Maalot
S&P Global Ratings

Israel Corporation Ltd.

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Research Update

Rating Raised To 'ilA+' On Improved Financial Ratios, Outlook Stable

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Rating Action Overview

- Israel Corporation Ltd. (“Israel Corp” or “the Company”) recently posted a gradual decrease in adjusted consolidated debt, alongside high prices commensurate with the peak of the business cycle. In addition, the Company has strong stand-alone liquidity and financial flexibility due to its low LTV (loan to value) ratio.
- We expect Israel Corp to maintain solid rating headroom despite our assessment that fertilizer prices will continue to decline.
- As a result, we project credit metrics will weaken but continue to support the rating, with adjusted debt to EBITDA increasing to about 1.4x-1.7x in 2023 from 0.7x in 2022.
- Therefore, on July 4, 2023, we raised our issuer rating on Israel Corporation Ltd. to 'ilA+' from 'ilA'. We also raised our rating on the Company’s bond series to ‘ilA+’, identical to the issuer rating.
- The stable outlook reflects our assessment that Israel Corp will maintain an adjusted debt to EBITDA ratio of 1.4x-1.7x in the next 12 months. Our outlook is underpinned, among other things, by management’s intention to make acquisitions in accordance with its strategic plan. These are supported by the robust position of subsidiary ICL Group Ltd. (“ICL”) in the fertilizer industry and by low production costs in Israel.

Rating Action Rationale

The upgrade is mainly due to a continuous decrease in the Company’s adjusted consolidated debt, to about $2.9 billion at year-end 2022 from about $4.1 billion at year-end 2021, alongside high prices at the peak of the business cycle reflecting robust demand and structural supply shortages, inter alia due to the Russia-Ukraine conflict. These are reflected in an adjusted debt to EBITDA ratio of 0.7x in 2022 compared to 2.5x in 2021 and 4.5x in 2020. The upgrade is also supported by strong stand-alone liquidity and financial flexibility due to a low LTV (loan to value) ratio. Due to the high correlation between the value of Israel Corp’s portfolio and the performance of its subsidiary ICL and the Company’s consolidated financial statements, we analyze its business risk profile based on ICL’s operating performance and its financial risk profile based on its consolidated statements.

We expect Israel Corp to maintain solid rating headroom despite our assessment that fertilizer prices will continue to decline. Both phosphate and potash prices declined significantly in 2023. In line with S&P Global and S&P Commodity Insights' assumptions, we expect fertilizer prices to continue to decline this year and in 2024, but to remain above their average level in 2021 due to our forecast that underapplication in previous years and low cereal crop inventory levels may support crop prices and therefore demand for fertilizers. Moreover, we forecast, in 2023-2024, that earnings in the industrial solutions segment will be pressured, reflecting our expectation that the uncertain macroeconomic outlook will lead to an overall decrease in demand in key end markets such as electronics and construction.

Accordingly, we expect the Company's adjusted EBITDA to be $1.6 billion-$1.8 billion in 2023, down from a record $4 billion in 2022. As a result, we project credit metrics will weaken but continue to support the rating, with adjusted debt to EBITDA increasing to about 1.4x-1.7x in 2023 from 0.7x in 2022. In our analysis we incorporate the potential for volatility in the potash and phosphate crop nutrients segment and in the industry solutions segment to affect future earnings and financial metrics.

Outlook

The stable outlook reflects our assessment that Israel Corp will maintain an adjusted debt to EBITDA ratio of 1.4x-1.7x in the next 12 months. Our outlook is underpinned, among other things, by management's intention to make acquisitions in accordance with its strategic plan. We expect Israel Corp will present adjusted EBITDA of $1.6 billion - $1.8 billion on a consolidated basis in 2023, supported by ICL's solid position in the fertilizer markets and low production costs in Israel.

Downside scenario

A negative rating action may be possible if Israel Corp's adjusted debt to EBITDA exceeds 4.0x with no short-term prospects of improvement, or if ICL's operating performance weakens beyond our base case assumptions. This could occur due to weaker market conditions, e.g. as a result of prolonged low potash or phosphate prices due to sluggish demand, ongoing oversupply in both markets or a deterioration in the industrial solutions segment. We could also lower the rating if ICL deviated from its publicly stated dividend policy or embarked on sizable leveraged acquisitions. Dividend distribution that is not in accordance with the Company's policy or acquisitions that are not in accordance with its strategic plan, which will weaken its liquidity profile, may also lead to a downgrade.

