Research Update:

Kew Soda Ltd., Parent Of WE Soda, Upgraded To 'BB-' Following Positive Rating Actions On Turkiye; Outlook Positive

December 11, 2023

Rating Action Overview

- On Nov. 30, 2023, S&P Global Ratings revised the outlook on our 'B' unsolicited long-term sovereign credit rating on Türkiye to positive from stable and affirmed all our foreign and local currency ratings. We also raised our unsolicited transfer and convertibility (T&C) assessment of Türkiye to 'B+' from 'B'.
- We continue to assess Kew Soda Ltd.'s stand-alone credit profile (SACP) at 'bb', but we cap the rating at one notch above the T&C assessment on Türkiye because, despite being an exporter, all the company's physical assets are in the country, which exposes it to domestic risks that are beyond its control.
- We anticipate that the company will sustain adjusted debt to EBITDA within the 2.0x-3.0x range we view as commensurate with the 'bb' SACP, supported by its competitive cost position, strong margins, and resilient sales volumes.
- We therefore raised our long-term issuer credit rating on Kew Soda, and our issue rating to the $980 million senior secured notes due 2028 issued by WE Soda Investments Holding PLC (We Soda), to 'BB-' from 'B+'.
- The positive outlook mirrors that on the sovereign rating on Türkiye, to the extent that a positive rating action on the sovereign would lead to a higher T&C assessment.

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Rating Action Rationale

The upgrade follows the same action on the unsolicited T&C assessment on the sovereign. On Nov. 30, 2023, S&P Global Ratings revised to positive from stable the outlook on its 'B' unsolicited long-term sovereign credit ratings on Türkiye (see "Turkiye Outlook Revised To Positive From Stable On Subsiding Twin Deficits; 'B' Ratings Affirmed," published on RatingsDirect). At the same time, we raised our unsolicited T&C assessment to 'B+' from 'B', signifying the risk that the sovereign might prevent private sector debtors from servicing foreign currency-denominated debt is abating. We assess Kew Soda's SACP at 'bb'. While it passes our sovereign stress test, indicating our expectation that the entity could withstand a stress scenario likely to accompany a sovereign default, we cap the rating at one notch above the T&C assessment on Türkiye ('B+'). This is because--despite being an exporter--all the company's physical assets are in Türkiye, which exposes it to domestic risks that are beyond its control. Kew Soda passes our stress test because of its export-oriented business (about 80% of total revenue in 2022), corresponding to virtually all its earnings being in hard currency, and sizable cash holdings in U.K. accounts.

Kew Soda's projected credit metrics provide the company with a sufficient cushion for the current rating, given market conditions remain uncertain. We expect earnings to decline in second-half 2023 and into 2024, due to weak macroeconomic conditions. The company's earnings demonstrated resilience in the first half, bolstered by continued strong demand and robust pricing. Reported revenue increased 17% compared with first-half 2022 to about $904 million, and company adjusted EBITDA was $466 million. Even so, we expect revenue to decline in the remainder of 2023 and in 2024, and margins to erode. This is due to our expectation of subdued demand in key end markets--such as construction, auto, and chemicals--leading to lower prices. We expect sales volumes to be broadly stable given the company's position at the low end of the cost curve. This means that swings in end-market demand are unlikely to affect WE Soda's sales volumes since they will price out marginal suppliers first. Accordingly, we forecast S&P Global Ratings-adjusted EBITDA of about $740 million in 2023 (including nonrecurring costs of about $10 million) and $600 million-$630 million in 2024. As a result, we forecast adjusted debt to EBITDA will be broadly stable at 2.2x in 2023, which is strong for the rating. We expect credit metrics to weaken in 2024, with adjusted-leverage at 2.6x-2.8x, still within the 2.0x-3.0x range we view as commensurate with the 'bb' SACP. We calculate leverage on a gross debt basis, which we project at about $1.55 billion in 2023, and we adjust for items such as leases, asset retirement obligations, net pension liabilities, and the drawn portion of committed receivable financing facilities.

We expect the company to distribute free operating cash flow (FOCF) after growth opportunities without jeopardizing the rating. Specifically, we factor in distributions to shareholders of about $500 million in 2023 reducing to about $250 million-$300 million in 2024. This is lower than our previous expectations of about $400 million, in line with our forecast of lower EBITDA in 2024. We note the company's target of maintaining net leverage (as defined by management) at 1.5x-2.5x and understand that dividend distributions are flexible. In conjunction with good visibility of earnings and soda ash prices, this allows the company to reduce payouts, if needed.

Outlook

The positive outlook mirrors that on the sovereign rating on Türkiye, to the extent that a positive rating action on the sovereign would lead to a higher T&C assessment. Although the group has passed our stress test for a foreign currency sovereign default, the long-term issuer credit rating is capped at one notch above the T&C assessment on Türkiye (B+). This is because virtually all the group's physical assets are in the country, and its operations can be significantly affected by decisions beyond its control.

