



ISSUER RATING

Long-Term

Outlook Stable

Initiation date 29/11/2022

Rating date 27/11/2023

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RATING ACTION AND RATIONALE

- EthiFinance Ratings has reaffirmed its long-term rating of BBB for Brenntag SE, with an unchanged Stable outlook.
- Our rating remains supported by the company's solid financial profile (A-). The strong growth in revenues in FY22 (+28% yoy, FX adjusted) coupled with growing profitability margins (+1.9pp yoy), resulted in improved credit metrics. The net adjusted leverage ratio improved from 1.9x in FY21 to 1.3x in FY22 thanks strong cash generation (+€464m FCF) along with higher EBITDA. We do expect the leverage ratio to move back up modestly from 2023 to 2025 reaching 1.4x by end-2025, on some normalisation of EBITDA compared with 2022. However, we do not consider this likely to be sufficient to justify any change to the rating or the outlook.
- Brenntag is a world-renowned B2B chemicals distributor with a 5.0% market share in a \$290bn total market. Its profitability margins are slightly better than the sector benchmark, which reflects Brenntag's competitive advantages. Although, Brenntag's main activity is chemicals distribution, diversification is good in all aspects (geographic, clients, industries covered). Shareholding and governance assessments also support the investment grade rating as the financial policy is rather prudent, as reflected in the solid financial risk profile, despite significant recurring M&A and share buybacks.
- Our rating is mainly constrained by our industry risk assessment (score of B+), characterized by rather low levels of profitability for chemicals distributors (6% EBIT margin on average), some volatility, and limited growth perspectives, in addition to being penalised by ESG considerations. Furthermore, Brenntag is currently faced with limited organic growth prospects attributable to two unfavourable factors impacting the chemicals sector generally: a normalization in pricing, which started in 4Q22 and continued in 1H23, as well as lower sales volume due to an inventory destocking trend.
- Also, the chemicals distribution industry is M&A-driven, which explains the current numerous local and cross-border acquisitions completed by the group each year. In FY22, the cash outflow related to these acquisitions amounted to €156m, with an allocated annual budget of €400–500m for the years ahead, which will weigh on cash generation and by extension credit metrics in the short term. The rise in interest rates will also weigh on the EBITDA/interest ratio over our forecast period, which is expected to deteriorate from 16.3x at end-2022 to 11.5x at end-2025.
- In line with our updated methodology, the materials & chemicals industry has high ESG risks (heatmap score of between 4 and 5) given its impact on the environment, which constrains our industry assessment. Despite the fact that our assessment of the company's ESG policy is positive (company ESG score of between 1 and 1.5), our rating is overall constrained by industry-related ESG considerations.

ISSUER DESCRIPTION

Headquartered in Germany, Brenntag SE is a global market leader in chemicals and ingredients distribution. The company has 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 around 1,000 sites in 78 countries, working with over 150,000 customers and employing a total workforce of more than 17,800. The group reported revenues of around €19.4bn for c. €1.8bn EBITDA for FY22, while its net adjusted leverage was cut to 1.3x. Brenntag is listed on German Stock exchange XETRA and has a market capitalization of c. €11.3bn as of November, 21st 2023.

LIQUIDITY

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

MODIFIERS

- **Controversies**

Over the course of our review, we have not identified any controversies regarding Brenntag SE or any of its subsidiaries.

- **Country risk**

Brenntag SE is rather well diversified geographically, and therefore does not have significant country risk exposure.

MAIN FINANCIAL FIGURES & FORECASTS

Main financial figures. €m						
	2021	2022	2023E	2024E	2025E	22vs21
Turnover	14383	19429	17618	18124	18717	35.1%
EBITDA (Adjusted) (1)	1310	1772	1562	1622	1690	35.3%
EBITDA Margin (1)	9.1%	9.1%	8.9%	8.9%	9.0%	0.0pp
EBIT	742	1383	1100	1114	1169	86.2%
EBIT Margin	5.2%	7.1%	6.2%	6.1%	6.2%	2.0pp
Interest expenses	(64)	(109)	(122)	(147)	(147)	-70.0%
Total Assets	10,196	11,373	11,004	11,692	11,626	11.5%
Equity (Adjusted)	3,961	4,803	4,703	4,832	5,221	21.2%
Total Financial Debt (Adjusted) (2)	3,214	3,347	3,288	3,801	3,292	4.1%
Net Financial Debt (Adjusted) (2)	2,509	2,301	2,355	2,489	2,378	-8.3%
Equity/TFD (2)	123.2%	143.5%	143.0%	127.1%	158.6%	20.2pp
NFD/EBITDA (1) (2)	1.9x	1.3x	1.5x	1.5x	1.4x	-0.6x
Funds From Operations	962	1,339	1,187	1,225	1,280	39.2%
FFO/NFD (2)	38.3%	58.2%	50.4%	49.2%	53.8%	19.9pp
EBITDA/Interest (1)	20.5x	16.3x	12.8x	11.0x	11.5x	-4.2x

(1) Adj EBITDA is in line with accounting EBITDA and does not factor in adjustments made by Brenntag

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

RATING SNAPSHOT

CREDIT RATING	
Business Risk Profile	BBB-
<i>Industry Risk Assessment</i>	<i>B+</i>
Industry 's ESG	Negative
<i>Competitive Positioning</i>	<i>BBB+</i>
<i>Governance</i>	<i>BBB+</i>
Financial Risk Profile	A-
<i>Cash flow and leverage</i>	<i>A-</i>
<i>Solvency</i>	<i>A-</i>
Company's ESG	Positive
Anchor Rating	BBB
<i>Modifiers</i>	<i>-</i>
Final Rating	BBB

RATING SENSITIVITY

List of rating:

- LT Rating: BBB

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

Long-term rating positive factors (↑).

An upgrade of our long-term rating would result from a slight improvement of credit metrics over and above our expectations. For instance, a net adjusted leverage ratio equal to or lower than 1.0x, in addition to a ratio of EBITDA/interest equal to or better than 15.0x over a sustained period of time, could result in an upgrade.

Long-term rating negative factors (↓).

A downgrade of our rating could occur in the event of a deterioration of Brenntag's credit metrics over a sustained period of time. A trigger for such a downgrade would be a net adjusted leverage equal to or above 2.5x, assorted with EBITDA interest coverage equal to or below 7.0x.

REGULATORY DISCLOSURES

LEI: NNROIXVWJ7CPSR27SV97

Initiation report: No

Rating initiation: BBB on November, 29th 2022, with a Stable outlook

Latest rating action: initiated at BBB on November, 29th 2022, with a Stable outlook

Name of the Rating Committee chair: Marc Pierron, Special Advisor

Rating nature: Unsolicited (This report is paid by investors, not the issuer).

With rated entity or related third party participation: No. This rating report was published without having been reviewed by the issuer.

With access to internal documents: No

With access to management: No

Ancillary services provided to the entity: 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.

Material sources used to support the Rating decision:

- Annual & quarterly report/presentation for 2020,2021,2022 and 2023
- Bloomberg

Limitation of the Rating action: EthiFinance Ratings believes the quality and quantity of information available on the rated entity is sufficient to provide a rating. EthiFinance Ratings has no obligation to audit or verify the accuracy of data provided.

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, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on <https://www.ethifinance.com/en/ratings/methodologies> and according to the Long-term Corporate Rating scale available at <https://www.ethifinance.com/en/ratings/ratingScale>.

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