Maalot
S&P Global Ratings

Israel Corporation Ltd.

July 12, 2020

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Israel Corporation Ltd.

Issuer Credit Affirmed	ilA/Stable

Overview

Key Strengths	Key Risks
• Israel Corp's creditworthiness is underpinned by its main holding, ICL Group Ltd. ("ICL"), one of the leading global potash producer and the largest global bromine producer. • ICL's competitive advantage stem from its Dead Sea operations and from high synergy in specialty product production. • ICL follows a supportive financial policy. • Israel Corp. has large cash reserves and follows a financial policy which includes maintaining the current level of debt.	• The fertilizer market in which ICL operates is characterized by cyclicality and intense competition. • ICL is exposed to regulatory changes and political pressure in Israel pertaining to extending the Dead Sea mining concession, which is due to expire in 2030. • ICL has large non-discretionary capital expenditures (capex) requirements related to its Dead Sea operations.

There is a correlation between the market value of Israel Corp's holding portfolio and ICL's performance and Israel Corp's consolidated financial statements. We therefore analyze Israel Corp's business risk profile based on ICL's operating performance and its financial risk profile based on its consolidated reports.

We estimate that Israel Corp will wish to implement its investment strategy in the medium term, while maintaining the current level of debt. However, we note that any material acquisition would involve risks inherent to M&A activity, including regulation and integration risks, which may affect the Company's creditworthiness. We expect the adjusted debt to EBITDA ratio to deteriorate in 2020 due to a decrease in ICL revenues.

We do not expect the coronavirus pandemic to materially affect ICL. ICL's operations were minimally disrupted by the coronavirus pandemic in the first quarter of the year. We anticipate that the demand for fertilizers will remain generally stable in 2020, due to the indispensable role of the sector in security of food supply, a factor recognized by the governments by designating it as critical. In bromine, while about 25% of sales are exposed to cyclical oil and gas, automotive, and construction end markets, we anticipate that profits should be supported by resilient demand from pharmaceutical, food, and health care industries, which account for about 8% of sales. We note favorably ICL's active endeavors to support its cash reserves, including a withdrawal of $300 million from its $1.1 billion revolving credit facility, as well as its tight management of capex and working capital.

We expect ICL to continue following its growth strategy, which may include acquisitions, while maintaining reasonable headroom on the ratios commensurate with the rating. This strategy is designed to improve ICL’s market position across its three core fields of activity - bromine, potash, and phosphate - as well as to expand its Innovative Agriculture Solutions business. We understand that the company will execute its growth strategy via bolt-on acquisitions, organic investments, ramp-up of specialty fertilizer products such as polysulphate, innovation through new product development, and new applications for existing products.

Outlook

The stable outlook reflects our assessment that in the next 12 months, Israel Corp will maintain financial metrics commensurate with the current rating, i.e. an adjusted debt to EBITDA ratio of 4.0x at the top of ICL's business cycle and 5.0x at the bottom of ICL's business cycle, as well as adequate liquidity. The stable outlook also reflect our assessment that the Company's financial flexibility will not deteriorate further as a result of a material increase in the LTV (loan-to-value) ratio.

Our outlook is underpinned, among other things, by the Company’s commitment not to engage in aggressive acquisitions that would lead to a deviation from the coverage ratios noted above. It is also underpinned by our base case scenario for ICL. We expect ICL to generate average adjusted EBITDA of about $1 billion per annum in 2020-2021, and continue benefitting from a strong market position in the fertilizer business and from low production costs in Israel. We estimate that ICL will maintain its current dividend distribution policy in 2020-2021 and undertake medium-sized mergers and acquisitions in the next few years.

Downside Scenario

We may take a negative rating action if the Company’s adjusted debt to EBITDA is about 5.0x with no short-term prospects of improvement, or if ICL’s operating performance weakens beyond our base case assumptions. This could occur due to weakening market conditions, for example as a result of prolonged low prices of potash or phosphate due to sluggish demand or ongoing oversupply in both markets. We could also lower the rating if ICL deviated from its publicly stated dividend policy or embarked on sizable leveraged acquisitions.