Over the medium term, the rating could come under pressure if uncertainty continues regarding the renewal of the Dead Sea concession. In this scenario, we expect the Company's business risk profile to increase because it currently benefits from ICL's inherent advantages of operating in the Dead Sea.

Upside Scenario

We may consider a positive rating action if the Company strengthens its financial risk profile such that its debt to EBITDA drops below 1.5x on a sustainable basis and as part of management policy, while ICL maintains at least its current operating performance in accordance with our base case scenario.

Company Description

Israel Corp. is traded on the Tel Aviv Stock Exchange and holds about 44% in ICL Group Ltd. ("ICL", ilAA/Stable), about 18% in AKVA Group ASA (“AKVA”) and about 9% in Nordic Aqua Partners A/S (“NOAP”). Israel Corp's main shareholders are Millennium Investments Elad Ltd. and Mr. Idan Ofer.

ICL is an international company producing and marketing fertilizers and specialty chemicals based on potash, phosphate and bromide. ICL has four major divisions: Industrial Products, Potash, Phosphate Solutions and Innovative Ag Solutions.

AKVA and NOAP are public companies traded on the Oslo Stock Exchange. AKVA is engaged in providing technological aquaculture solutions and services, and NOAP is building an Atlantic Salmon land-based facility in China.

Base Case Scenario

Our base case scenario is underpinned by the following assumptions:

- Consolidated revenues of $7.0 billion - $8.0 billion in 2023 and 2024, based on S&P Global and S&P Commodity Insights fertilizer price assumptions. However, we expect potash prices to remain high compared to 2021, due to our expectation that underapplication in previous years and low stock levels for grain crops could support crop prices and therefore, demand for fertilizers.
- Investments of about $415 million in the coming years, in accordance with the Company's strategic plan.
- Dividend receipts from ICL of up to 50% of adjusted net profit in 2023-2024, in accordance with its dividend policy.
- Dividend distribution of 45% of total net dividends cash flow actually received by the company above $75 million, in accordance with the Company's dividend policy.
- Share buybacks amounting to about $32 million in 2023.
- Consistently maintaining net stand-alone debt of about $1.0 billion in accordance with the Company’s policy.

Key Metrics

Financial Metric	2022A	2023E	2024E
Debt/EBITDA	0.7x	1.4x-1.7x	1.7x-2.0x
FFO/debt	93.2%	45%-50%	40%-45%

A - actual. E – Estimate. FFO – funds from operations.

Liquidity

We examine the Company's liquidity profile on a stand-alone basis. We assess the Company's liquidity as strong, reflecting our expectations that its sources to uses ratio will exceed 1.5x in the 12 months starting April 1, 2023. Our liquidity assessment is based on Israel Corp's cash balance and on expected dividends from ICL on the one hand, and on debt maturities and G&A expenses on the other hand. We note that in our liquidity calculation we excluded any unannounced dividend distributions by the company and unannounced dividend receipts from ICL for the second half of 2023 and the first quarter of 2024.

In our base case scenario we assume the main sources at the Company's disposal in the 12 months starting April 1, 2023, to be:

- About $1 billion in cash and cash equivalents.
- Unutilized committed credit facilities of about $360 million.
- About $64 million in dividend receipts from ICL in June 2023.

Our assumptions regarding the Company's main uses for the same period are:

- Ongoing maturities of about $200 million.
- Interest, general and administrative expenses of about $40 million.
- Share buybacks of about $32 million.
- Investments of about $415 million, in accordance with the Company's strategic plan.

Covenant Analysis

We expect the Company to maintain adequate headroom (over 15%) on all its financial covenants.

Environmental, Social, And Governance

ESG Credit Indicators: E-3, S-3, G-2

We capture environmental factors, including risks posed to natural capital, as a moderately negative consideration in our credit rating analysis of Israel Corp, as reflected in the operations of its main subsidiary, ICL, since our assessment of Israel Corp's creditworthiness is based on ICL's operating performance. We believe the drying out in the Dead Sea area alongside the risk pertaining to the extension of its concession after 2030 may pressure ICL to reduce its use of Dead Sea minerals, which could have an adverse effect on its business and credit rating and thus on Israel Corp's credit rating.

We capture social factors as a moderately negative consideration in our credit rating analysis of Israel Corp, as reflected in ICL's operations. ICL's operations could indirectly damage the foundations of buildings located near the shoreline, as well as other shoreline infrastructure. Although this has not created social tensions or led to material claims to date, ICL continues to engage with the local communities and businesses. ICL's ability to preserve its natural and social capital are key factors in maintaining the viability of its business model, and Israel Corp's by extension.

