BBB

ISSUER RATING

Long-Term

Outlook	Stable
Initiation date	26/01/2023
Rating date	22/12/2023

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RATING ACTION AND RATIONALE

- EthiFinance Ratings downgrades Wacker Chemie's rating from "BBB+" to "BBB", maintaining its Stable outlook.
- Our rating downgrade mainly results from a methodology update that entails a capping of our rating at BBB when the business risk profile (BRP) is at BB+, even though Wacker discloses a very good financial risk profile (FRP) of A+. In fact, despite being the largest Polysilicon producer outside of China, our capping derives from Wacker's current low competitive advantages, which are materialized by an oversupply from Chinese companies, with the top 10 having a combined annual production capacity of 918,000 tonnes. This oversupply has led to a significant market price decrease of c. 78% for both polysilicon and silicon between December 2022 and December 2023. In FY22, the company delivered 32.2% growth in sales with a stable adjusted EBITDA margin of 22.6% and an adjusted net leverage ratio of 0.9x (vs 1.7x in FY21), a situation that was exceptional and has started to normalise in 2023. For the nine months to end-September 2023, the group sales have indeed dropped significantly by 21.4% yoy, with the adjusted EBITDA margin halving to 12.8%, and we expect it to be even lower at 12.2% for FY23. In fact, management has downgraded the outlook due to uncertainty in the main end-markets, mainly the construction sector (used for sealing and insulation purposes), which has suffered from interest rate rises. As a result, orders for polysilicon, silicones and polymers (93% of total sales) have declined, while BioSolutions products have remained resilient. Weak market demand, due to destocking (volume pressure), intense competition from Chinese manufacturers with increasing supply (price pressure), have notably led to a deterioration of Wacker's FRP from AA- to A+ yoy. EthiFinance Ratings indeed projects the net leverage ratio to deteriorate to 1.6x in FY23, before slightly improving to 1.4x by 2025 on the back of improved EBITDA and FCF generation. The interest coverage is also expected to deteriorate from 65.8x as of end-2022 to 21.9x on average according to our forecasts (2023-2025). Our rating is also limited by a weak industry risk profile of BB-. It is particularly impacted by negative ESG considerations, as well as some volatility in the profitability, even though barriers to entry are strong, and levels of profitability remain good (11.05% EBIT margin on average for the materials industry).
- However, our rating remains underpinned by solid overall diversification and strong governance. In addition, despite the deterioration in financial metrics over the past year, the impact of which is expected to be felt throughout our forecast period (to 2025), Wacker's financial metrics remain very solid, as demonstrated by a FRP of A+ that still supports the BBB rating.
- In line with our updated methodology, the materials & chemicals industry presents a high ESG risk (heatmap score of between 4 and 5) given its impact on the environment, which slightly constrains our industry assessment. As the third largest contributor to industrial CO_2 emissions after cement and iron & steel *(Source: IEA, 'Net Zero by 2050')*, the chemical industry faces the dual imperative of decarbonising its operations and minimising chemical air pollution. Our assessment of the company's ESG policy is positive (company ESG score of between 1 and 1.5), which partially offsets the negative impact from industry-related ESG considerations. In FY22, Wacker Chemie's environmental score (E) improved significantly from 65/100 to 80/100 thanks to a reduction in its scope 1 &2 emissions by 2%, and to a reduction of the waste rate by 20% (Wacker is aiming to reduce its carbon emissions by 50% by 2030). Wacker's products play a key role in facilitating the transition to a more sustainable future, particularly in essential sectors such as photovoltaics, electric batteries, e-mobility, as well as their application in home construction and energy efficiency enhancement. The governance score (G) improved as well from 63 to 88 due to a greater independence of the board of directors. Finally, the S score decreased slightly from 56 to 53, due to a relatively high accident frequency rate.

ISSUER DESCRIPTION

Wacker Chemie AG is a German multinational chemical company that was founded in 1914 by Dr. Alexandre Wacker. It operates 27 production sites, of which 10 are based in Europe, 8 in the Americas, and 9 in Asia. The group's key production site being the 'Burghausen' plant in Germany with about 10,000 employees. Wacker Chemie has 4 main business units:

- **Polysilicon (28% of FY22 total sales)**: This business unit produces hyper pure polysilicon, a key material for the semiconductor and solar cell sectors.
- **Silicones (42% of FY22 total sales):** This business division produces over 2,800 products from two raw materials (silicon metal and methanol).
- **Polymers (24% of FY22 total sales)**: This business unit produces binders and polymeric additives that are used in diverse industrial applications or as basic chemicals mostly used in the construction industry.
- **BioSolutions (4% of FY22 total sales)**: The business unit focuses on customer-specific solutions such as pharmaceutical actives, food additives, and agrochemicals.