Over the medium term, the rating could come under pressure if uncertainty regarding the renewal of ICL’s Dead Sea concession continues. In such conditions we expect pressure on the Company’s business risk profile, which is currently supported by its inherent advantages 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 3.5x on a sustainable basis.

Base Case Scenario

Key Assumption

- North America GDP contraction of 5.2% in 2020 and 6.2% growth in 2021; Latin America GDP decline of 5.1% in 2020 and 3.8% growth in 2021; Europe GDP contraction of 6.4% in 2020 and 5.1% growth in 2021; and Asia-Pacific GDP growth of 0.7% in 2020 and 6.3% in 2021.
- Brent crude prices of $30 per barrel (bbl) in 2020, $50/bbl in 2021, and $55/bbl in 2022 and beyond.
- Consolidated revenues at $4.8 billion-$5.0 billion in 2020 and $5.1 billion-$5.2 billion in 2021.
- Adjusted consolidated EBITDA of $920 million - $960 million in 2020 and $1.0 billion - $1.1 billion in 2021.
- At ICL – annual dividend distributions of up to 50% of adjusted net profit in 2020-2021.
- No dividend distribution to Israel Corp's shareholders, as part of the plan to implement the Company's new investment strategy.
- Reported capital expenditure (capex) of about $570 million in 2020 and about $550 million in 2021.
- No additional acquisitions at ICL except for Growers Holdings Inc. in February 2020, as the acquisitions' timing, scope and contribution to income are uncertain.
- Maintaining net debt of about $1.1 billion at the stand-alone level.

Key Metrics

Financial Metric	2019A	2020E	2021E
Debt/EBITDA	3.3x	4.0x-5.0x	3.3x-4.3x
FFO/DEBT	21.8%	14%-18%	15%-20%
EBITDA/interest expense	5.7x	4.5x-5.0x	5.2x-5.6x

A – Actual. E – Estimate. FFO – funds from operations.

Company Description

Israel Corp. is traded on the Tel Aviv Stock Exchange and holds a stake of about 46% in ICL Group Ltd. ("ICL", ilAA/Stable) and a stake of about 33% in Oil Refineries Ltd. ("Bazan", ilA-/Negative). ICL is fully consolidated in Israel Corp's financial statements, while Bazan is an associated company whose results are reported using the equity method, as part of Israel Corp's share in the income of associated companies. 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. For additional details regarding ICL’s rating, see our rating report dated June 29, 2020.

Bazan is the largest refining and petrochemical company in Israel. For additional information on Bazan's rating, see our rating report dated March 31, 2020.

Business Risk

Our assessment of Israel Corp's business risk profile and creditworthiness is underpinned by the operating performance of its main holding, ICL. We estimate that ICL's performance directly affects the market value of Israel Corp's holding portfolio, the size of dividends it receives from ICL, and its financial flexibility as reflected in its LTV ratio.

Our assessment of ICL's business profile, and accordingly Israel Corp's business profile, is based, among other things, on ICL's position as the sixth largest global potash producer, a market with continuously growing demand and high manufacturers concentration, and the largest global bromine producer. ICL's strong business position is underpinned by its inherent advantages, including direct access to a concentrated source of unique high-quality raw materials in the Dead Sea; a good cost position of potash and bromine mining compared with competitors; low storage costs and easier inventory maintenance, due to the dry weather in the Dead Sea area; proximity to ports and strategic clients (notably China and India); and synergy between the manufacturing processes for different specialty chemicals products. ICL's business position is further supported by its wide geographic sales spread, which we believe reduces its exposure to demand shifts due to regional factors (like extreme weather), and by a diversified portfolio of products used in many industries. We note that in the phosphate business, ICL’s competitive position is weaker than its competitors’. This is due to relatively low quality phosphate rock in the Negev desert in Israel, relatively high production costs and lack of approval for an alternative mining site while reserves in the current site are dwindling.

