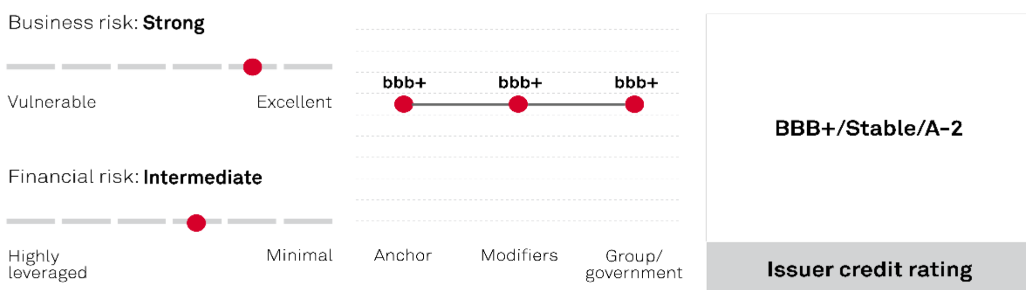
Evonik Industries

June 7, 2024

Ratings Score Snapshot



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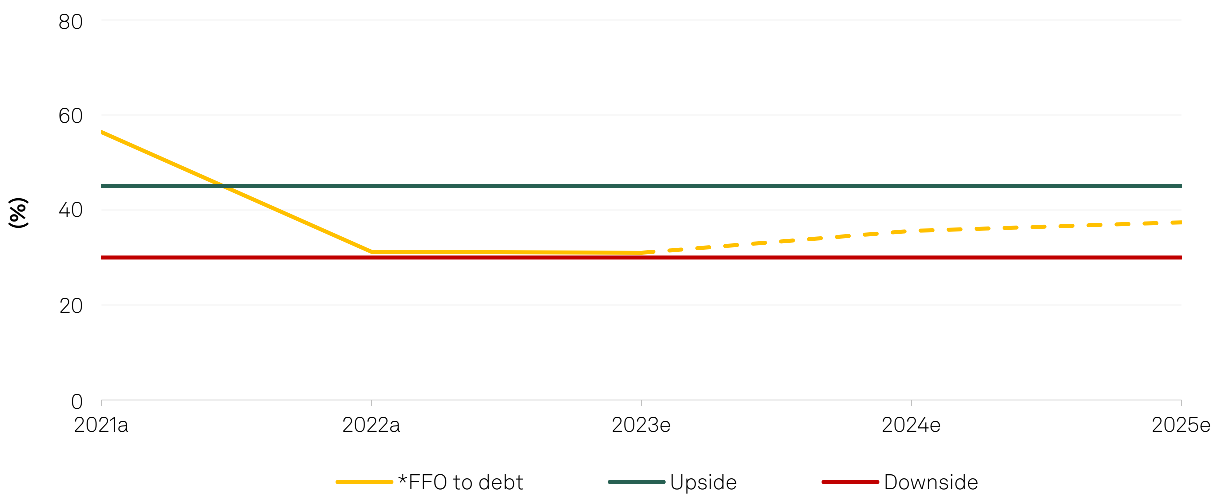
Credit Highlights

Overview

Key strengths	Key risks
Leading global specialty-chemicals manufacturer with healthy market positions and revenue of about €15.3 billion in 2023.	High concentration of revenue from the developed markets of Europe, the Middle East, and Africa, and North America (about 74% of 2023 revenue).
Significantly reduced exposure to cyclical and/or commoditized products following the disposal of the methyl methacrylate business, with further improvement potential from the planned divestment of the performance materials business.	Exposure to some cyclical end-markets and volatile raw material prices, especially in more commoditized products (animal nutrition, C4), pressuring overall operating performance in an economic downturn.
Potential for improved profitability over the medium term thanks to cost-saving initiatives, portfolio transformation, and innovation.	Exposure to relatively high energy prices for its production assets in Europe, especially in Germany.
Supportive financial policy and management's commitment to a solid investment-grade rating.	

