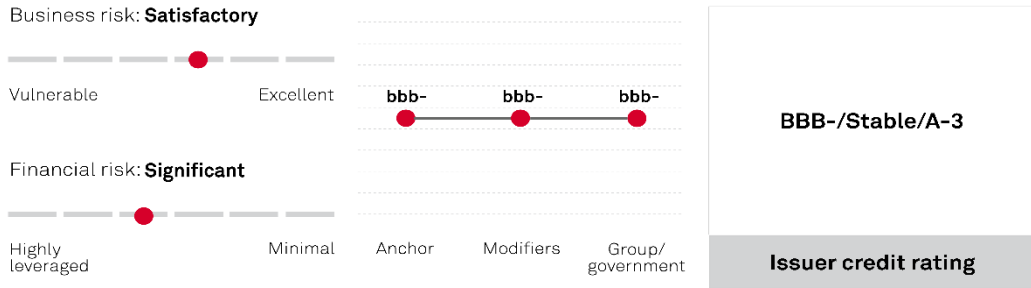
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## Solvay S.A.

would typically require 5% minimum. We view positively the company's financial policy, which includes flexibility in capital expenditure (capex) and dividends, and a strong commitment to an investment-grade rating. As a result, we consider overall rating leeway as comfortable, and we estimate that pressure on the rating would arise if funds from operations (FFO) to debt approached 20% or DCF turned negative.

## Ratings Score Snapshot

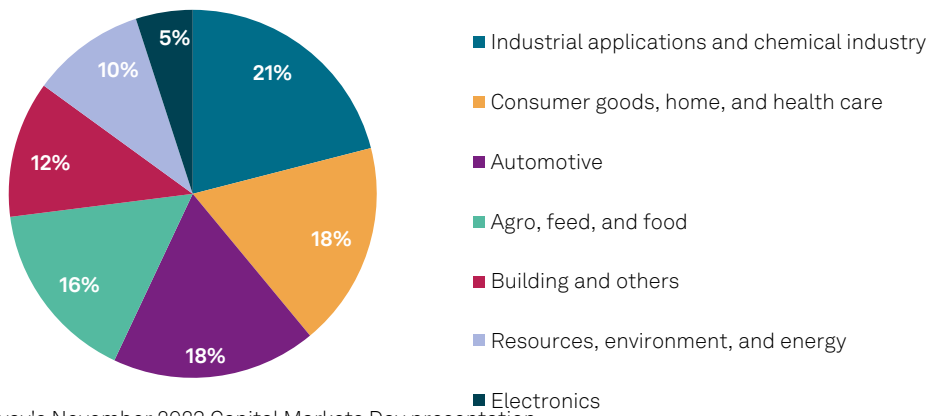


## Company Description

Following the partial demerger of the group's most specialized chemicals operations in December 2023, Solvay is a global chemicals company mostly focused on commodity products, with leadership positions in the production of soda ash, bicarbonate, peroxides, silica, rare earth minerals for auto catalysts, and solvents. We expect the company to report about €5.8 billion of revenue and €1.1 billion-€1.2 billion of adjusted revenue pro forma for 2023.

### Solvay S.A.'s sales by end market

Post demerger



Source: Solvay's November 2023 Capital Markets Day presentation

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Solvay is present in North and Latin America, Europe, and Asia with about 45 manufacturing plants in 19 countries. We expect the company's shareholding structure to mirror that of Solvay S.A. before the partial demerger.

## Outlook

The stable outlook reflects our expectation that Solvay's adjusted FFO-to-debt ratio would be at the high end of the 20%-30% range from 2024, with adjusted EBITDA margins at 22%-23%, which we expect to be sustained under normalized market conditions. We consider FFO to debt of 20%-30% as commensurate with the 'BBB-' rating. As such, we believe that Solvay's credit metrics under the spin-off debt structure provide headroom to absorb some business deterioration or debt-funded acquisitions.

### Downside scenario

We could lower the rating if Solvay's adjusted FFO-to-debt ratio approached 20% for a sustained period. This could most likely happen if there were a significant business deterioration or setbacks in the operations of the entity post-spin-off, or in case of unexpected debt-funded acquisitions. A DCF-to-debt ratio turning negative would also likely put the rating under pressure.

### Upside scenario

Rating upside would require the adjusted FFO-to-debt ratio to remain consistently and comfortably above 30%, together with management's commitment to maintain the metrics at that level. A stricter financial policy, including for dividend distribution such that adjusted DCF to debt would be more in line with the intermediate financial risk profile (10%), could also result in potential rating upside.

## Key Metrics

### Solvay S.A.--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. €)	2021a	2022a	2023e*	2024f	2025f
EBITDA	1,888	2,692	1,100-1,200	1,100-1,200	1,200-1,300
EBITDA margin (%)	18.7	20.1	25-29	21-22	21-22
Debt/EBITDA (x)	2.3	1.4	2.0-2.5	2.0-2.5	2.0-2.5
FFO/debt (%)	35.0	60.1	About 30	About 30	About 30
FOCF/debt (%)	16.8	26.2	10-15	10-15	10-15

All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations. FOCF--Free operating cash flow. \*Pro forma.