Our revenue forecast factors in the weak potash and phosphate prices in 2020. We also consider some deterioration in the bromine business due to applications in cyclical end markets, such as clear brine in oil and gas drillings, or flame retardant additives in automotive and construction. These are partly offset by ICL’s favorable cost position in the Dead Sea, higher volumes following the completion of a facility upgrade in late 2019, and the resilience of its specialty businesses lines. Revenues will also be supported by the steady performance of bromine applications in markets such as pharmaceuticals, agrochemicals, and food, which are largely decoupled from general macroeconomic conditions. In phosphate, prices will remain under pressure in 2020, owing to abundant supply in the market and competition among key producers. An important determinant of prices will be the pace and size of reductions in Chinese phosphate exports due to environmental concerns, which in our view could help offset some oversupply in the industry.

We note overcapacity in the potash industry, and hence assume no further meaningful deterioration of prices in 2020. That said, we recognize that the Chinese contracts will provide some certainty to the market with regard to the price floor and offtake of the product. We assume a gradual improvement in potash prices in 2021 if major producers maintain supply discipline, notably as capacity additions from Eurochem Group AG come on stream.

A constraining factor for Israel Corp's business risk profile is its dependence on the extension of ICL’s Dead Sea concession by the Israeli Government in 2030, and its exposure to political pressures and regulatory changes, because it translates into uncertainty as to whether the business will continue in its current form beyond 2030. There are currently no firm developments in this area.

Our view on the business risk profile is further constrained by the highly cyclical nature of the fertilizer industry. This cyclicality reflects the industry's changing supply-demand balance, which is difficult to predict as it depends on fertilizer price expectations, harvests, the crop mix, farmers' earnings (which themselves depend of crop prices), the weather, and inventory levels. New supply tends to come on stream and higher cost capacities are curtailed. Political decisions influence both demand and supply, through export allowances or taxes and subsidies in various core markets, especially India and China.

ICL's ongoing shift from the production of commodity fertilizers to the production of value-added complementary products is an important strategic step to help it stabilize profits through the cycle.

Financial Risk

ICL's performance is correlated with the market value of Israel Corp's holding portfolio, its LTV ratio and financial metrics based on its consolidated statements. We analyze Israel Corp's financial risk profile on the basis of its consolidated statements while adjusting its EBITDA to reflect any dividend receipts from Bazan. At the same time, we examine its LTV ratio as an indicative metric for its financial flexibility and ability to refinance its debt. As of the date of this report, the LTV ratio is about 50%, compared with about 30% last year. This increase in leverage is attributed to a devaluation of Israel Corp’s holdings in ICL and Bazan as a result of the expected decline in ICL’s revenues in 2020 and lower demand to some of Bazan’s refining products due to the lower volume of transportation and aviation. We believe, however, that Israel Corp's financial flexibility remains adequate, and that it can refinance its debt, as it did in recent months.

Israel Corp's adjusted consolidated debt to EBITDA was about 3.3x in 2019, similarly to 3.5x in 2018. We estimate that Israel Corp will wish to implement its investment strategy in the medium term, while maintaining the current level of debt. However, we note that any material acquisition would involve risks inherent to M&A activity, including regulation and integration risks, which may affect the Company's creditworthiness.

We expect ICL to continue to be Israel Corp's core holding and thus our base case scenario is underpinned by our assumptions regarding ICL. ICL's board of director has approved its dividend policy for 2020 and beyond, which includes distribution of up to 50% of adjusted net income.

Under our base-case scenario for ICL, we forecast that adjusted consolidated debt to EBITDA will be 3.2x-3.4x in 2020, compared with 2.5x in 2019. We don't anticipate any material transactions, with only $27 million outflow for a bolt-on acquisitions of Growers Holdings Inc. in February 2020. Based on reported EBITDA of $900 million-$940 million, capex of about $570 million, and modest working capital outflows, we estimate that the Company will generate $80 million-$120 million of free operating cash flow (FOCF) in 2020. We forecast that FOCF will recover to more than $200 million in 2021, but remain lower than the over $400 million the company generated in 2019.