We expect Evonik's rating headroom to remain limited in 2024 and gradually improve from 2025, after a significant deterioration in leverage ratios amid challenging market conditions in 2023. We expect adjusted funds from operations (FFO) to debt to remain at about 31% in 2024, close to the 2023 level, followed by a more visible improvement to about 35% in 2025. This compares to the 30%-45% FFO to debt we view as commensurate with the rating, indicating constrained rating headroom. We view Evonik's strong commitment to a solid investment-grade rating and its track record of cautious financial policy as supportive for the rating. The company's adjusted FFO to debt weakened to 31.2% in 2023, from 56.4% in 2022.

Significantly reduced rating headroom with a gradual improvement expected



a--Actual. e--Estimated. *S&P Global Ratings adjusted. Source: S&P Global Ratings

One-off expenses related to extensive cost-saving measures will weigh on the gradual EBITDA recovery in 2024, with more visible growth kicking in from 2025. We forecast broadly stable S&P Global Ratings-adjusted EBITDA of slightly above €1.7 billion in 2024, before growing by more than 15% to about €2.0 billion in 2025 due to gradually improving demand, much lower one-off costs and a continuous ramp up of benefits from implemented cost-saving measures. We assume a gradual and modest recovery in demand amid a still challenging market environment in 2024. Higher volumes, lower raw material and energy costs compared with 2023, as well as cost savings from various efficiency measures will contribute to a moderate growth in Evonik's EBITDA, potentially toward the high end of Evonik's guidance of €1.7 billion-€2.0 billion (as adjusted by the company before one-off costs). Underpinning this expectation, the first-quarter results were stronger than our estimates, with S&P Global Ratings-adjusted EBITDA up 28% driven by higher sales volumes, signaling a slight upturn in demand, combined with a switch from destocking to restocking given customers' low inventory levels.

However, underlying EBITDA growth will be offset by expenses related to cost-saving measures, leading to broadly stable S&P Global Ratings-adjusted EBITDA in 2024. Following various contingency and business optimization measures implemented last year, Evonik announced in early 2024 another extensive cost-saving program called Evonik Tailor Made. This targets up to 2,000 job cuts globally by the end of 2026, focusing on streamlining administrative activities, with about 1,500 of the job losses in Germany. We assume that the reorganization program will result in high one-off expenses, which are typically front-loaded and will affect earnings this year, with cash outflows to follow in next few years.

Evonik will likely maintain its focus on cash conversion and keep generating strong free operating cash flow (FOCF). We forecast FOCF of €650 million-€700 million in 2024, supported by higher EBITDA before non-cash expenses related to cost-saving measures and about €100 million less in bonus payments compared with 2023. Evonik also plans to reduce capital expenditure (capex) to €750 million (about €40 million down from 2023) and is committed to achieving a cash conversion rate of about 40% (48% in 2023) by maintaining its focus on optimizing working capital, which nevertheless will return to a build-up this year.

Evonik posted a weak performance in 2023, primarily due to lower volumes resulting from broad-based subdued demand and prolonged customer destocking with pricing pressures and low capacity utilization weighing on margins. Despite a 17% sales decline and 32% (€800 million) lower S&P Global Ratings-adjusted EBITDA in 2023, Evonik achieved a slightly higher unadjusted FOCF of €734 million for the year, exceeding our previous forecast. This was supported by an almost €260 million working capital release (compared with €485 million consumption a year earlier) and a cut in capex to about €70 million lower than 2022 and €180 million below the original capex budget.

