S&P Global Ratings

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Research Update:

WE Soda Ltd. Assigned 'BB-' Rating; Outlook Stable; KEW Soda Ltd. 'BB-' Rating Withdrawn

July 8, 2024

Rating Action Overview

- We assigned our 'BB-' long-term issuer credit rating to WE Soda Ltd., the consolidating entity of WE Soda group and the parent entity of the restricted group. We also affirmed our 'BB-' issue rating on WE Soda group's senior secured notes.
- At the same time, at the request of the issuer, we withdrew our 'BB-' long-term issuer credit rating on Kew Soda Ltd., the intermediate parent company of WE Soda group.
- We expect demand for soda ash will remain subdued over 2024-2025, which will lead to lower soda ash prices, compared with the high levels achieved in 2023. We therefore anticipate that WE Soda Ltd.'s S&P Global Ratings-adjusted debt to EBITDA will increase to 3.0x-3.5x over 2024-2025, which exceeds the 2.0x-3.0x range we view as commensurate with the company's 'bb' stand-alone credit profile (SACP).
- We therefore lowered WE Soda Ltd.'s SACP to 'bb-' from 'bb' and revised the outlook on the SACP to stable from positive.
- Our 'BB-' rating on WE Soda Ltd. is now equal to--and therefore no longer constrained by--our transfer and convertibility (T&C) assessment on Turkiye and remains one notch above the sovereign credit rating on Turkiye since the company passes our hypothetical sovereign stress test.
- The stable outlook on the rating indicates that we expect WE Soda Ltd. will maintain adjusted debt to EBITDA within the 3.0x-4.0x range that we see as commensurate with the 'BB-' rating. In our base case, we forecast adjusted EBITDA of $520 million-$540 million in 2024, improving to about $600 million in 2025. As a result, we expect adjusted debt to EBITDA will increase to 3.2x-3.6x in 2024 and about 3.0x in 2025, from 2.5x in 2023, reflecting our expectation that weaker demand in key end markets will result in lower soda ash prices. Furthermore, the stable outlook reflects our expectation that the company will continue passing our hypothetical sovereign stress test on Turkiye.

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Rating Action Rationale

The 'BB-' rating on WE Soda Ltd. is identical to the previous rating on Kew Soda Ltd. Following the decision to cancel the initial public offering in June 2023, WE Soda group transferred the governance arrangements from Kew Soda Ltd. to WE Soda Ltd. and decided to report the consolidated audited accounts at the WE Soda Ltd. level from 2023 onward. WE Soda Ltd., similar to KEW Soda Ltd., is an intermediate holding company. The immediate parent is KEW Soda Ltd., which is incorporated in the U.K., and the ultimate holding company is Akkan Enerji ve Madencilik A.#., which is incorporated in Turkiye. While additional holding companies exist above WE Soda Ltd., we exclude them from our group assessment since we believe they have no material liabilities or operating assets and therefore no bearing on the group's overall credit quality. As a result, our view of WE Soda Ltd.'s business risk continues to reflect its advantageous cost position--which helps it generate very high profitability and resilient sales volumes--its strong market positions in its key regions, such as Europe and South America, and the disciplined nature of the soda ash market. We regard WE Soda Ltd.'s narrow geographical and product diversity as the main constraints for its credit profile.

The rating action reflects our expectation that leverage will remain above 3.0x over the next 12-18 months due to lower earnings. We have lowered WE Soda Ltd.'s SACP to 'bb-' from 'bb'. At the same time, we revised the outlook on the SACP to stable from positive. This is because we no longer think that WE Soda Ltd. is likely to meet the requirements for a higher rating over the next 12-18 months, including maintaining adjusted leverage below 3.0x. Our base case is that demand for soda ash in key end markets--such as construction, auto, and chemicals that account for over half of the company's output--will likely remain subdued over 2024-2025, leading to lower soda ash prices. Specifically, we expect the total construction output in the important European market will decline for the second consecutive year in 2024, while S&P Global Mobility projects light vehicle production will marginally decline in 2024, after increasing strongly in 2023. Finally, we forecast a gradual and only modest recovery of the chemical sector in 2024. As a result, we expect that WE Soda Ltd.'s revenues will decline to about $1.3 billion in 2024, from $1.56 billion in 2023, and that margins will erode. Even so, we expect sales volumes will grow as the company's production capacity increased following the debottlenecking in Kazan, Turkiye.