The fertilizer industry's cyclicality is a structural constraint to ICL's financial risk profile, and therefore to Israel Corp's financial risk profile, because it translates into volatility in profits outside of the Company's control, as well as large seasonal working capital swings. ICL's track record of navigating its business through the cycle and prudent financial policy are important mitigating factors.

Table 1.

Israel Corp. Ltd. – Financial Summary (Mil. $)

Industry Sector: Chemical Companies

	2019	2018	2017	2016	2015
Revenue	5,271.0	5,556.0	5,418.0	5,363.0	5,405.0
EBITDA	1,216.0	1,159.0	1,137.0	1,031.5	1,212.9
Funds from operations (FFO)	881.0	864.8	748.7	661.0	960.8
Interest expense	212.0	257.2	241.3	290.5	233.1
Cash interest paid	203.0	235.2	256.3	240.5	219.1
Cash flow from operations	870.0	643.8	732.7	1,104.0	598.8
Capital expenditure	557.0	550.0	434.0	610.0	598.0
Free operating cash flow (FOCF)	313.0	93.8	298.7	494.0	0.8
Dividends paid	149.0	249.0	124.0	87.0	478.0
Discretionary cash flow (DCF)	164.0	(155.2)	174.7	407.0	(477.2)
Cash and short-term investments	751.0	628.0	697.0	842.0	787.0

	2019	2018	2017	2016	2015
Gross available cash	751.0	628.0	697.0	842.0	787.0
Debt	4,050.5	3,998.9	5,051.5	5,297.2	5,350.3
Equity	3,883.0	3,610.0	2,637.0	2,261.0	2,722.0
Debt and equity	7,933.5	7,608.9	7,688.5	7,558.2	8,072.3
Adjusted ratios					
Annual revenue growth (%)	(5.1)	2.5	1.0	(0.8)	(11.6)
EBITDA margin (%)	23.1	20.9	21.0	19.2	22.4
Return on capital (%)	10.1	9.5	9.5	8.4	10.1
EBITDA interest coverage (x)	5.7	4.5	4.7	3.6	5.2
FFO cash interest coverage (x)	5.3	4.7	3.9	3.7	5.4
Debt/EBITDA (x)	3.3	3.5	4.4	5.1	4.4
FFO/debt (%)	21.8	21.6	14.8	12.5	18.0
Cash flow from operations/debt (%)	21.5	16.1	14.5	20.8	11.2
FOCF/debt (%)	7.7	2.3	5.9	9.3	0.0
DCF/debt (%)	4.0	(3.9)	3.5	7.7	(8.9)
Debt/debt and equity (%)	51.1	52.6	65.7	70.1	66.3

