FitchRatings

17 OCT 2023

Fitch Assigns WE Soda Ltd. Final 'BB-' Rating; Outlook Stable

Fitch Ratings - London - 17 Oct 2023: Fitch Ratings has assigned WE Soda Ltd. a final Long-Term Issuer Default Rating (IDR) of 'BB-' with a Stable Outlook. Fitch has also assigned WE Soda Investments Holding PLC's new USD800 million notes guaranteed by WE Soda Ltd a final 'BB-' senior secured rating. The Recovery Rating is 'RR4', in line with Country-Specific Treatment of Recovery Ratings Criteria. The proceeds of the bond are being used to refinance and repay most of its outstanding debt.

The rating reflects WE Soda's industry-leading production costs, resulting in strong through-the-cycle margins, reduced leverage and its strong market position as one of top three global soda ash producers. It also reflects our assessment of a two-notch uplift above the Turkish Country Ceiling of 'B' due to offshore structural enhancements. Rating constraints are its single commodity exposure, limitations of corporate governance and a challenging macroeconomic environment in Turkiye (B/ Stable), where WE Soda's assets are located.

Key Rating Drivers

IDR Exceeds Country Ceiling: WE Soda's debt service coverage ratio following refinancing supports its IDR being two notches above Turkiye's Country Ceiling, in line with Fitch's Corporates Exceeding the Country Ceiling Rating Criteria. WE Soda plans to maintain at least USD120 million of cash offshore and has around USD327 million of available undrawn committed credit facilities. We assume that the refinancing, expected commitment to maintaining consistent offshore cash and offshore available revolving credit facility (RCF), Ciner Wyoming dividends and proactive debt management will support a debt service coverage ratio consistently above 1.5x.

Debt Burden Reduced: WE Soda is a 100% subsidiary of KEW Soda Ltd. We assess the financial profile based on consolidated financials of KEW Soda Ltd., which mostly constitute those of WE Soda. Based on the full-year consolidated accounts, EBITDA net leverage improved to 1.7x at end-2022, from 4.0x at end-2021 and 5.0x at end-2020. This decline was driven by strong contract-based soda ash prices and stronger production at Kazan Soda and Eti Soda in 2022. WE Soda also used proceeds from the sale of its controlling stake in Ciner Wyoming to reduce gross debt.

We expect WE Soda's leverage to rise moderately as prices normalise, but to remain below or at its 2.5x EBITDA net leverage target.

Cost Leader in Soda Ash: WE Soda's Turkish assets generate the highest EBITDA margins (e.g. 56% in 2022) among peers, based on our estimates. Its main cost advantage stems from the entirety of its production coming from solution mining, which has lower costs than underground ore mining or synthetic soda ash production widely used by competitors. A significant part of WE Soda's operating cost is energy, but it is able to pass it onto its customers.

Low Maintenance Capex: The company's assets have low maintenance capex requirements (around 5%-10% of annual EBITDA), which allows it to generate substantial free cash flow (FCF) to repay debt if growth projects are postponed.

Strong Market Position: WE Soda is amongst the top three global producers of soda ash. It operates two soda ash assets - Eti Soda (2.05 million tonnes (mt)) and Kazan Soda (3.25mt) in Turkiye - after the sale of a 23% stake in Ciner Wyoming (2.5mt) in the US in December 2021. It retains a 20% interest in Ciner Wyoming and is involved in two growth projects in the US: Pacific Soda (3.0-5.4mtpa) and West Soda (2.5-3.0mtpa) with first production planned in 2026 and by 2030, respectively. In 2022, WE Soda's global soda ash market share was roughly 8%.

Strong Pricing Boost Earnings: The company enjoyed a sharp price increase in 2022 driven by a surge in energy prices and solid fundamentals across the soda ash market, leading to 2022 Fitch-adjusted consolidated EBITDA of USD0.8 billion, up over 60% from 2021. We expect prices to remain above historical averages but to begin normalising in 2023 and 2024 as global demand slows. Fitch forecasts EBITDA to average around USD0.7 billion for 2023-2026. WE Soda receives 80%-85% of its revenues from exports and its domestic contracts are all linked to the US dollar or the euro.

Contracts Provide Price Visibility: WE Soda's prices are largely fixed in the last quarter of a year for the next year, while a minority of contracts are formula- and spot-based. Contract clauses allow it to pass on recently surging energy and shipping costs to soda ash customers. Its one-year sales-volume visibility is also strong as minimum volumes are agreed alongside prices. During severe downturns, WE Soda may agree to deliver lower offtake volumes to preserve good customer relationships.

ESG-Friendly Product and Process Development: WE Soda is a natural soda ash producer. The solution mining method deployed to extract trona ore and convert it into soda ash and derivatives has significantly lower energy use as well as water intensity, waste generation and carbon emissions than other methods. The company also benefits from resilient demand growth of soda ash as it is critical to energy transition.

