



ISSUER RATING
Long term

OUTLOOK
Stable

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RATING ACTION AND RATIONALE

- EthiFinance Ratings affirms Brenntag SE's long-term rating at BBB, maintaining its Stable outlook.
- Our rating remains supported by the company's solid financial risk profile (A-), with favorable ratios (on average NFD/EBITDA <2x; EBITDA/interest >15x; FFO/NFD >40%; and equity/TFD >100%). This is despite confirmation of the decline in revenues and profitability for FY23 anticipated in our previous review. The 13.4% revenues decrease was primarily due to low volumes coupled with weak pricing and an unfavourable FX impact. In terms of profitability, Brenntag's adjusted EBITDA margin benefited to the tune of €62m in one-off items related to legal provisions and fire incidents in Canada and Turkey, resulting in a margin of 9.4% (vs 9.1% in FY22). However, we expect this margin to decrease to 8.7% in FY24 due to lower revenues stemming from anticipated price declines among Brenntag customers. By FY26, we expect the margin to improve to 9.7%. In line with these trends, we expect EthiFinance's net adjusted leverage ratio to deteriorate to 2.0x in FY24 (vs 1.5x in FY23) and stabilise thereafter 1.8x through to the end of our forecast period (FY26) amidst a €600m bond refinancing in 2025.
- External growth remains a strategic focus for Brenntag, with the completion in 2023 of 8 acquisitions in both the company's segments, for a total enterprise value (EV) of €570m. The full-year effects of the newly-acquired companies are expected to add 3.5% to FY24 EBITDA. From an industry perspective, the European chemicals sector has shown signs of recovery, with quarterly volume changes improving from a 4% YoY decline in 4Q23 to a 5% increase in 1Q24, suggesting potential recovery moving forward. Shareholding and governance also support the current rating as the financial policy is rather prudent, as reflected in the solid financial risk profile, despite significant recurring M&A, dividend payments, and share buybacks.
- However, our rating is mainly constrained by our industry risk assessment (score of B+), characterized by rather low levels of profitability for chemicals distributors (6.7% EBIT margin on average in FY23), alongside some volatility and limited growth prospects, in addition to being penalised by ESG considerations. Furthermore, Brenntag faces intense strong competition in the APAC region (12% of FY23 sales), driven by the price deflation (6% YoY) of Chinese raw chemicals materials in 1Q24.
- In line with our methodology, the materials & chemicals industry has high ESG risks (heatmap score of between 4 and 5) given its impact on the environment. This results in a sector rating being downgraded one category (three notches) by industry-related ESG considerations. The petrochemicals and material industry is a heavy user of raw materials, which creates a significant impact on local biodiversity through land use, mining, pollution, etc. In addition, the sector has a negative impact on suppliers as dependency is significant. From the company's perspective, higher energy consumption (+9.1%) and emissions intensity (+6.0%) in 2023 resulted in a score deterioration from 1.1 to 1.6, which now has a neutral effect on our financial risk profile. As a result, our rating remains impacted by industry-specific ESG factors.

ISSUER DESCRIPTION

Headquartered in Germany, Brenntag SE is the holding company for Brenntag Group, a global market leader in chemicals and ingredients distribution. The company plays a central role in connecting the chemicals industry's customers and suppliers. Through its two global divisions, Specialties and Essentials, the company provides a full-line portfolio of industrial, specialty chemicals, and ingredients.

Brenntag operates a global network spanning more than 600 sites in 72 countries, working with over 180,000 customers and employing a total workforce of more than 17,700. The group reported revenues of around €16.8bn for c. €1.6bn adjusted EBITDA for FY23, while its net adjusted leverage ratio stood at 1.5x. Brenntag is listed on German Stock exchange XETRA and had a market capitalization of c. €9.7bn as of October, 1st 2024.

Liquidity

- Excellent liquidity profile with strong refinancing capacities

We assess the liquidity profile of Brenntag as "Good", reflecting its strong refinancing profile and its high level of liquidity.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. millions of EUR						
	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	19429	16816	17002	17427	18032	-13.4%
Adj EBITDA (1)	1772	1574	1488	1652	1745	-11.2%
Adj EBITDA Margin (1)	9.1%	9.4%	8.7%	9.5%	9.7%	0.2pp
EBIT	1383	1124	1059	1214	1292	-18.7%
EBIT Margin	7.1%	6.7%	6.2%	7.0%	7.2%	-0.4pp
Interest expenses	(86)	(90)	(123)	(130)	(123)	-4.9%
Total Assets	11 373	10 338	10 755	11 221	12 032	-9.1%
Equity	4 803	4 357	4 458	4 903	5 344	-9.3%
Adj Total Financial Debt (2)	3 344	3 015	3 304	3 290	3 606	-9.8%
Adj Net Financial Debt (2)	2 298	2 438	2 959	3 022	3 101	6.1%
Equity/Adj TFD (2)	143.6%	144.5%	134.9%	149.0%	148.2%	0.9pp
NFD/Adj EBITDA (1) (2)	1.3x	1.5x	2.0x	1.8x	1.8x	0.3x
Adj Funds From Operations (3)	1 339	1 051	1 128	1 245	1 325	-21.5%
Adj FFO/Adj NFD (2)	58.3%	43.1%	38.1%	41.2%	42.7%	-15.2pp
Adj EBITDA/Interest (1)	20.6x	17.4x	12.1x	12.7x	14.2x	-3.2x

(1) Adj EBITDA takes into account the non-recurring adjustments reported by the company apart from the annual expenses related to the efficiency cost program.

(2) The financial adjusted debt is inclusive of earn-out clauses and pension benefits.

(3) Adj FFO corresponds to the operating cash flow plus the change in working capital and minus the dividend to minorities.

RATING SNAPSHOT

Credit Rating	
Business Risk Profile	BBB-
Industry risk assessment	B+
Industry's ESG	Negative
Competitive Positioning	BBB+
Governance	BBB+
Financial Risk Profile	A-
Cash flow and leverage	A-
Capitalisation	A-
Company's ESG	Neutral
Anchor Rating	BBB
Modifiers	-
Final Rating	BBB

RATING SENSITIVITY

- List of ratings:
 - LT Rating: BBB

Factors that may (individually or collectively) impact the ratings:

Long-term rating positive factors (↑).

An upgrade of our long-term rating could result from a slight improvement in credit metrics resulting from a recovery in volumes and profitability. For instance, a net adjusted leverage ratio equal to or lower than 1.5x, in addition to a ratio of EBITDA/interest equal to or better than 16.0x, over a sustained period could result in an upgrade. Moreover, an improvement in our ESG score to between 0 and 1 could support a rating upgrade.

Long-term rating negative factors (↓).

A downgrade of our rating could occur in the event of a deterioration of Brenntag's credit metrics more marked than our expectations, over a sustained period of time. A trigger for such a downgrade would be a net adjusted leverage ratio equal to or above 2.0x, along with EBITDA interest coverage equal to or below 14.0x.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
- The rating scale used in this report is available at <https://www.ethifinance.com/en/ratings/ratingScale>.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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