S&P Global
Ratings

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Tear Sheet:

Evonik Industries AG

November 22, 2024

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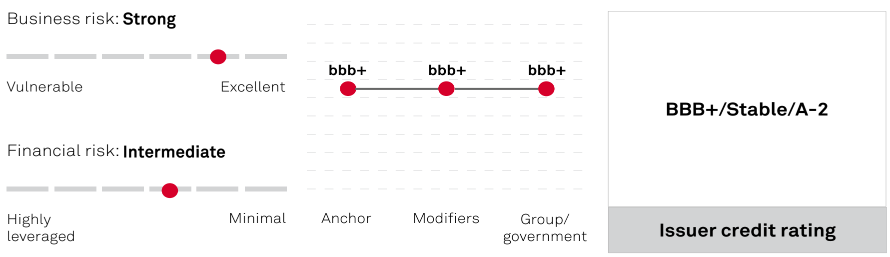
S&P Global Ratings expects Evonik to swiftly recover its rating headroom by the end of 2024 and further build it up in 2025 after a challenging 2023. We expect S&P Global Ratings-adjusted funds from operations (FFO) to debt to strengthen to 35%-39% by the end of 2024 and further up to above 40% in 2025 from 31.2% last year. This indicates a build-up of very comfortable headroom compared with the 30%-40% commensurate with the rating.

Higher operating leverage due to solid volume growth, higher prices in Animal Nutrition, and increasing cost savings will more than offset higher one-off expenses related to cost-efficiency measures in 2024. In early November, Evonik confirmed its guidance of company-adjusted EBITDA for full-year 2024 in the range of €1.9 billion-€2.2 billion, which was revised up by €200 million one quarter ago. This is driven by modest, but persistent volume growth, solid pricing in Animal Nutrition, and rising benefits from various cost-saving programs in place. We forecast modest organic earnings growth in 2025 amid gradually improving but still highly uncertain conditions in the global chemical market. However, the ramp-up of cost savings will further support earnings and margin. Based on published results, group sales volumes rose by 4% in the first nine months of 2024, with EBITDA (as adjusted by company) up by nearly 25% and EBITDA margin higher across most business lines except in the non-core Performance Materials division.

The maintained focus on cash conversion will help keep free operating cash flow (FOCF) strong, contributing to gradual net debt reduction. Despite a return to a working capital build-up in 2024 to support growth, we forecast FOCF of €750 million-€850 million in 2024, supported by higher EBITDA, about €100 million less in bonus payments compared with 2023, and lower capital expenditure of €750 million (about €40 million down from 2023). Evonik is well underway to achieve a cash conversion rate of about 40% (48% in 2023) in 2024, which remains its key target for 2025. In addition, the pension deficit has decreased by about €290 million so far in 2024 due to a lower discount rate.

Evonik continues its portfolio optimization with new initiatives announced to reorganize two business lines--health care and coating and adhesive resins--to strengthen growth prospects and profitability. Production assets for keto and amino acids in health care, and polyesters and polyolefins in coating and adhesive resins, which have combined sales of €350 million and low margin, will be shut down, sold, or incorporated into partnerships in the next few years. We do not expect this to generate significant net proceeds after transaction costs. Evonik remains committed to divesting its C4 chain assets (together with polyolefins from coating and adhesive resins), which is still outstanding and unlikely to occur in the short term, given the challenging conditions for commodity chemicals in Europe. We have factored none of these potential proceeds into our forecast, as the timing, amount, and use of the proceeds are all uncertain.

Ratings Score Snapshot



Recent Research

- EMEA Sector Update: Chemicals , Oct. 16, 2024
- Evonik Industries, June 7, 2024

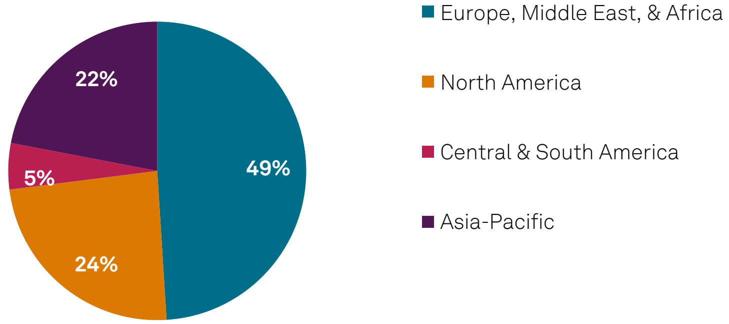
Company Description

Evonik is one of the leading specialty chemical companies, with about €11.7 billion of revenue reported in the first nine months of 2024. The company's products include methionine, cosmetic ingredients, crosslinkers, coating additives, silica, polyamide 12, hydrogen peroxide, and C4 derivatives. Evonik has a global production footprint with largest sites located in Germany, Belgium, the U.S., China, and Singapore.