In 2022, the group generated €8.2bn of revenues and c. €1.88bn in adjusted EBITDA. Our net adjusted leverage ratio was 0.9x at end-2022. Wacker is publicly listed on Germany's MDAX with a current market capitalization of around €5.67bn (as of December 18, 2023).

LIQUIDITY

Wacker's liquidity profile is 'good' due to its ability to redeem its financial debts for the next two years (2023 and 2024) without relying on external financing, on top of a strong refinancing profile owing to its investment grade credit profile.

MAIN FINANCIAL FIGURES AND FORECASTS

Main financial figures. €m	2021	2022	2023E	2024E	2025E	22vs21
Turnover	6,208	8,209	6,467	6,600	6,954	32.2%
EBITDA (Adjusted) (1)	1,479	1,882	838	894	1,038	27.2%
EBITDA Margin (1)	24%	23%	13%	14%	15%	-0.9pp
EBIT	1,075	1,480	398	444	598	37.7%
EBIT Margin	17.3%	18.0%	6.2%	6.7%	8.6%	0.7pp
Interest expenses	(23)	(29)	(34)	(40)	(56)	27.1%
Total Assets	8,134	9,401	8,608	8,902	9,276	15.6%
Equity (Adjusted)	3,100	5,031	4,722	4,940	5,237	62.3%
Total Financial Debt (Adjusted) (2)	3,417	2,494	2,197	2,259	2,299	-27.0%
Net Financial Debt (Adjusted) (2)	2,491	1,600	1,346	1,423	1,494	-35.8%
Equity/TFD (2)	90.7%	201.7%	214.9%	218.7%	227.8%	111.0pp
NFD/EBITDA (1)	1.7x	0.9x	1.6x	1.6x	1.4x	-0.8x
Funds From Operations	1,482	1,526	794	782	873	3.0%
FFO/NFD (2)	59.5%	95.4%	59.0%	54.9%	58.4%	35.9pp
EBITDA/Interest (1)	65.7x	65.8x	24.9x	22.1x	18.6x	0.1x

(1) Adjusted EBITDA excludes non-recurring income and expenses but includes dividends received from equity method-accounted companies

(2) Adjusted debt includes the provisions for employee benefits

RATING SNAPSHOT

CREDIT RATING	
Business Risk Profile	**BB+**
Industry Risk Assessment	*BB-*
Industry 's ESG	**Negative**
Competitive Positioning	*BBB-*
Governance	*BBB+*
Financial Risk Profile	**A+**
Cash flow and leverage	*A+*
Solvency	*A+*
Company's ESG	**Positive**
Anchor Rating	**BBB+**
Modifiers	*CAP @ BBB*
Final Rating	**BBB**

MODIFIERS

- **Controversies**

Over the course of our review, we have not detected any controversy related to Wacker Chemie AG or any of its subsidiaries.

- **Country risk**

Wacker Chemie AG is rather well diversified geographically, and therefore does not have significant country risk exposure.

RATING SENSITIVITY

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

- Positive factors (↑).

All things being equal, a rating upgrade could be entailed by an improvement in Wacker's business risk profile to BBB-, which would automatically cancel the capping effect according to our methodology. This improvement is likely to be driven by a change in pricing strategy and a recovery in market demand, which would in turn lead to a recovery in revenues and profitability. In fact, in response to the intense competition from the Chinese players, the EU has recently introduced supply chain scrutiny measures to support the local solar manufacturing industry in Europe. As the sole producer of polysilicon in the EU and one of the leading players beyond China with c. 80,000 tonnes of annual production capacity, Wacker could indeed be well-positioned to benefit from such a change in the regulation, as it could increase the strategic positioning and pricing power/valuation of the group's polysilicon/silicon business.

- Negative factors (↓).

Wacker's rating being BBB+ before the capping mechanism, a downgrade to BBB- could be entailed by a significant deterioration in Wacker's competitive positioning or in the event of a significant worsening of its financial profile. This would indeed derive from continuous price and volume pressures, hampering Wacker's sales and profitability levels and ultimately leading to a significant deviation of Wacker's credit metrics with respect to our forecasts.

REGULATORY INFORMATION

LEI: 0NURKC5Q3CJYZPPK5046

Initiation report: No

Last rating action: Initiated at BBB+ with a Stable outlook on January 26, 2023

Rating nature: Review of an unsolicited long-term public rating

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

With access to internal document: No

With access to management: No

Ancillary services provided to the rated 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.

Name of the rating committee chair: Guillermo Cruz Martinez (Chief Rating Officer)

Material sources used to support the rating decision:

- Annual and intermediary report & financial statements 2020, 2021, 2022, 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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