S&P Global Ratings

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Tear Sheet:

Evonik Industries

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Primary contact

Wen Li
Frankfurt
49-69-33999-101
wen.li
@spglobal.com

Secondary contact

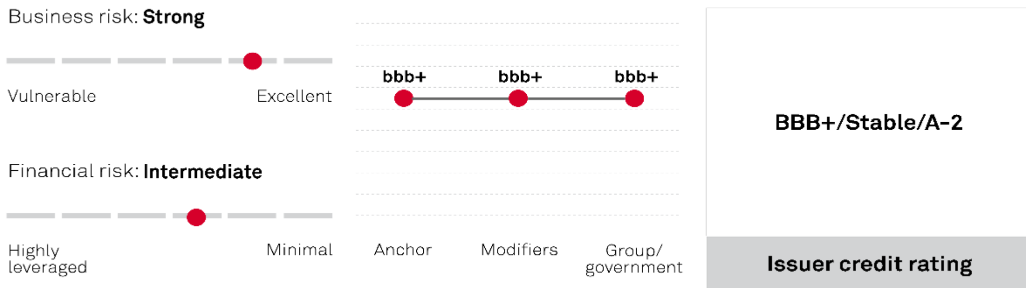
Gaetan Michel
Paris
33-14-420-6726
gaetan.michel
@spglobal.com

Evonik Industries' (Evonik's) recent profit warning will significantly reduce the previously ample headroom, but credit metrics will still remain commensurate with the current rating. On July 10, 2023, Evonik revised down its forecast of adjusted EBITDA for full-year 2023 to the range of €1.6 billion-€1.8 billion from the previous target of achieving the lower end of €2.1 billion-€2.4 billion. This is driven by slower-than-expected economic recovery and consistently weak demand across all end markets, which the company now expects to continue into the second half of 2023 without any meaningful recovery. Based on published preliminary results, sales volumes remained weak, and Evonik's adjusted EBITDA fell by about 40% in the second quarter compared with last year.

S&P Global Ratings expects our adjusted funds from operations (FFO) to debt to weaken to 35%-37% in 2023 from the high of 57.7% last year. This indicates considerably reduced, but still comfortable, headroom compared with the 30%-40% we view as commensurate with the rating. The company built ample headroom in 2022, thanks to resilient operating performance and a substantially lower net pension deficit due to higher discount rates.

Despite the economic slowdown and lower EBITDA, we expect free operating cash flow (FOCF) to remain solid at €500 million-€600 million in 2023, compared with €731 million in 2022. This stems from Evonik's implementation of contingency measures from the second half of 2022 targeting €250 million of cost savings in 2023, its second cut in this year's capital expenditure (capex) budget to €850 million from the original €975 million, and efforts to wind down working capital, as evidenced by its strong commitment to improving the cash conversion rate toward 40% this year.

Ratings Score Snapshot



Recent Research

- Evonik Industries AG, March 9, 2023

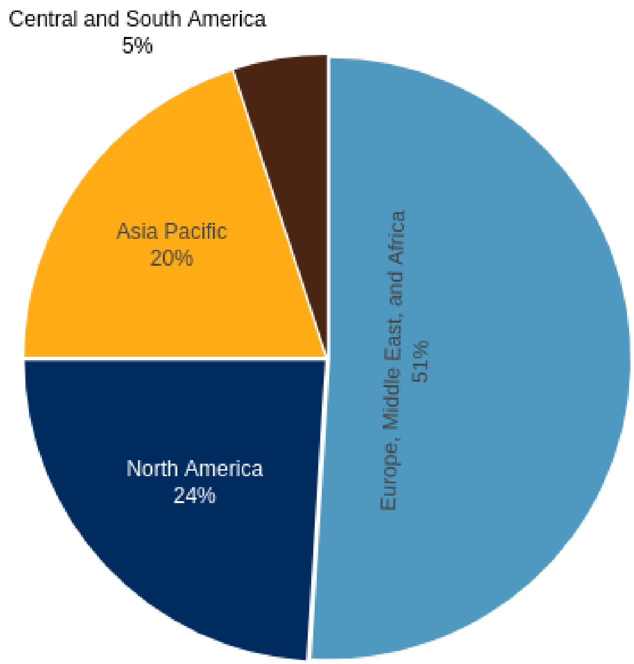
Company Description

Evonik is one of the leading specialty chemical companies, with about €18.5 billion of revenue reported in 2022. The company's products include methionine, cosmetic ingredients, crosslinkers, coating additives, silica, polyamide 12, hydrogen peroxide, and C4 derivatives. Evonik has a global production footprint with largest sites located in Germany, Belgium, the U.S., China, and Singapore.