Evonik's businesses are organized in five divisions:

- Specialty Additives (about 24% of group sales in the first nine months of 2024): Crosslinkers, coating additives, and oil additives, among others.
- Nutrition and Care (24%): Animal nutrition, as well as health care and care solutions.
- Smart Material (29%): Silica, catalysts, and high-performance polymers, among others.
- Performance Material (16%): Baby care (sold in August 2024) and performance intermediates (up for disposal), among others.
- Technology and Infrastructure (7%): Energy supply to external customers, site management, among others.

9M Sales by region



Source: S&P Global Ratings.

Outlook

The outlook is stable because we expect Evonik to maintain adjusted FFO to debt comfortably above 30% in the next 12-18 months, the minimum we view as commensurate with the rating, supported by a gradual improvement in demand and the benefits from implemented cost-saving measures.

Downside scenario

We could lower the rating if we anticipated that our adjusted FFO to debt would decline below 30% without near-term prospects of recovery. This could be caused by a significant drop in profit due to a weaker market environment or come from significant debt-funded acquisitions.

Upside scenario

Upside rating potential could emerge if Evonik can maintain resilient performance via a higher share of specialty chemicals in its product portfolio, visible EBITDA contributions from acquisitions and expansion projects, and a financial track record of adjusted FFO to debt of 40%-45%, including increased FOCF after dividends. A financial policy commitment to a higher rating would be important for any upgrade considerations.

Key Metrics

Evonik Industries AG--Key metrics

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. EUR)	2022a	2023a	2024e	2025f
Revenue	18,488	15,267	15,306	15,700
EBITDA	2,502	1,703	1,883	2,155
EBITDA margin (%)	13.5	11.2	12.3	13.7

Evonik Industries AG--Key metrics				
Funds from operations (FFO)	2,248	1,368	1,520	1,729
Interest expense	115	150	197	190
Cash flow from operations (CFO)	1,586	1,523	1,559	1,596
Capital expenditure (reported)	865	793	750	800
Free operating cash flow (Reported)	728	734	813	799
Dividends	561	558	564	568
Share repurchases (reported)	16	16	12	12
Discretionary cash flow (DCF)	154	163	240	222
Debt	3,985	4,393	4,065	4,028
Adjusted ratios				
Debt/EBITDA (x)	1.6	2.6	2.2	1.9
FFO/debt (%)	56.4	31.2	37.4	42.9
FFO cash interest coverage (x)	29.2	14.3	11.6	13.7
EBITDA interest coverage (x)	21.8	11.4	9.6	11.4
CFO/debt (%)	39.8	34.7	38.4	39.6
FOCF/debt (%)	18.4	16.8	20.1	19.9

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Financial Summary

Evonik Industries AG--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	15,024	13,108	12,199	14,955	18,488	15,267
EBITDA	2,414	2,126	1,884	2,317	2,502	1,703
Funds from operations (FFO)	1,991	1,802	1,723	1,909	2,248	1,368
Interest expense	156	132	108	108	115	150
Cash interest paid	156	115	78	100	80	103
Operating cash flow (OCF)	1,783	1,287	1,688	1,727	1,586	1,523
Capital expenditure	1,026	872	950	856	855	786
Free operating cash flow (FOCF)	757	415	738	871	731	737
Discretionary cash flow (DCF)	183	(155)	165	296	154	163
Cash and short-term investments	1,128	2,368	1,028	902	1,058	1,010
Gross available cash	1,068	2,368	1,028	902	1,058	1,010
Debt	5,747	4,472	5,706	5,092	3,985	4,393
Common equity	8,073	9,309	8,348	9,620	11,304	9,235
Adjusted ratios						

Evonik Industries AG--Financial Summary

EBITDA margin (%)	16.1	16.2	15.4	15.5	13.5	11.2
Return on capital (%)	10.7	8.3	6.2	8.6	8.6	4.3
EBITDA interest coverage (x)	15.5	16.1	17.5	21.5	21.8	11.4
FFO cash interest coverage (x)	13.8	16.7	23.2	20.2	29.2	14.3
Debt/EBITDA (x)	2.4	2.1	3.0	2.2	1.6	2.6
FFO/debt (%)	34.6	40.3	30.2	37.5	56.4	31.2
OCF/debt (%)	31.0	28.8	29.6	33.9	39.8	34.7
FOCF/debt (%)	13.2	9.3	12.9	17.1	18.4	16.8
DCF/debt (%)	3.2	(3.5)	2.9	5.8	3.9	3.7

