S&P Global
Ratings

RatingsDirect®

Research Update:

Soda Ash Producer Kew Soda Ltd., Parent Of WE Soda, And Senior Secured Notes Rated 'B+'; Outlook Stable

October 23, 2023

PRIMARY CREDIT ANALYST

Nikolaos Boumpoulis, CFA

London

+44 20 7176 0771

nikolaos.boumpoulis
@spglobal.com

SECONDARY CONTACT

Paulina Grabowiec

London

+ 44 20 7176 7051

paulina.grabowiec
@spglobal.com

Rating Action Overview

- Sodium carbonate (soda ash) and sodium bicarbonate producer West East Soda (WE Soda) raised $800 million of senior secured notes to refinance its existing capital structure.
- We anticipate that the company will sustain adjusted debt to EBITDA of 2.0x-3.0x, which is solid for the 'bb' stand-along credit profile (SACP), supported by its competitive cost position, leading to very strong margins and resilient sales volumes.
- However, we cap the rating at one notch above the transfer and convertibility (T&C) assessment on Turkiye ('B') because despite being an exporter, all the company's physical assets are in Turkiye, which exposes it to domestic risks that are beyond its control.
- We therefore assigned our 'B+' issuer credit rating to WE Soda's intermediate parent company, Kew Soda Ltd., and our 'B+' issue rating to the senior secured notes due 2028 issued by WE Soda Investments Holding PLC.
- The stable outlook mirrors that on the sovereign rating on Turkiye, reflecting our view of balanced risks to the sovereign creditworthiness from the reimposition of orthodox monetary policy settings.

Rating Action Rationale

Soda ash producer WE Soda has refinanced its capital structure. As part of the transaction, WE Soda issued $800 million of senior secured notes. The funds will be used to pay down WE Soda's senior term loan A (TLA), and repay the $426 million Kazan Soda project finance facility due 2027, and Eti Soda's $103 million working capital facility, to simplify its capital structure.

WE Soda's advantageous cost position helps it generate very high profitability and resilient earnings. The company is at the low end of the cost curve, due to a combination of low production costs and its proximity to key markets. WE Soda produces soda ash using the so-called natural process, which results in a structural cost advantage versus synthetic plants that are more expensive to operate, since they require several raw materials and consume more energy. In addition, the company extracts trona--the key raw material to produce soda ash naturally--using solution extraction, which further enhances its cost competitiveness due to lower labor and energy costs compared to the conventional mining used by North American producers. These factors explain WE Soda's very high S&P Global Ratings-adjusted EBITDA margins of 58% in 2021 and 47% in 2022, and provide clear cost advantages to the company.

While natural soda ash plants are less expensive to operate, the process tends to have higher delivery costs given they are located close to trona deposits (found in Turkiye, mainland China, and the U.S.), which are not necessarily close to consumer markets. The strategic location of WE Soda's assets in Turkiye ensures relative proximity to key markets such as Europe, the Middle East, and Africa (EMEA; accounting for 73% of 2022 sales), and South America, which reduces shipping costs and positions it in the first quartile of the global soda ash producer cost curve. WE Soda benefits from an exclusive license to extract and process trona in Turkiye until 2043 for Eti Soda and 2045 for Kazan Soda, effectively covering the full operating life of the reserves.

From a credit standpoint, the low-cost operations and shape of the global cost curve underpin the quality of earnings. This is based on the long tail of higher-cost producers, with synthetic plants accounting for approximately 75% of total supply, according to S&P Commodity Insights, a division of S&P Global, as is S&P Global Ratings. In turn, swings in end-market demand are unlikely to affect WE Soda's sales volumes since they will price out marginal suppliers first, alleviating demand and earnings volatility.

The company's strong market positions in its key regions, and the disciplined nature of the soda ash market, are positive for our rating. WE Soda is No. 2 in its key European markets and No. 1 in South America. The global soda ash market is concentrated and disciplined, with the top-five producers accounting for about 75% of the European and Americas markets, which helps the company generate resilient profitability and cash flows. As such, the relatively small number of large producers ensures disciplined capacity additions that closely match demand and lead to high utilization rates of about 90% historically. This was evidenced, in our view, by WE Soda's capacity expansions from 1 million tons per year (mtpa) in 2016 to 5 mtpa in 2022, without disrupting the pricing of soda ash in Europe.