Evonik's businesses are organized in five divisions:

- Specialty Additives (about 23% of group sales in 2022): Crosslinkers, coating additives, and oil additives, among others.
- Nutrition and Care (23%): Animal nutrition, as well as health and care solutions.
- Smart Material (26%): Silica, catalysts, and high-performance polymers, among others.
- Performance Material (20%): Baby care and performance intermediates, among others.
- Technology and Infrastructure (8%): Energy supply to external customers, site management, among others.

2022 Sales by region



Source: Evonik Industries 2022 annual report.

Outlook

The outlook is stable because we expect Evonik will maintain comfortable headroom under its credit metrics, despite the challenging operating environment in 2023, as reflected in adjusted FFO to debt above 35%, exceeding the at least 30% we view as commensurate with the rating.

Downside scenario

We could lower the rating if we anticipate that our adjusted FFO to debt will decline below 30% without near-term prospects of recovery. This could be caused by a significant drop in profit due to a weaker market environment or come from significant debt-funded acquisitions.

Upside scenario

Upside rating potential could emerge if Evonik can maintain resilient performance via a higher share of specialty chemicals in its product portfolio, visible EBITDA contributions from acquisitions and expansion projects, and a financial track record of adjusted FFO to debt of 40%-45%, including increased FOCF after dividends. A financial policy commitment to a higher rating would be important for any upgrade considerations.

Key Metrics

Evonik Industries--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. EUR)	2021a	2022a	2023e	2024f	2025f
Revenue	14,955	18,488	14,000-16,000	14,500-16,500	15,000-17,000
EBITDA	2,317	2,502	~1,700	~2,000	2,000-2,500
EBITDA margin (%)	15.5	13.5	11.0-11.5	12.5-13.5	13.5-14.5
Capital expenditure (reported)	865	865	850	975	975
Free operating cash flow (FOCF)	871	731	500-600	400-500	500-600
Dividends	560	561	~550	550-570	560-630
Debt to EBITDA (x)	2.2	1.6	2.3-2.5	2.1-2.3	2.0-2.2
FFO to debt (%)	37.5	57.7	35-37	38-40	>40

Note: The ongoing disposal of the performance materials division is not factored in the forecast. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations.

Financial Summary

Evonik Industries AG--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	14,419	15,024	13,108	12,199	14,955	18,488
EBITDA	2,361	2,414	2,126	1,884	2,317	2,502
Funds from operations (FFO)	1,891	1,991	1,802	1,723	1,909	2,248
Interest expense	168	156	132	108	108	115
Cash interest paid	157	156	115	78	100	80
Operating cash flow (OCF)	1,624	1,783	1,287	1,688	1,727	1,586
Capital expenditure	1,036	1,026	872	950	856	855
Free operating cash flow (FOCF)	588	757	415	738	871	731
Discretionary cash flow (DCF)	16	183	(155)	165	296	154
Cash and short-term investments	1,163	1,128	2,368	1,028	902	1,058

Evonik Industries AG--Financial Summary

Gross available cash	1,052	1,068	2,368	1,028	902	1,058
Debt	5,771	5,747	4,472	5,706	5,092	3,897
Common equity	7,777	8,073	9,309	8,348	9,620	11,304
Adjusted ratios						
EBITDA margin (%)	16.4	16.1	16.2	15.4	15.5	13.5
Return on capital (%)	11.7	10.7	8.3	6.2	8.6	8.6
EBITDA interest coverage (x)	14.1	15.5	16.1	17.5	21.5	21.8
FFO cash interest coverage (x)	13.1	13.8	16.7	23.2	20.2	29.2
Debt/EBITDA (x)	2.4	2.4	2.1	3.0	2.2	1.6
FFO/debt (%)	32.8	34.6	40.3	30.2	37.5	57.7
OCF/debt (%)	28.1	31.0	28.8	29.6	33.9	40.7
FOCF/debt (%)	10.2	13.2	9.3	12.9	17.1	18.8
DCF/debt (%)	0.3	3.2	(3.5)	2.9	5.8	4.0

