EthiFinance Ratings

WACKER CHEMIE AG

HRB 159705

CORPORATE

BBB

ISSUER RATING
Long term

OUTLOOK
Stable

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RATING ACTION AND RATIONALE

- EthiFinance Ratings affirms Wacker Chemie's long-term rating at "BBB", maintaining its Stable outlook.

- Our rating affirmation results from the application of the capping mechanism, which continues to constrain the final rating at BBB. This reflects (i) a business risk profile (BRP) of BB+, weighing on the final rating, and (ii) a financial risk profile of AA-, supporting the rating, despite its deterioration in 2023 and 2024. In FY23, sales revenue declined, as expected in our last review, by 22% (o/w volume for -8% and pricing for -12.5%), with a significantly lower adjusted EBITDA margin of 13.3% (vs 23.0% in FY22). Consequently, the EthiFinance Ratings -adjusted net leverage ratio stood at 1.3x at end-2023 (vs 0.3x at end-2022). We expect this ratio to slightly deteriorate to 1.5x at end-2024 and to remain around the same level at 1.4x in 2025 and 2026, on the back of improved EBITDA and FCF generation. The interest coverage has also weakened, declining from 65.9x for 2022 to 21.2x in FY23. It is expected to remain around 22.0x on average during our forecast period. Despite being the largest Polysilicon producer outside of China, Wacker suffered in the past two years from weak demand for its polymer and polysilicon materials due partially to an oversupply from Chinese peers, driving down the price of PV grade polysilicon from c. $30/kg at end-December 2022 to around $5/kg at end-October 2024. For the nine months to end-September 2024, the group sales have dropped again by 11.3% yoy, with the reported EBITDA margin declining from 13.9% for 9M23 to 11.0% for 9M24. We expect the margin to be around 12.0% for FY24. This decline is mainly attributed to low volumes in polysilicon, silicon and polymer due to a weak demand in the construction and automotive sectors (used for sealing and insulation purposes).

- However, our rating remains constrained by the company's significant exposure to the construction and coatings markets, which are expected to recover slowly, potentially creating downside risks to the company's profitability in the short-term. Additionally, with around 65% of Wacker's production volume based in Germany, the company faces additional macro headwinds, given the country's recent loss of attractiveness for manufacturing operations, as exhibited by the closure of multiple plants. Our rating is also constrained by a weak industry risk profile of BB-, which is particularly impacted by negative ESG considerations, combined with the inherent volatility in profitability attributed to the cyclicality of key end-markets such as construction and automotive.

- Under our 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 CO2 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. In 2023, the company's social pillar score has improved on the back of better social KPIs vs 2022, such as the turnover and accident rates. Conversely, the environment score has deteriorated due to a higher energy and carbon intensity. All in, our assessment of the company's ESG policy is advanced (company ESG score of between 1 and 1.5), which counts positively in our financial assessment, but is insufficient to offset the negative impact from the industry assessment.

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 (out of 16,378 in total). Wacker Chemie has 4 main business units:

- **Polysilicon (25% of FY23 total sales)**: This business unit produces hyper pure polysilicon, a key material for the semiconductor and solar cell sectors.
- **Silicones (43% of FY23 total sales):** This business division produces over 2,800 products from two raw materials (silicon metal and methanol) for the smart construction, e-mobility and renewable energy sectors.
- **Polymers (25% of FY23 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 (5% of FY23 total sales)**: This business unit focuses on customer-specific solutions such as pharmaceutical actives, food additives, and agrochemicals.

In 2023, the group generated €6.4bn of revenues and c. €854m in adjusted EBITDA. Our net adjusted leverage ratio stood at 1.3x at end-2023. Wacker is publicly listed on Germany's MDAX with a free float representing c. 33% of its total shareholding and a current market capitalization of around €3.7bn (as of 10 December 2024).

LIQUIDITY

Wacker's liquidity profile is 'good' due to its ability to redeem its financial debts for the next two years 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. millions of EUR	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	8 209	6 402	5 826	6 117	6 423	-22.0%
Adj EBITDA (1)	1 886	854	695	760	830	-54.7%
Adj EBITDA Margin (1)	23.0%	13.3%	11.9%	12.4%	12.9%	-9.6pp
EBIT	1 678	405	241	283	329	-75.9%
EBIT Margin	20.4%	6.3%	4.1%	4.6%	5.1%	-14.1pp
EBT	1 615	387	219	264	309	-76.0%
Total Assets	9 401	8 854	8 600	8 814	9 022	-5.8%
Equity	5 031	4 580	4 587	4 698	4 825	-9.0%
Adj Total Financial Debt (2)	2 428	2 458	2 277	2 339	2 377	1.2%
Adj Net Financial Debt (2)	656	1 097	1 030	1 080	1 131	67.2%
Equity/Adj TFD (2)	207%	186%	201%	201%	203%	-20.9pp
Adj NFD/ Adj EBITDA (1) (2)	0.3x	1.3x	1.5x	1.4x	1.4x	0.9x
Adj Funds From Operations	1 569	708	645	692	744	-54.9%
Adj FFO/ Adj NFD (2)	239%	65%	63%	64%	66%	-174.5pp
Adj EBITDA/ Interest (1)	65.9x	21.2x	19.6x	22.4x	23.6x	-44.7x

(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

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RATING SNAPSHOT

Credit Rating	
Business Risk Profile	**BB+**
Industry risk assessment	*BB-*
Industry's ESG	*Negative*
Competitive Positioning	*BBB-*
Governance	*BBB+*
Financial Risk Profile	**AA-**
Cash flow and leverage	*A+*
Capitalisation	*A*
Company's ESG	*Positive*
Anchor Rating	**Cap@BBB**
Modifiers	-
Final Rating	**BBB**

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 (↓).

Due to the capping mechanism, a downgrade to BBB- could be entailed by a significant unforeseen deterioration in Wacker's 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.

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 :
    - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- 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.