Evonik is continuing its portfolio transformation toward more resilient specialty chemicals and has completed the first steps toward divesting the commoditized performance materials division. Evonik sold the Lülsdorf site, including the functional solutions business, in mid-2023 and signed the agreement to divest the superabsorbents business, which it expects to close in first-half 2024. Evonik is committed to divesting its activities with C4 products (performance intermediates), the largest and only remaining business in the performance materials division. However, this is unlikely to occur in 2024, given the challenging conditions for commodity chemicals in Europe. The contemplated disposal of the cyclical, commoditized, low-margin performance materials division will result in higher EBITDA margin and more resilient cash flow generation once completed. In addition, last year Evonik initiated the process of dividing its technology and infrastructure division into cross-site technology and site-specific infrastructure activities. While technology expertise will be bundled globally, the potential exit from site infrastructure activities fits into the planned divestiture of commodity businesses and will help to reduce the company's capital intensity.

Outlook

The outlook is stable because we expect Evonik will maintain adjusted FFO to debt above 30% in 2024, the minimum we view as commensurate with the rating, and up to about 35% in 2025, supported by a gradual improvement in demand and the benefits from contemplated cost-saving measures.

Downside scenario

We could lower the rating if we anticipate that our adjusted FFO to debt declining 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.

Our Base-Case Scenario

Assumptions

- Global GDP growth of 3.2% in 2024, then improving to 3.4% in 2025 and 2026. North America will see growth of 2.4% in 2024, before softening to 1.5% in 2025. Europe will see GDP growth of 1.3% in 2024, before improving to 1.9% in 2025 and 2026.
- After a significant revenue decline of 17.4% in 2023, mainly driven by lower volumes due to weak demand and customer destocking as well as significant price erosion in the high-volume animal nutrition and C4 businesses, we forecast 0%-2% sales growth in 2024, assuming higher volumes given modest demand recovery and lower pricing given the deflationary trend in raw material and energy costs.
- Stable S&P Global Ratings-adjusted EBITDA margin in 2024 with front-end loaded expenses related to the reorganization program offsetting margin improvements from achieved cost savings and positive operating leverage effects of higher volumes and asset utilization; higher margin in 2025 due to a continuous ramp-up of cost savings and gradual improvement in volumes.
- Capex to lower to about €750 million in 2024, in line with company guidance.
- Stable dividends of about €550 million in 2024, which we expect to be slightly up in 2025.

Key metrics

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. EUR)	2022a	2023a	2024e	2025f
Revenue	18,488	15,267	15,424	15,969
EBITDA	2,502	1,703	1,713	2,005
EBITDA margin (%)	13.5	11.2	11.1	12.6
Funds from operations	2,248	1,368	1,370	1,660
Interest expense	115	150	177	170
Cash flow from operations	1,586	1,523	> 1,400	> 1,300
Capital expenditure (reported)	865	793	~750	~800
Free operating cash flow (reported)	728	734	650-700	>500
Cash dividends paid	558	555	~550	555-565
Share repurchases (reported)	16	16	16	16
Discretionary cash flow (DCF)	154	163	100-150	(50)-0
Debt	3,985	4,393	4,420	4,665
Adjusted ratios				

Debt/EBITDA (x)	1.6	2.6	2.6	2.3
FFO/debt (%)	56.4	31.2	31.0	35.6
FFO cash interest coverage (x)	29.2	14.3	12.1	15.3
EBITDA interest coverage (x)	21.8	11.4	9.7	11.8
CFO/debt (%)	39.8	34.7	>30	>28
FOCF/debt (%)	18.4	16.8	14.7-15.8	11-12

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast.

In 2023, Evonik implemented short-term contingency measures to cut costs and safeguard performance in a challenging market, which delivered a planned €250 million in cost savings and will be continued in 2024 with similar benefits targeted. The company also started adjusting the animal nutrition business' operating model last year, aiming to generate €200 million in cost reductions by 2025, of which €100 million to be realized by 2024 (€40 million achieved in 2023).

In addition, Evonik plans to reorganize the group structure through the Evonik Tailor Made program, aiming to achieve €400 million cost savings by the end of 2026, with the first small savings to be realized in 2024 and the majority spread over 2025-2026. Approximately 80% of these savings will come from personnel reductions, with the remainder from non-personnel costs. We expect the majority of one-off expenses related to this to be booked in 2024, with cash outflows spread over next few years.