## Solvay S.A.--Forecast summary

## Financial Summary

## Solvay S.A.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	10,891	11,299	10,244	8,965	10,105	13,426
EBITDA	2,145	1,976	2,164	1,716	1,888	2,692
Funds from operations (FFO)	1,586	1,532	1,719	1,471	1,515	2,284
Interest expense	314	277	261	187	166	173
Cash interest paid	336	209	182	149	141	103
Operating cash flow (OCF)	1,175	1,357	1,361	1,088	1,364	1,905
Capital expenditure	717	711	716	502	636	909
Free operating cash flow (FOCF)	458	646	645	586	728	996
Discretionary cash flow (DCF)	(8)	283	(533)	(425)	267	538
Cash and short-term investments	992	1,103	809	1,002	941	975
Gross available cash	1,081	1,204	928	1,121	1,011	975
Debt	7,090	6,585	6,471	4,958	4,325	3,798
Common equity	8,317	9,024	8,724	6,404	7,952	9,765
<b>Adjusted ratios</b>						
EBITDA margin (%)	19.7	17.5	21.1	19.1	18.7	20.1
Return on capital (%)	6.5	6.4	7.5	5.6	8.6	14.8
EBITDA interest coverage (x)	6.8	7.1	8.3	9.2	11.4	15.6
FFO cash interest coverage (x)	5.7	8.3	10.5	10.9	11.8	23.2
Debt/EBITDA (x)	3.3	3.3	3.0	2.9	2.3	1.4
FFO/debt (%)	22.4	23.3	26.6	29.7	35.0	60.1
OCF/debt (%)	16.6	20.6	21.0	21.9	31.5	50.2
FOCF/debt (%)	6.5	9.8	10.0	11.8	16.8	26.2
DCF/debt (%)	(0.1)	4.3	(8.2)	(8.6)	6.2	14.2

## Peer Comparison

## Solvay S.A.--Peer Comparisons

	Solvay S.A.	Evonik Industries	Arkema S.A.	Akzo Nobel N.V.
Foreign currency issuer credit rating	BBB-/Stable/A-3	BBB+/Stable/A-2	BBB+/Positive/A-2	BBB/Stable/A-2
Local currency issuer credit rating	BBB-/Stable/A-3	BBB+/Stable/A-2	BBB+/Positive/A-2	BBB/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	13,426	18,488	11,550	10,846
EBITDA	2,692	2,502	2,058	1,106
Funds from operations (FFO)	2,284	2,248	1,645	804
Interest	173	115	62	106
Cash interest paid	103	80	59	78
Operating cash flow (OCF)	1,905	1,586	1,485	291
Capital expenditure	909	855	704	292
Free operating cash flow (FOCF)	996	731	781	(1)
Discretionary cash flow (DCF)	538	154	525	(1,049)
Cash and short-term investments	975	1,058	1,592	1,775
Gross available cash	975	1,058	1,592	1,775
Debt	3,798	3,897	2,322	4,100
Equity	9,765	11,304	6,989	4,548
EBITDA margin (%)	20.1	13.5	17.8	10.2
Return on capital (%)	14.8	8.6	15.8	8.9
EBITDA interest coverage (x)	15.6	21.8	33.2	10.4
FFO cash interest coverage (x)	23.2	29.2	28.9	11.3
Debt/EBITDA (x)	1.4	1.6	1.1	3.7
FFO/debt (%)	60.1	57.7	70.8	19.6
OCF/debt (%)	50.2	40.7	64.0	7.1
FOCF/debt (%)	26.2	18.8	33.6	(0.0)
DCF/debt (%)	14.2	4.0	22.6	(25.6)

## Environmental, Social, And Governance

Environmental factors have an overall negative influence in our credit analysis of Solvay after the partial demerger, as is the case for most commodity chemical companies we rate. We view soda ash (40% of the company's sales) as a highly energy-intensive business leading to a sizable carbon dioxide footprint. We estimate that in 2018, to produce 1 ton of synthetic dense soda ash resulted in about 1.1 tons of carbon dioxide (scope 1 and 2). Still, the company targets a 30% reduction in its absolute scope 1 and 2 carbon emissions by 2030 from its base-year 2018, and aims for carbon neutrality by 2050 in its operations. This strategy relies on a medium-term coal phaseout to natural gas and biomass, and a shift toward decarbonized energy, and we understand that a large portion of the company's capex over 2023-2026 will be dedicated to sustainability initiatives. Governance factors have an overall neutral impact on our credit analysis with the newly formed governance structure and management team. In line with Solvay's track record, we expect the company to continue to show resilient operational

effectiveness and good balance of different stakeholder interests, which we believe will enable it to pursue a long-term sustainability strategy.

**Rating Component Scores**

<b>Foreign currency issuer credit rating</b>	<b>BBB-/Stable/A-3</b>
<b>Local currency issuer credit rating</b>	<b>BBB-/Stable/A-3</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>bbb-</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
<b>Stand-alone credit profile</b>	<b>bbb-</b>

**Related Criteria**

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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