Peer Comparison

Evonik Industries AG--Peer Comparisons

	Evonik Industries	BASF SE	Arkema S.A.	Solvay S.A.	Eastman Chemical Co.
Foreign currency issuer credit rating	BBB+/Stable/A-2	A/Negative/A-1	BBB+/Positive/A-2	BBB/Negative/A-2	BBB/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	A/Negative/A-1	BBB+/Positive/A-2	BBB/Negative/A-2	BBB/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2021-12-31	2022-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	18,488	87,327	11,550	10,105	9,899
EBITDA	2,502	11,968	2,058	1,888	1,612
Funds from operations (FFO)	2,248	10,061	1,645	1,515	1,357
Interest	115	710	62	166	190
Cash interest paid	80	393	59	141	182
Operating cash flow (OCF)	1,586	7,669	1,485	1,364	808
Capital expenditure	855	4,335	704	636	575
Free operating cash flow (FOCF)	731	3,334	781	728	232
Discretionary cash flow (DCF)	154	(1,245)	525	267	(1,062)
Cash and short-term investments	1,058	2,748	1,592	941	461
Gross available cash	1,058	2,748	1,592	1,011	461
Debt	3,897	19,611	2,322	4,325	5,528
Equity	11,304	40,923	6,989	7,952	4,899

Evonik Industries AG--Peer Comparisons

EBITDA margin (%)	13.5	13.7	17.8	18.7	16.3
Return on capital (%)	8.6	2.8	15.8	8.6	10.1
EBITDA interest coverage (x)	21.8	16.9	33.2	11.4	8.5
FFO cash interest coverage (x)	29.2	26.6	28.9	11.8	8.5
Debt/EBITDA (x)	1.6	1.6	1.1	2.3	3.4
FFO/debt (%)	57.7	51.3	70.8	35.0	24.5
OCF/debt (%)	40.7	39.1	64.0	31.5	14.6
FOCF/debt (%)	18.8	17.0	33.6	16.8	4.2
DCF/debt (%)	4.0	(6.3)	22.6	6.2	(19.2)

Environmental, Social, And Governance

ESG Credit Indicators

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 Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental and social factors are an overall neutral consideration in our credit rating analysis of Evonik because it has migrated its product mix substantially to specialty chemicals (80% of the total) through selling its resource-intensive methacrylates business in 2019 and making several targeted acquisitions. The company has embedded sustainability as a growth driver and already in 2022 generated about 43% of sales from products and solutions with a clearly positive sustainability profile (its Next Generation Solutions). Evonik's goal is to increase the share of Next Generation Solutions in its portfolio to over 50% of sales by 2030. The company plans to allocate about 80% of its growth capex, a total of €3 billion, to such products by 2030. In addition, a further €700 million will be invested in next generation technologies, i.e. measures to raise efficiency and reduce carbon dioxide in production. Also by 2030, it aims to reduce scope 1 and 2 emission by 25% compared with 2021, on route to reaching net zero by 2050. Governance factors are a moderately positive consideration, as reflected in the group's risk management systems and strategy of refocusing the business mix toward specialty chemicals, in line with best corporate practices.

Rating Component Scores

Foreign currency issuer credit rating	**BBB+/Stable/A-2**
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Strong**
Country risk	Low
Industry risk	Intermediate
Competitive position	Strong
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Strong (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb+**

Related Criteria

- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- ARCHIVE | Criteria | Corporates | Industrials: Key Credit Factors For The Commodity Chemicals Industry, Dec. 31, 2013
- ARCHIVE | Criteria | Corporates | Industrials: Key Credit Factors For The Specialty Chemicals Industry, Dec. 31, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- ARCHIVE | General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- ARCHIVE | General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009