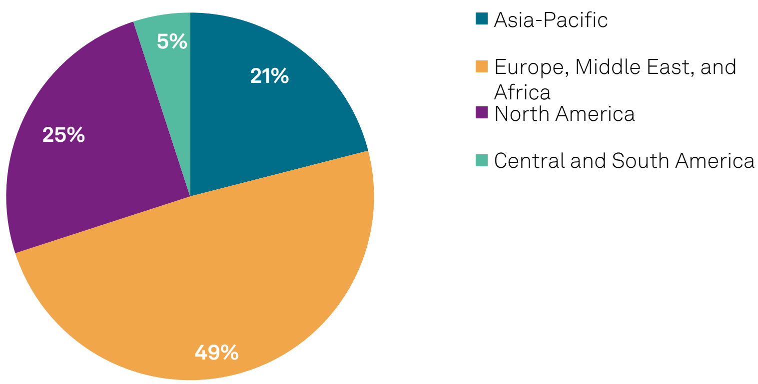
Company Description

Evonik is one of the leading specialty chemical companies, with about €15.3 billion of revenue reported in 2023. 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 2023): Crosslinkers, coating additives, and oil additives, among others.
- Nutrition and Care (24%): Animal nutrition, as well as health and care solutions.
- Smart Material (29%): Silica, catalysts, and high-performance polymers, among others.
- Performance Material (17%): Baby care (will be sold in 2024) and performance intermediates (up for disposal), among others.
- Technology and Infrastructure (7%): Energy supply to external customers, site management, among others.

2023 Sales by region

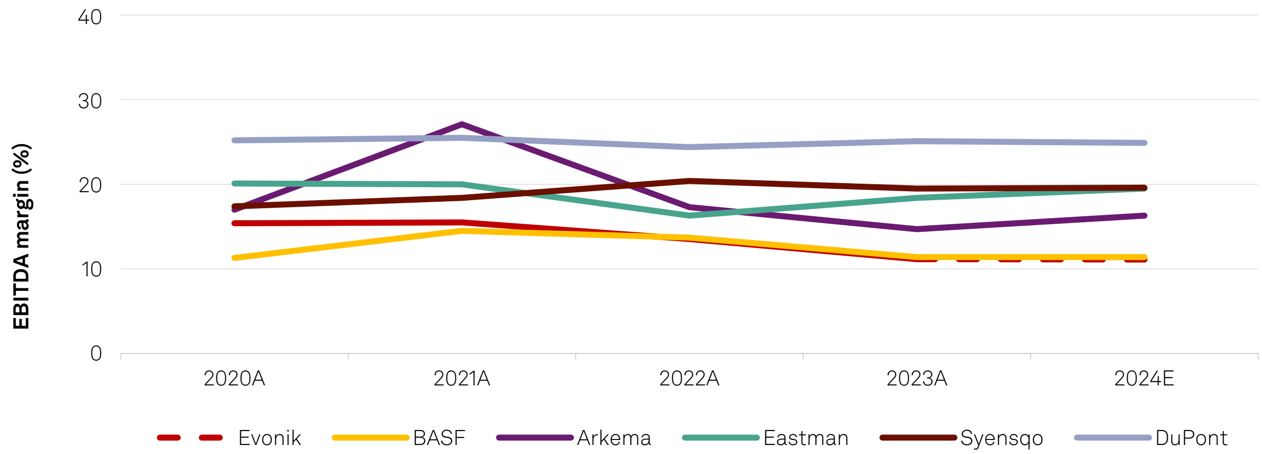


Source: Evonik 2023 annual report

Peer Comparison

Evonik's EBITDA margin lags industry peers in the U.S., primarily driven by regionally higher energy and feedstock costs in Europe. Its somewhat higher exposure to production assets in Europe and larger share of more commodity-like businesses, including performance materials and methionine in the animal nutrition segment (affected by global oversupply in recent years), has led to a lower margin compared to European specialty producers like Arkema and Syensqo. There is potential for Evonik to improve its profitability and reduce the margin gap with global industry peers over the medium term thanks to comprehensive cost-saving initiatives and the ongoing portfolio transformation with a focus on high-growth, high-margin specialty products with sustainability benefits.