Our forecast factors in WE Soda Ltd.'s position at the low end of the cost curve. This means changes in the demand in end markets are unlikely to affect WE Soda Ltd.'s sales volumes since they will price out marginal suppliers first. Accordingly, we forecast adjusted EBITDA of $520 million-$540 million in 2024, corresponding to adjusted leverage of 3.2x-3.6x. This exceeds 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 $1.8 billion in 2024, including adjustments for items such as leases, asset retirement obligations, net pension liabilities, and the drawn portion of committed receivable financing facilities.

Our 'BB-' rating on WE Soda Ltd. is now equal to our T&C assessment on Turkiye and remains one notch above the sovereign credit rating on Turkiye. WE Soda group's physical assets are in Turkiye and its operations can be significantly affected by decisions that are beyond its control, such as government-imposed export restrictions. Nevertheless, WE Soda Ltd. passes our sovereign stress test, which includes both economic stress and a potential currency devaluation. We therefore rate the company one notch above the unsolicited 'B+' long-term foreign currency sovereign credit rating on Turkiye. WE Soda Ltd. passes our stress test because of its export-oriented business--which accounted for about 84% of total revenues in 2023 and means that virtually all the company's earnings are in hard currency--and its sizable cash holdings in offshore accounts.

Outlook

The stable outlook indicates that we expect WE Soda Ltd. will maintain adjusted debt to EBITDA within the 3.0x-4.0x range we see as commensurate with the 'BB-' rating. In our base case, we forecast adjusted EBITDA of $520 million-$540 million in 2024, improving to about $600 million in 2025. As a result, we expect adjusted debt to EBITDA will increase to 3.2x-3.6x in 2024 and about 3.0x in 2025, from 2.5x in 2023. This reflects our expectation that weaker demand in key end markets will result in lower soda ash prices.

Furthermore, the stable outlook reflects our expectation that the company will continue passing our hypothetical sovereign stress test on Turkiye.

Downside scenario

We could lower our rating on WE Soda Ltd. if a less-than-supportive market environment persists for longer than we anticipate, hampering demand, depressing soda ash prices, and leading to adjusted debt to EBITDA above 4.0x without near-term prospects of a recovery, combined with free operating cash flow (FOCF) to debt declining below 10%.

While unlikely, given the export-oriented nature of the business, we could also lower our rating if WE Soda Ltd.'s export revenues and liquidity position in offshore accounts deteriorate such that it no longer passes our hypothetical sovereign stress test.

Upside scenario

We could consider a positive rating action if:

- Debt to EBITDA improved sustainably below 3.0x;
- FOCF to debt remained above 10%; and
- WE Soda continued to pass our hypothetical sovereign stress test on Turkiye, all else being equal.

Company Description

U.K.-headquartered WE Soda Ltd. is the intermediate parent of WE Soda group, 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 metric tons per year of natural soda ash and sodium bicarbonate and operates two of the most cost-efficient production facilities globally in Turkiye.

In 2023, WE Soda Ltd. reported total revenues of $1.56 billion, with approximately 16% of its products by value sold in the domestic market and the remaining 84% exported to over 80 countries. The main export destination is Europe.