Large Capex Underway: WE Soda's growth projects in Wyoming, US, West Soda (100% ownership) and Pacific Soda (40% JV with Sisecam group) have an estimated cost of USD2.5 billion and USD3.0 billion-USD5.0 billion (WE Soda share: USD1.2 billion-USD2.0 billion), respectively. Both projects are expected to be mostly funded with non-recourse project finance. We forecast capex of USD0.7 billion across 2023-2026, including expansion, maintenance capex and equity funding for both greenfield projects.

Derivation Summary

WE Soda has higher EBITDA margins than its peers. Its business profile is the closest to Tata Chemicals Limited (TCL; BB+/Positive). TCL has a mix of natural and synthetic production leading to lower average profitability than WE Soda. Its financial profile is weaker than TCL's with higher net leverage over the forecast period. WE Soda's rating also incorporates a weaker operating environment and corporate governance limitations compared with TCL.

WE Soda has larger scale than Nobian Holding 2 B.V. (produces caustic soda; B/Stable) and Cydsa, S.A.B. de .C.V. (produces table salts, chlorine-caustic soda; BB+/Stable) but a weaker operating environment. The leverage profile of WE Soda is lower than Nobian's historically as well as over the forecast horizon but weaker than Cydsa's over the forecast period.

We also compare WE Soda with other chemical producers based in Turkiye, Petkim Petrokimya Holdings A.S. (B-/Stable) and Sasa Polyester Sanayi Anonim Sirketi (B/Negative). While all three companies have their manufacturing/operations solely in Turkiye, WE Soda is much stronger in business and financial profiles and has a lower exposure to the economic environment due to higher export orientation.

Petkim, a petrochemical producer, and Sasa, a polyester manufacturer, have domestic revenue shares of 50% and 76%, respectively, while WE Soda has an 80% share of exports. WE Soda also has significant hard-currency credit facilities and offshore cash.

Key Assumptions

Key Assumptions Within Our Rating Case for the Issuer:

- Kazan Soda capacity increasing by 0.6 million tonnes in 2025

- Soda ash realised prices normalising through to 2026

- Capex totaling USD715 million, inclusive of equity injections into Pacific and Soda West projects for 2023-2026

- Dividends in line with company guidance

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-Record of a conservative financial policy with EBITDA net leverage sustained below 1.5x

-Record in improvement of corporate governance

-Upward revision of Turkiye's Country Ceiling

-Commitment to proactive debt management and maintenance of offshore cash and offshore undrawn RCF, supporting debt service coverage above 1.5x during the forecast period

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- EBITDA net leverage sustained above 2.5x

- Material negative FCF due to larger-than-expected investments or dividends

- A lowering of Turkiye's Country Ceiling or a deterioration of the hard-currency debt service ratio below 1.5x on a sustained basis

Liquidity and Debt Structure

Refinancing Strengthens Liquidity: WE Soda has robust liquidity following its bond issue, which will allow it to repay part of its outstanding debt. The existing lenders have agreed for part prepayment and to extend the maturity of the remaining debt until 2026.

The company's first material maturity post-refinancing, will be a USD467 million repayment on the term loan due in 2026.

WE Soda has USD327 million of available RCF (after USD133 million was drawn) with a maturity in August 2026. WE Soda aims to maintain a minimum of USD100 million-USD120 million of cash (offshore) at all times.

Issuer Profile

WE Soda is a leading global producer of soda ash (or sodium carbonate) and sodium bicarbonate with total capacity of 5mt, sales of USD1.8 billion and EBITDA of USD0.8 billion in 2022.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Fitch Ratings Analysts

Diego Oliva-Velez
Senior Analyst
Primary Rating Analyst
+44 20 3530 1138
Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Mrudula Limaye
Senior Analyst
Secondary Rating Analyst
+44 20 3530 1118

Angelina Valavina
Managing Director
Committee Chairperson
+44 20 3530 1314

Media Contacts

Isobel Burke
London
+44 20 3530 1499
isobel.burke@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
WE Soda Ltd.	LT IDR	BB- ⭘	New Rating		BB-(EXP) ⭘
We Soda Investments Holding PLC					
• senior secured	LT	BB-	New Rating	RR4	BB-(EXP)

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⭘	◆
STABLE	⭘	

Applicable Criteria

Climate Vulnerability in Corporate Ratings Criteria (pub.21 Jul 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub.28 Oct 2022) (including rating assumption sensitivity)

Corporates Exceeding the Country Ceiling Criteria (pub.08 Dec 2022) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.13 Oct 2023) (including rating assumption sensitivity)

Country-Specific Treatment of Recovery Ratings Criteria (pub.03 Mar 2023)

Parent and Subsidiary Linkage Rating Criteria (pub.16 Jun 2023)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub.12 May 2023)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

We Soda Investments Holding PLC	UK Issued, EU Endorsed
WE Soda Ltd.	UK Issued, EU Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the

Endorsement policy

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.