We regard this position as sustainable given high barriers to entry for new capacity, which include access to trona deposits, environmental restrictions, and sizable capital requirements. Moreover, capacity additions are visible given the long lead times required for the development of greenfield facilities--including construction, planning, and permitting--adding a degree of earnings predictability.

We regard WE Soda's narrow geographical and product diversity as the main constraints for its credit profile. The company's production is currently concentrated at its two sites adjacent to the trona reserves in Eti and Kazan in Turkiye. Even though WE Soda has multiple production lines in each facility, lowering the risk of a disruption, the high geographical concentration affects the company's credit profile because it exposes it to event risks, including potential disruptions to transportation routes. We consider this risk as more pronounced given the limited storage capacity for soda ash (both at sites or in ports), which means that a prolonged disruption can lead to the suspension or disruption of production. WE Soda currently exports its products through the Derince port, near Istanbul, although we understand that management is looking to establish a presence in a second port to lower logistics risks.

We forecast adjusted leverage of 2.0x-2.2x in 2023, increasing modestly to about 2.4x in 2024. In our base case, operating cash flows and cash balance are sufficient to fund organic growth investments, dividends, and debt servicing. We project gross reported debt, pro forma the senior secured notes, at about $1.75 billion, including debt adjustments of about $100 million. We project WE Soda's debt to EBITDA will remain 2.0x-2.5x. This is based on our assumption that soda ash prices will moderate 5%-10% in 2023 and 2024 due to lower energy costs. Soda ash prices are typically negotiated in the final quarter of each calendar year and agreed on a one-year forward basis. We estimate that adjusted EBITDA will stay broadly flat in 2023 at $820 million-$830 million, from $834 million in 2022, before reducing to $740 million-$750 million in 2024.

We forecast the company will 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 and $400 million in 2024 that, while high, will not deteriorate credit metrics because these are broadly in line with our estimates for FOCF. These include $460 million-$480 million in 2023 and $370 million-$400 million in 2024. At the same time, we note management's target of maintaining net leverage (as defined by management) at 1.5x-2.5x and understand that dividend distributions are flexible, which in conjunction with good visibility of earnings and soda ash prices allows the company to reduce payouts, if needed.

Our EBITDA calculation includes items such as restructuring costs. We do not deduct cash from debt in our calculation, and we adjust debt for items like lease liabilities, net pension obligations, asset retirement obligations, and the drawn portion of committed receivable financing facilities.

The company's ratios are solid for the 'bb' SACP. We estimate that, all else being equal, EBITDA would need to decline approximately $150 million-$170 million versus our base-case scenario in 2024 to push WE Soda's leverage above 3.0x.

WE Soda passes our sovereign stress test, but the 'B+' rating is constrained by its geographical asset concentration. Passing the test, which includes both economic stress and a potential currency devaluation, enables us to rate the company one notch above the unsolicited 'B' long-term sovereign foreign currency rating on Turkiye (see "General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect).

WE Soda passes our stress test because of its export-oriented business (about 80% of total revenues in 2022), corresponding to virtually all of its earnings being in hard currency, and sizable cash holdings in offshore accounts. Our rating on WE Soda is capped at one notch above the foreign currency sovereign credit rating on Turkiye, since virtually all the group's physical assets are in the country, and its operations can be significantly affected by decisions beyond its control, like government-imposed export restrictions.

Outlook

The stable outlook mirrors that on the sovereign rating on Turkiye. 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 foreign currency sovereign credit rating on Turkiye (unsolicited B/Stable/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

2.0x-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 about 2.4x in 2024 due to lower soda ash prices. We also consider FOCF to debt, which we expect to decrease to 27%-28% in 2023 and 22%-23% 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) between 1.5x and 2.5x.

Downside scenario

We would lower the rating if we take the same action on the foreign currency sovereign rating on Turkey and this translates into a weaker T&C assessment, 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 negatively reassess the SACP if we observe a marked deterioration in its operating performance, such that adjusted debt to EBITDA exceeds 3.0x and free operating cash flow ((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

Rating upside is constrained by KEW Soda's exposure to Turkiye; this limits the rating to one notch above our sovereign T&C assessment of 'B'. We could therefore raise the rating on KEW Soda, all else being equal, following a positive rating action on Turkiye.

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 mtpa of natural soda ash and sodium bicarbonate and operates two of the lowest cost production facilities in the world, in Turkiye.