Governance factors are an overall neutral consideration in our credit rating analysis of Israel Corp.

Recovery Analysis

Key analytical factors

- We are raising our issue rating on Israel Corp's unsecured bond series (Series 11, 12, 13, 14, 15) to 'ilA+', identical to the issuer rating.
- The recovery rating for these series is 3, reflecting our assessment that in the case of default, the recovery rate would be 50%-70%.
- Our recovery rating assessment is supported by the holding of tradable shares of three companies.

Simulated default assumptions

- Simulated year of default: 2028
- A deep recession in various economies will lead to competitive pressure and price drops in the chemicals industry, materially devaluating the company's holdings.
- The Company will be liquidated, an assessment based on the fact that there is no activity at the holding company level and its entire value at the time of default will be based on the shares it holds.
- In the deterioration process, the Company will use 30% of its signed credit facilities.
- On the day of the default, the company's LTV ratio will be close to 100%, following a sharp drop in the market value of ICL, AKVA and NOAP. We also assume an additional 30% reduction in share value at liquidation (amounting to a total reduction of about 70%).

Simplified Waterfall

- Gross enterprise value according to DAV method: about NIS 1.8 billion
- Administrative costs: 5%
- Enterprise value available for secured debt: about NIS 1.7 billion
- Total secured debt: about NIS 735 million
- Value available for unsecured debt: about NIS 945 million
- Total unsecured debt: about NIS 1.8 billion
- Recovery expectations for unsecured debt: 50%-70%
- Recovery rating for unsecured debt (1 to 6): 3

All debt amounts include six months' prepetition interest.

Mapping Recovery Percentages To Recovery Ratings

Recovery expectations (%)	Description	Recovery rating	Notching above/below issuer rating
100%	Full recovery	1+	+3 notches
90%-100%	Very high recovery	1	+2 notches
70%-90%	Substantial recovery	2	+1 notch
50%-70%	Meaningful recovery	3	0 notches
30%-50%	Average recovery	4	0 notches
10%-30%	Modest recovery	5	-1 notch
0%-10%	Negligible recovery	6	-2 notches

Recovery ratings are capped in certain countries to adjust for reduced creditor recovery prospects in these jurisdictions. Recovery ratings on unsecured debt issues are generally also subject to caps (see Step 6, paragraphs 90-98 of Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016, for further detail). ICR--Issuer credit rating.

Modifiers

Diversification/portfolio effect: Neutral

Capital structure: Neutral

Liquidity: Neutral

Financial policy: Neutral

Management and governance: Neutral

Comparable ratings analysis: Negative

The fact that most of the Company's operation is performed through the holding of public companies and not through direct ownership of assets adversely affects the rating.

Related Criteria And Research

- Principles Of Credit Ratings, February 16, 2011

- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, November 13, 2012
- Methodology: Industry Risk, November 19, 2013
- Country Risk Assessment Methodology And Assumptions, November 19, 2013
- Corporate Methodology, November 19, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, December 16, 2014
- Recovery Rating Criteria For Speculative-Grade Corporate Issuers, December 7, 2016
- Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Group Rating Methodology, July 1, 2019
- Environmental, Social, And Governance Principles In Credit Ratings, October 10, 2021
- Methodology For National And Regional Scale Credit Ratings, June 8, 2023
- S&P Global Ratings Definitions, November 10, 2021

Ratings List

Israel Corporation Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
Issuer rating(s)			
Long term	ilA+/Stable	03/07/2005	18/07/2022
Issue rating(s)			
Senior Unsecured Debt			
Series 11	ilA+	05/05/2016	18/07/2022
Series 12,13	ilA+	13/03/2018	18/07/2022
Series 15	ilA+	27/04/2021	18/07/2022
Series 14	ilA+	02/12/2019	18/07/2022
Issuer Credit Rating history			
Long term			
July 04, 2023	ilA+/Stable		
November 22, 2016	ilA/Stable		
January 26, 2016	ilA+/Negative		
September 21, 2009	ilA+/Stable		
February 12, 2009	ilAA-/Negative		
November 30, 2008	ilAA/Watch Neg		
December 31, 2006	ilAA/Stable		
July 12, 2006	ilAA		
July 03, 2005	ilAA/Negative		
Additional details			
Time of the event	04/07/2023 10:46		
Time when the event was learned of	04/07/2023 10:46		
Rating requested by	Issuer		

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