Liquidity

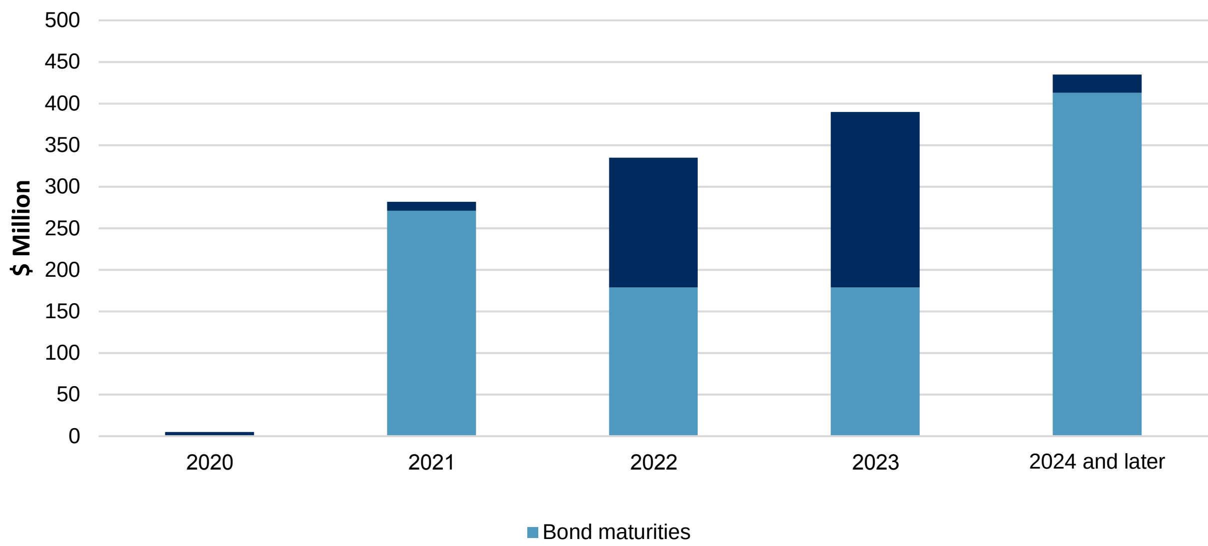
We examine the Company's liquidity profile on a stand-alone basis. We estimate the Company's liquidity as adequate, reflecting our expectations that its sources to uses ratio will exceed 1.2x in the 12 months starting April 1, 2020. Our liquidity assessment is based on Israel Corp's cash balance, on expected dividends from ICL and on new loans and bond issuance from Q2 2020 on the one hand, and on debt maturities and general & administrative expenses on the other hand. We note that in our liquidity calculation we excluded unannounced dividend receipts from ICL, forecasted at about $35 million (in respect of H2 2020 and Q1 2021).

Following are the company's liquidity sources and uses on a stand-alone basis for the 12 months beginning April 1, 2020:

Principal Liquidity Sources	Principal Liquidity Uses
• $510 million in cash and cash equivalent. • Bond issuances totaling about $83 million in Q2 2020. • About $13 million in dividend receipts in Q2 2020.	• Long term maturities totaling about $230 million, of which $53 million were repaid in Q2 2020. • Interest, general and administrative expenses of about $100 million.

Debt Maturities

Chart 1: Israel Corporation Ltd Debt Maturities



Source: S&P Global Ratings.

On May 31, 2020, the Company repaid a $53 million bond maturity.

Covenant Analysis

Compliance Expectations

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

Requirements

According to the terms of its bonds, the Company must maintain at least $360 million in equity ($500 million for Series 14) and a ratio of equity to total assets of at least 20% (25% for Series 14).

Environmental, Social and Governance

As Israel Corp's main holding is ICL, we have analyzed ICL in terms of environmental, social and governance risks. ICL may be subject to regulatory and environmental requirements that relate to its use of natural resources under its concession agreement with the Israeli government. Two major projects are the harvest project and the pumping station, both at the Dead Sea.

We see ESG credit factors for ICL as more exposed in comparison with industry peers', given that it operates a unique natural resource asset in a region facing water scarcity and significant geopolitical tensions. ICL conducts its Dead Sea operations under a concession agreement with the Israeli government.

The minerals from the Dead Sea are produced by means of solar evaporation, in which salt sinks to the bottom of one of the pools. As a result of this process, raising the water above a certain level may cause damage to the foundations and hotel buildings located near the shoreline and to other infrastructure on the beach. ICL also draws water from the northern basin of the Dead Sea and transfers it to pools at the southern part of the sea. As a result, the water level has decreased in the Dead Sea's northern basin over the years, most recently at an average annual rate of about 110 centimeters, leading to the creation of sinkholes.

We note that ICL's share of responsibility for the Dead Sea's water depletion is about 23%, with the balance due to evaporation, increased use of upstream water, and less rain in general. Over the longer term, we believe this situation may create pressure on ICL to reduce its use of Dead Sea minerals, which could have an adverse effect on its business.