We expect that, on a stand-alone basis, WE Soda will maintain credit ratios that are strong for the rating. In our base-case scenario, we anticipate S&P Global Ratings-adjusted debt to EBITDA of about 2.2x in 2023, which we view as healthy given the 2.0x-3.0x adjusted leverage range we consider commensurate with the 'bb' SACP. We expect adjusted debt to EBITDA to increase to 2.6x-2.8x in 2024 due to lower soda ash prices. We also consider FOCF to debt, which we expect to decrease to 26%-27% in 2023 and 15%-19% in 2024, from about 39% in 2022, due to increasing capital allocation toward growth initiatives. However, we anticipate it will remain within the 15%-25% we view as commensurate with the SACP. We expect management will support credit metrics at these levels, given its commitment to maintaining reported net debt to EBITDA (as calculated by management) at 1.5x-2.5x.

Downside scenario

We could revise our outlook to stable if we take the same action on the foreign currency sovereign rating on Turkey, or if WE Soda's export revenue and liquidity position in offshore accounts deteriorate, so that it no longer passes our T&C stress test.

We could also revise down the SACP if we observe a marked deterioration in its operating performance, such that adjusted debt to EBITDA exceeds 3.0x and FOCF to debt declines below 15% without clear prospects of recovery. This could occur if we observe a sharp and prolonged deterioration in soda ash prices due to a less-than-supportive market environment.

Upside scenario

We could raise the rating on Kew Soda, all else being equal, following a positive rating action on Turkiye, if that would lead to a higher T&C assessment.

Company Description

U.K.-headquartered Kew Soda Ltd. is the intermediate parent of WE Soda, the world's largest producer of natural soda ash and one of the largest producers of soda ash in general. The group produces over 5 million tons per annum (mtpa) of natural soda ash and sodium bicarbonate and operates two of the lowest cost production facilities in the world, located in Türkiye.

In 2022, the company reported total revenue of $1.77 billion, with approximately 20% of its products by value sold in the domestic market and the remaining 80% exported to over 80 countries--the main destination being Europe.

WE Soda's ultimate parent entity is Akkan Enerji ve Madencilik A.#., which is incorporated in Turkey and 100% owned by Mr. Turgay Ciner.

Our Base-Case Scenario

Assumptions

- GDP growth of 1.1% in Europe, 2.0% in Latin America, and 4.7% in Asia-Pacific in 2023, and then 1.4%, 1.5%, and 4.4% in 2024, respectively.
- Revenue declines 9%-12% in both 2023 and 2024, driven by lower soda ash prices owing to reduced demand and declining energy prices, partly offset by increased production capacity and, therefore, sales volumes.
- An adjusted EBITDA margin of about 47% in 2023, declining to about 40%-45% in 2024.

- Capital expenditure (capex) of about $120 million in 2023 and $170 million in 2024, reflecting increasing capital allocation toward growth initiatives, such as the expansion of production capacity in Kazan by 0.6 mtpa by 2025.
- Working capital inflows of about $20 million in 2023, and $40 million-$50 million in 2024, reflecting lower soda ash prices and a decline in revenue.
- Annual dividends of $500 million in 2023, reducing to $250 million-$300 million in 2024.

Key metrics

- S&P Global Ratings-adjusted EBITDA of about $740 million in 2023 (including nonrecurring costs of about $10 million) and $600 million-$630 million in 2024.
- Adjusted debt to EBITDA of about 2.2x in 2023 and 2.6x-2.8x in 2024.
- Adjusted funds from operations (FFO) to debt of 30%-35% in 2023 and 20%-25% in 2024.
- FOCF of about $440 million in 2023 and $250 million-$300 million in 2024.

Issue Ratings - Subordination Risk Analysis

Capital structure

Kew Soda's capital structure consists of:

- Senior secured notes of $980 million;
- $420 million under WE Soda's senior secured revolving credit facility (RCF; $103 million drawn);
- $40 million under Ciner Enterprises' senior secured RCF ($40 million drawn);
- $434 million remaining under the senior secured term loan A (TLA).

Analytical conclusions

We rate the group's senior secured notes 'BB-', in line with the issuer credit rating on Kew Soda Ltd. The rating is supported by the notes' secured status and pari-passu ranking with the group's TLA and RCF.

Ratings Score Snapshot

Issuer Credit Rating	BB-/Positive/--
Business risk:	Weak
Country risk	High
Industry risk	Moderately high
Competitive position	Fair
Financial risk:	Intermediate

Issuer Credit Rating	BB-/Positive/--
Cash flow/leverage	Intermediate
Anchor	bb
Modifiers:	
Diversification/Portfolio effect	Neutral
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Fair
Comparable rating analysis	Neutral
Stand-alone credit profile:	bb
Related government rating	B/Positive/B
Rating above the sovereign	BB-

Related Criteria

- 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
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Turkiye Outlook Revised To Positive From Stable On Subsiding Twin Deficits; 'B' Ratings Affirmed, Nov. 30, 2023

Ratings List

Upgraded

	To	From
KEW Soda Ltd.		
Issuer Credit Rating	BB-/Positive/--	B+/Stable/--
WE Soda Investments Holding plc		
Senior Secured	BB-	B+