Evonik's S&P Global Ratings-adjusted EBITDA margin lags industry peers'



Source: S&P Global Ratings

Evonik Industries AG--Peer Comparisons

	Evonik Industries	BASF SE	Arkema S.A.	Eastman Chemical Co.	DuPont de Nemours Inc.
Foreign currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Positive/A-2	BBB/Stable/A-2	BBB+/Watch Neg/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Positive/A-2	BBB/Stable/A-2	BBB+/Watch Neg/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	15,267	68,902	9,514	8,332	10,918
EBITDA	1,703	7,887	1,480	1,537	2,746
Funds from operations (FFO)	1,368	6,634	1,228	1,179	2,006
Interest	150	934	50	238	379
Cash interest paid	103	493	61	215	384
Operating cash flow (OCF)	1,523	7,737	1,259	1,304	2,061
Capital expenditure	786	5,315	629	737	560
Free operating cash flow (FOCF)	737	2,422	630	567	1,501
Discretionary cash flow (DCF)	163	(742)	334	91	(955)
Cash and short-term investments	1,010	2,677	2,045	496	2,164
Gross available cash	1,010	2,677	2,045	496	2,164
Debt	4,393	21,318	2,905	5,026	5,969
Equity	9,235	36,645	7,105	5,003	22,369
EBITDA margin (%)	11.2	11.4	15.6	18.4	25.1
Return on capital (%)	4.3	6.3	7.5	9.5	6.0

Evonik Industries AG--Peer Comparisons

EBITDA interest coverage (x)	11.4	8.4	29.6	6.4	7.2
FFO cash interest coverage (x)	14.3	14.5	21.1	6.5	6.2
Debt/EBITDA (x)	2.6	2.7	2.0	3.3	2.2
FFO/debt (%)	31.2	31.1	42.3	23.5	33.6
OCF/debt (%)	34.7	36.3	43.3	25.9	34.5
FOCF/debt (%)	16.8	11.4	21.7	11.3	25.1
DCF/debt (%)	3.7	(3.5)	11.5	1.8	(16.0)

Business Risk

Evonik's business risk profile is underpinned by its large size and the strong market positions its specialty chemical businesses hold, as well as its global market reach and production footprint. We view the company's ongoing portfolio transformation toward more resilient, high-margin specialty chemicals as credit positive. The acquisitions of PeroxyChem, Porocel, and Infinitec Activos in the last few years have broadened Evonik's offering in specialty products. It has also taken first steps to divest the commoditized performance materials division (including functional solutions, superabsorbent, and C4). Evonik sold its Lülsdorf site including the low-margin functional solutions business, where it produces basic chemicals like potassium derivatives, in June 2023. The company also signed an agreement to divest the highly volatile superabsorbent business, which it expects to complete in first half-2024. Despite becoming smaller and less diversified post completion, we view this and the contemplated divestiture of the C4 base chemicals business as positive for Evonik's business profile. This portfolio optimization will improve Evonik's EBITDA margin and result in more resilient cash flow generation, given the higher volatility of these commoditized products compared with the rest of its offerings and their sensitivity to economic cycles and global supply-and-demand balances.

The company benefits from greater end-market and product-range diversity than most of its peers, while there are limited synergies between its business lines. About one-quarter of its sales come from nutrition and care products and about 15%-20% from the more cyclical auto industry. It also has well-diversified exposure to other end markets. None of these end-markets accounts for more than 20% of sales. The group has a good track record in research and development, which accounts for 3.0%-3.5% of its annual sales.