In addition, ICL is exposed to lawsuits in connection with malfunctions at its plants resulting in an ecological environmental impact. For example, in 2017, a pool used to store water gypsum formed in production processes in the Negev collapsed. This event led to severe environmental pollution. Class action suits were filed against ICL and it was required to bear long-term costs relating to rehabilitation programs. Such costs are hard to predict but could influence ICL's financial and credit metrics if incurred.

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.

Recovery Analysis

Key analytical factors

- We are affirming our 'ilA' issue rating, identical to the issuer rating, on Israel Corp's unsecured bond series (Series 7, 10, 11, 12, 13, 14).
- 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 two companies from different areas of operation that are not necessarily correlated.

Simulated default assumptions

- Simulated year of default: 2024
- A deep recession in various economies will lead to competitive pressure and price drops in the chemicals and energy industries, 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.
- 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 and Bazan shares. We also assume an additional 30% reduction in share value at liquidation (amounting to a total reduction of about 70%).

Simplified waterfall

- Gross discrete asset value at liquidation: about $670 million
- Administrative costs: 5%
- Enterprise value available for secured debt: about $635 million
- Total secured debt: about $253 million
- Enterprise value available for unsecured debt: about $385 million
- Total unsecured debt: about $735 million
- 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).

Reconciliation

In order to create a basis for comparison with other rated companies, we adjust the data reported in the financial statements which we use to calculate financial ratios. The main adjustments we made to Israel Corp's consolidated data for 2019 are as follows:

- Deducting about $750 million in cash reserves from debt.
- Adjusting financial debt, EBITDA and interest expenses to reflect pension expenses.
- Adding $19 million in capitalized interest expenses to interest expenses.

Table 2.

Reconciliation Of Israel Corp. Ltd. Reported Amounts with S&P Global Ratings Adjusted Amounts (Mil. $) for the Fiscal Year Ended Dec 31, 2019

Israel Corp. Ltd. reported amounts

	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Capital expenditure
Reported	3,857	1,550	1,183	746	181	1,216	1,067	576
S&P Global Ratings adjustments								
Cash taxes paid	--	--	--	--	--	(132)	--	--
Cash interest paid	--	--	--	--	--	(184)	--	--
Reported lease liabilities	349	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	440	--	9	9	12	--	--	--
Accessible cash and liquid investments	(751)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	19	(19)	(19)	(19)
Share-based compensation expense	--	--	12	--	--	--	--	--
Dividends received from equity investments	--	--	19	--	--	--	--	--
Asset-retirement obligations	156	--	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	40	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(178)	--
Noncontrolling interest/minority interest	--	2,333	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(12)	(12)	--	--	--	--
EBITDA: Other	--	--	5	5	--	--	--	--
Total adjustments	**194**	**2,333**	**33**	**42**	**31**	**(335)**	**(197)**	**(19)**

S&P Global Ratings adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
Adjusted	4,051	3,883	1,216	788	212	881	870	557

Related Criteria And Research

- Use Of CreditWatch And Outlooks, September 14, 2009
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, November 13, 2012
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, October 24, 2013
- Corporate Methodology, November 19, 2013
- Country Risk Assessment Methodology And Assumptions, November 19, 2013
- Methodology: Industry Risk, 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
- Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Group Rating Methodology, July 1, 2019
- S&P Global Ratings Definitions, July 5, 2019

Ratings List

Rating details (as of July 12, 2020)

Israel Corporation Ltd.	
Issuer rating(s)	
Long term	ilA/Stable
Issue rating(s)	
<u>Senior Unsecured Debt</u>	
Series 7,10,11,12,13	ilA
Series 14	ilA
Issuer Credit Rating history	
Long term	
November 22, 2016	ilA/Stable
January 25, 2016	ilA+/Negative
September 21, 2009	ilA+/Stable
11 February, 2009	ilAA-/Negative
November 30, 2008	ilAA/Watch Neg
January 01, 2007	ilAA/Stable
July 12, 2006	ilAA
July 03, 2005	ilAA/Negative
Additional details	
Time of the event	12/07/2020 14:15
Time when the event was learned of	12/07/2020 14:15
Rating requested by	Issuer