Peer Comparison

Evonik Industries AG--Peer Comparisons

	Evonik Industries	BASF SE	Arkema S.A.	Eastman Chemical Co.	DuPont de Nemours Inc.
Foreign currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Positive/A-2	BBB/Stable/A-2	BBB+/Watch Neg/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB+/Positive/A-2	BBB/Stable/A-2	BBB+/Watch Neg/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	15,267	68,902	9,514	8,332	10,918
EBITDA	1,703	7,887	1,480	1,537	2,746
Funds from operations (FFO)	1,368	6,634	1,228	1,179	2,006
Interest	150	934	50	238	379
Cash interest paid	103	493	61	215	384
Operating cash flow (OCF)	1,523	7,737	1,259	1,304	2,061
Capital expenditure	786	5,315	629	737	560
Free operating cash flow (FOCF)	737	2,422	630	567	1,501
Discretionary cash flow (DCF)	163	(742)	334	91	(955)
Cash and short-term investments	1,010	2,677	2,045	496	2,164
Gross available cash	1,010	2,677	2,045	496	2,164
Debt	4,393	21,318	2,905	5,026	5,969
Equity	9,235	36,645	7,105	5,003	22,369
EBITDA margin (%)	11.2	11.4	15.6	18.4	25.1
Return on capital (%)	4.3	6.3	7.5	9.5	6.0
EBITDA interest coverage (x)	11.4	8.4	29.6	6.4	7.2
FFO cash interest coverage (x)	14.3	14.5	21.1	6.5	6.2
Debt/EBITDA (x)	2.6	2.7	2.0	3.3	2.2
FFO/debt (%)	31.2	31.1	42.3	23.5	33.6

Evonik Industries AG--Peer Comparisons

OCF/debt (%)	34.7	36.3	43.3	25.9	34.5
FOCF/debt (%)	16.8	11.4	21.7	11.3	25.1
DCF/debt (%)	3.7	(3.5)	11.5	1.8	(16.0)

Environmental, Social, And Governance

Environmental and social factors are an overall neutral consideration in our credit rating analysis of Evonik because it has migrated its product mix substantially to specialty chemicals (our estimate of 65%-75% of group sales) through selling its resource-intensive methacrylates business in 2019 and making several targeted acquisitions. It has also taken the first steps to divest the commoditized Performance Materials division. The company has embedded sustainability as a growth driver and generated in 2023 about 43% of group sales from products and solutions with a clear sustainability benefit--Next Generation Solutions. Evonik's goal is to increase the share of Next Generation Solutions in its portfolio to over 50% of sales by 2030. In addition, a further €700 million will be invested in Next Generation Technologies, i.e., measures to raise efficiency and reduce carbon dioxide in production. To address the most relevant sustainability trends, the company announced in September 2024 its new innovation growth areas, biosolutions, circular economy, and energy transition. Evonik targets to generate €1.5 billion in additional annual sales (compared with 2023) from these growth areas by 2032.

Evonik aims to reduce scope 1 and 2 emissions by 25% and scope 3 emissions by 11% by 2030 compared with 2021, on route to reaching net zero by 2050. Key measures to reach the interim targets for greenhouse gas reductions include the commissioning of new gas and steam turbine power plants, which replace the existing coal-fired power generation at the Marl site in Germany; initiatives to increase energy efficiency in production and processing operations; and a switch to green electricity for example through long-term power purchase agreements for an offshore wind park with EnBW starting 2026 and with RWE starting 2028, and for a photovoltaic park with Vattenfall starting 2025. The company plans to cover 100% of its external electricity needs with renewables by 2030, up from 35% in 2023.

Governance factors are a positive consideration, as reflected in the group's risk management systems and strategy of refocusing the business mix toward specialty chemicals, in line with best corporate practices.

Rating Component Scores	
Foreign currency issuer credit rating	**BBB+/Stable/A-2**
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Strong**
Country risk	Low
Industry risk	Intermediate
Competitive position	Strong
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Positive (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb+**

Related Criteria

- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- ARCHIVE | Criteria | Corporates | Industrials: Key Credit Factors For The Commodity Chemicals Industry, Dec. 31, 2013
- ARCHIVE | Criteria | Corporates | Industrials: Key Credit Factors For The Specialty Chemicals Industry, Dec. 31, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- ARCHIVE | General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- ARCHIVE | General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009