Evonik's strategic focus on sustainable innovations and its continuous portfolio optimization toward high-growth, high-margin products and solutions is aligned with market trends and positions it well for long-term success. Evonik has taken efforts to expand its sustainable project offering (Next Generation Solutions) with above-average market growth potential. The company has identified six innovation growth fields: sustainable nutrition, healthcare solutions, advanced food ingredients, membranes (high performance polymers), cosmetic solutions, and additive manufacturing. Evonik targets to generate additional annual sales of over €1 billion from these innovation growth fields by 2025, up from €650 million in 2023. This will be supported by investments into selected growth projects like the first industrial-scale rhamnolipid biosurfactant plant for household and personal care, the lipid production facility for mRNA-based therapies in the U.S., and the expansion of precipitated silica capacity in the U.S. for green tire application.

Despite a global presence, a considerable proportion of Evonik's volumes is produced in Europe (about 40% versus about 30% in Americas and Asia-Pacific, respectively), which has experienced higher energy and feedstock prices than other regions like the U.S. and the Middle

East. This, alongside low growth potential and high costs related to labor and environmental regulations in the EU, results in competitive disadvantages for Evonik's European assets.

As one of its mid-term targets, Evonik aims to structurally and sustainably lift its EBITDA margin (as adjusted by company) into a higher range of 18%-20% through price increases, cost efficiencies, and a shift toward sustainable businesses. This compares to the actual of 10.8% in 2023, down from 13.5% in 2022. Achieving the target is still a long way off. A swift ramp-up of cost savings from various efficiency measures and a continuous shift in production mix toward high-margin customized, innovative products with sustainability benefits will be key to strengthening the company's margin.

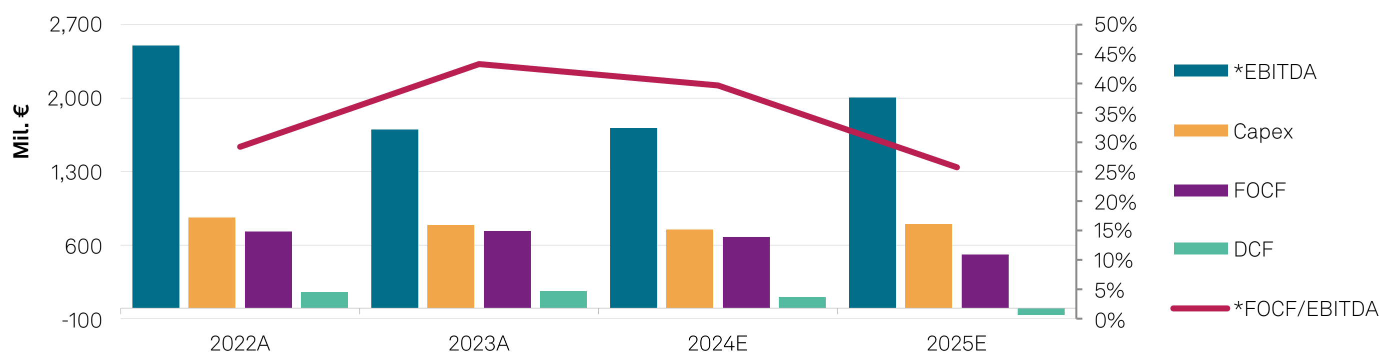
Financial Risk

Our view of Evonik's financial risk profile factors in our forecast of adjusted FFO to debt of about 31% in 2024, similar to the 31.2% achieved at year-end 2023. This indicates significantly reduced rating headroom in 2023 due to weak operating performance amid difficult market conditions, although FOCF has remained strong and above our previous forecast.

Offsetting the limited headroom under FFO to debt is the company's track record of conservative financial policy regarding investments, M&A, financing, and shareholder distributions. We expect Evonik will maintain its focus on cost efficiency and organic growth, especially through next generation solutions, while maintaining a selective approach for M&A with a focus on small- to medium-sized bolt-ons. In addition, we view the company's reiterated focus on cash conversion as supportive for the rating.