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

Our Base-Case Scenario

Assumptions

- GDP growth of 1.3% in Europe, 1.7% in Latin America, and 4.5% in Asia-Pacific in 2024, and 1.9%, 2.4%, and 4.7%, respectively, in 2025.
- Revenue decline of 15%-20% in 2024, driven by lower demand and declining energy prices that result in lower soda ash prices. This will be partly offset by an increase in production capacity and, therefore, sales volumes. We forecast revenue growth of about 10% in 2025 due to recovering prices and increased sales volumes.
- Adjusted EBITDA margins of about 41% in 2024, improving to 41%-43% in 2025.
- Capital expenditure (capex) of about $115 million in 2024 and about $200 million in 2025, reflecting increasing capital allocation toward growth initiatives, such as the expansion of production capacity in Kazan by 0.6 million metric tons per year by 2025 and greenfield investments in the U.S.
- Working capital inflows of about $50 million in 2024, followed by outflows of $20 million in 2025, reflecting higher soda ash prices and a revenue increase.
- Annual dividends of $150 million in 2024, increasing to about $250 million in 2025.

Key metrics

- Adjusted EBITDA of $520 million-$540 million in 2024 and about $600 million in 2025.
- Adjusted debt to EBITDA of 3.2x-3.6x in 2024 and about 3.0x in 2025.
- Adjusted funds from operations (FFO) to debt of 15%-25% over 2024-2025.
- FOCF of about $250 million in 2024 and $150 million-$200 million in 2025.

Liquidity

We assess WE Soda Ltd.'s liquidity as adequate, supported by a long-dated debt maturity profile, good cash-interest coverage, and availability under two revolving credit facilities (RCFs) totaling $475 million. We estimate that the company's liquidity sources will exceed uses by about 2.5x over the next 12 months. Even though the company's ratio of liquidity sources to uses would qualify for a higher liquidity assessment, we do not consider that WE Soda Ltd. meets sufficient qualitative factors.

Principal liquidity sources over the next 12 months will include:

- Unrestricted cash of $124 million, as of April 1, 2023;
- About $330 million available under the RCF;
- Cash FFO of about $345 million; and
- Working capital inflows of about $30 million.

Principal liquidity uses for the same period will include:

- Capex of $140 million-$150 million; and
- Our estimate of dividends of about $175 million.

Covenants

Under its senior facility agreement, WE Soda Ltd. is subject to a net leverage test (as defined in the debt documentation) of less than 4.0x and a debt service coverage ratio of over 1.2x. We foresee ample headroom under both covenants.

Issue Ratings - Subordination Risk Analysis

Capital structure

WE Soda Ltd.'s capital structure consists of:

- Senior secured notes of $980 million due in 2028;
- Senior secured notes of $500 million due in 2031;
- $435 million under WE Soda's senior secured RCF ($103 million drawn); and
- $40 million under Ciner Enterprises Inc.'s senior secured RCF ($36 million drawn).

Analytical conclusions

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

Ratings Score Snapshot

Issuer credit rating	**BB-/Stable/--**
Business risk:	Weak
Country risk	High
Industry risk	Moderately high
Competitive position	Fair
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bb-
Modifiers:	
Diversification/portfolio effect	Neutral
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate

Issuer credit rating	**BB-/Stable/--**
Management and governance	Moderately negative
Comparable rating analysis	Neutral
Stand-alone credit profile:	bb-
Related government rating	B+/Positive/B
Rating above the sovereign	BB-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, 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
- 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
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit FAQ: Europe's Chemical Sector: Spotting Signs Of Recovery, April 11, 2024
- Soda Ash Producer Kew Soda Ltd., Parent Of WE Soda, And Senior Secured Notes Rated 'B+'; Outlook Stable, Oct. 23, 2023

Ratings List

New Rating		
WE Soda Ltd.		
Issuer Credit Rating	BB-/Stable/--	
Rating Withdrawn		
	To	**From**
KEW Soda Ltd.		
Issuer Credit Rating	NR/--	BB-/Positive/--
NR-Not Rated		
Rating Affirmed		
WE Soda Investments Holding plc		
Senior Secured	BB-	BB-