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 0.9% in Europe, 1.5% in Latin America, and 4.4% in Asia-Pacific in 2023, and then 1.5%, 1.5%, and 4.6% in 2024, respectively.
- Revenue declines 6%-7% in both 2023 and 2024, driven by lower soda ash prices owing to lower demand and declining energy prices, partly offset by increased production capacity and,

therefore, sales volumes.

- An adjusted EBITDA margin of about 50% in 2023, declining to about 46%-49% in 2024.
- Capex of about $140 million in 2023 and $160 million-$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 outflows of about $15 million in 2023, followed by an about $30 million inflow in 2024, reflecting lower soda ash prices and a decline in revenue.
- Annual dividends of $500 million in 2023, reducing to about $400 million in 2024.

Key metrics

- S&P Global Ratings-adjusted EBITDA of $820 million-$830 million in 2023 and $740 million-$750 million in 2024.
- Adjusted debt to EBITDA of 2.0x-2.2x in 2023 and about 2.4x in 2024.
- Adjusted funds from operations (FFO) to debt of 30%-35% in 2023 and 2024.
- FOCF of about $470 million in 2023 and $380 million-$390 million in 2024.

Liquidity

We assess WE Soda's liquidity as adequate, supported by a long-dated debt maturity profile, good cash-interest coverage, and availability under two revolving credit facilities (RCF) totaling $460 million. We estimate that the group's liquidity sources will exceed uses about 2.0x over the next 12 months. While numerically the company could qualify for a higher liquidity assessment, we do not consider that WE Soda meets sufficient qualitative factors.

Principal liquidity sources include:

- $308.7 million in unrestricted cash as of July 1, 2023.
- About $325 million available under the RCF.
- About $510 million of cash FFO.
- Working capital inflows of about $30 million.

Principal liquidity uses include:

- Capex of $160 million-$170 million in the period.
- Our estimate of about $400 million of dividends in 2024.

Covenants

Under its senior facility agreement, WE Soda 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.

Environmental, Social, And Governance

Environmental factors are an overall neutral consideration in our credit rating analysis of WE Soda. The company's business risk benefits from a smaller environmental footprint relative to other soda ash producers. This is because its solution extraction production method has lower energy and water intensity when compared to the synthetic method and the natural process utilizing conventional mining, resulting in lower carbon dioxide (CO2) emissions. For example, in 2022 the company's scope 1 and 2 CO2-equivalent emissions intensity was 0.343 per metric ton of product, which is less than half that of the top 10% of European synthetic producers. In our view, this supports demand for its products, leading to stable volumes and more predictable earnings, along with the potential to improve margins over time. Notably, the increasing cost of carbon disproportionally affects synthetic producers that set the reference price for soda ash in the important European market.

In 2022, WE Soda announced its plan to target carbon neutrality for scope 1 and 2 CO2 emissions by 2050 and committed to reduce its emissions 20% within five years and 40% within 10 years, relative to a 2022 baseline. To achieve this, WE Soda is installing 10 megawatts (MW) of solar photovoltaic (PV) capacity at its facilities in Kazan and Eti by year-end 2023, with a further up to 100 MW of PV solar and over 100 MW of wind power to be delivered by 2027. We estimate the funding needs for these projects at $200 million#$250 million, which we view as manageable. As a comparison point, another large publicly rated soda ash producer, Solvay, has committed to net zero on scope 1 and 2 by 2050 for its soda ash and derivative business, which requires investment of approximately €1 billion, including the development of a new soda ash production process.

Governance factors are a moderately negative consideration because of the entrepreneurial ownership. Mr. Turgay Ciner ultimately owns the group. Decision-making can therefore be centralized, with most of the board consisting of connected directors.

Issue Ratings - Subordination Risk Analysis

Capital structure

Pro forma the transaction, Kew Soda's capital structure consists of:

- Senior secured notes of $800 million;
- $420 million under WE Soda's senior secured RCF ($103 million drawn);
- $40 million under Ciner Enterprises' senior secured RCF ($36 million drawn); and
- About $600 million remaining under the senior secured TLA.

Analytical conclusions

We rate the group's senior secured notes 'B+', 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	**B+/Stable/--**
Business risk:	Weak
Country risk	High
Industry risk	Moderately high
Competitive position	Fair
Financial risk:	Intermediate
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/Stable/B
Rating above the sovereign	B+

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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, 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

Ratings List

New Rating	
KEW Soda Ltd.	
Issuer Credit Rating	B+/Stable/--
WE Soda Investments Holding plc	
Senior Secured	B+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.