Our debt adjustments for 2023 include an about €1.2 billion pension deficit, €937 million in lease liabilities, and about €20 million in financial guarantees. Our surplus cash adjustment weighs on our estimate of a haircut of about €100 million, which is not immediately accessible for debt repayment.

Evonik's strong commitment to cash conversion



*S&P Global Ratings-adjusted. FOCF- Free operating cash flow. DCF--Discretionary cash flow. Source: S&P Global Ratings

Debt maturities

Evonik Industries AG- Debt Maturities*

Year	Mil.€ (Approx)
2024	1,000
2025	700
2026	700
2027	800
2028	550
Thereafter	400-500

As of Dec.31,2023

Evonik Industries AG--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	15,024	13,108	12,199	14,955	18,488	15,267
EBITDA	2,414	2,126	1,884	2,317	2,502	1,703
Funds from operations (FFO)	1,991	1,802	1,723	1,909	2,248	1,368
Interest expense	156	132	108	108	115	150
Cash interest paid	156	115	78	100	80	103
Operating cash flow (OCF)	1,783	1,287	1,688	1,727	1,586	1,523
Capital expenditure	1,026	872	950	856	855	786
Free operating cash flow (FOCF)	757	415	738	871	731	737
Discretionary cash flow (DCF)	183	(155)	165	296	154	163
Cash and short-term investments	1,128	2,368	1,028	902	1,058	1,010
Gross available cash	1,068	2,368	1,028	902	1,058	1,010
Debt	5,747	4,472	5,706	5,092	3,985	4,393
Common equity	8,073	9,309	8,348	9,620	11,304	9,235
Adjusted ratios						
EBITDA margin (%)	16.1	16.2	15.4	15.5	13.5	11.2
Return on capital (%)	10.7	8.3	6.2	8.6	8.6	4.3
EBITDA interest coverage (x)	15.5	16.1	17.5	21.5	21.8	11.4
FFO cash interest coverage (x)	13.8	16.7	23.2	20.2	29.2	14.3
Debt/EBITDA (x)	2.4	2.1	3.0	2.2	1.6	2.6
FFO/debt (%)	34.6	40.3	30.2	37.5	56.4	31.2
OCF/debt (%)	31.0	28.8	29.6	33.9	39.8	34.7
FOCF/debt (%)	13.2	9.3	12.9	17.1	18.4	16.8
DCF/debt (%)	3.2	(3.5)	2.9	5.8	3.9	3.7

Reconciliation Of Evonik Industries AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	3,389	8,910	15,267	1,581	(253)	92	1,703	1,594	555	793
Cash taxes paid	-	-	-	-	-	-	(232)	-	-	-
Cash interest paid	-	-	-	-	-	-	(99)	-	-	-
Lease liabilities	937	-	-	-	-	-	-	-	-	-
Intermediate hybrids (debt)	(249)	249	-	-	-	(3)	3	3	3	-
Postretirement benefit obligations/ deferred compensation	1,206	-	-	5	5	54	-	-	-	-
Accessible cash and liquid investments	(910)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	7	(7)	(7)	-	(7)
Capitalized development costs	-	-	-	-	2	-	-	-	-	-
Dividends from equity investments	-	-	-	25	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	38	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(67)	-	-
Noncontrolling/ minority interest	-	76	-	-	-	-	-	-	-	-
Debt: Guarantees	20	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	19	19	-	-	-	-	-
EBITDA: Foreign exchange gain/(loss)	-	-	-	73	73	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	735	-	-	-	-	-
Total adjustments	1,004	325	-	122	872	58	(335)	(71)	3	(7)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	4,393	9,235	15,267	1,703	619	150	1,368	1,523	558	786

Liquidity

Our short-term issuer credit rating on Evonik is ‘A-2’. We view the company’s liquidity as strong based on our estimate that sources will exceed uses by about 1.7x over the 12 months from

March 31, 2024, and 1.5x over the subsequent 12 months. Evonik's debt documentation does not include any covenants and the group has a track record of addressing its maturities well ahead of time.

Principal liquidity sources

- On March 31, 2024, about €1.06 billion of cash and cash equivalents.
- A €1.75 billion undrawn revolving credit facility (RCF) maturing in November 2028, with a one-year extension option. The facility is not subject to any financial covenants.
- €800 million unused bilateral credit lines in place, of which €275 million mature in more than 12 months.
- FFO of €1.3 billion-€1.4 billion over the next 12 months, according to our base-case scenario.
- €500 million commitment under new long-term EIB bank loan facility.

Principal liquidity uses

- Short-term debt of about €953 million.
- €160 million-€180 million working capital outflow in the next 12 months, in addition to about €100 million seasonal working capital swing.
- Assumed capex of about €750 million-€800 million.
- Dividends of around €550 million-€560 million.

Environmental, Social, And Governance

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 (our estimate of 65%-75% of group sales) through selling its resource-intensive methacrylate's business in 2019 and making several targeted acquisitions. It has also taken first steps to divest the commoditized Performance Materials division. The company has embedded sustainability as a growth driver and generated in 2023 about 43% of group sales from products and solutions with a clear sustainability benefit--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. 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. In addition, Evonik is expanding its commitment to developing solutions for the circular economy, targeting to generate at least €1 billion additional annual sales from circular products and technologies by 2030.

Evonik aims to reduce scope 1 and 2 emissions by 25% and scope 3 emissions by 11% by 2030 compared with 2021, on route to reaching net zero by 2050. Key measures to reach the interim targets for greenhouse gas reductions include the commissioning of new gas and steam turbine power plants, which replace the existing coal-fired power generation at the Marl site in Germany, initiatives to increase energy efficiency in production and processing operations, and a switch to green electricity through long-term power purchase agreements (PPA), for example through PPA for offshore wind park with EnBW starting 2026 and with RWE starting 2028, and PPA for photovoltaic park with Vattenfall starting 2025. The company plans to cover 100% of its external electricity needs with renewables by 2030, up from 35% in 2023.

Governance factors are a 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.

Issue Ratings--Subordination Risk Analysis

Capital structure

Evonik Industries AG is the reporting entity and the ultimate parent company of Evonik Group. Evonik's capital structure comprises five outstanding corporate bonds totaling about €3 billion, which accounted for nearly 90% of the group's reported debt on Dec. 31, 2023. All outstanding bonds are issued by the parent company. The corporate bonds include one green senior bond of €750 million due in 2027 and a green hybrid bond of €500 million. On March 2024, Evonik signed a €500 million loan agreement with European Investment Bank (EIB) with a clear focus on sustainability linked RD&I expenses. We understand that Evonik's €750 million senior bond maturing in September 2024 will be refinanced by part of the loan commitment from EIB and cash on balance sheet allowing a reduction of gross financial debt.

Analytical conclusions

With no material priority obligations ranking ahead of the senior unsecured obligations, we rate the company's senior unsecured debt 'BBB+', the same as the issuer credit ratings.

The €500 million hybrid bond has a coupon of 1.375% and matures in 2081 with a first call right for Evonik in 2026, which we assess as having intermediate equity content. The hybrid is rated 'BBB-', two notches below the issuer credit rating on Evonik.

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	Positive (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb+

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- 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: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit FAQ: Europe's Chemical Sector: Spotting Signs Of Recovery, April 11, 2024
- German Chemical Industry's Decarbonization Is A Team Effort, March 20, 2024
- Industry Credit Outlook 2024: Chemicals, Jan. 9, 2024

Ratings Detail (as of June 07, 2024)*

Evonik Industries	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB-
Issuer Credit Ratings History	
09-May-2012	BBB+/Stable/A-2
06-May-2011	BBB/Stable/A-2
21-Sep-2010	BB+/Positive/B

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.