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Summary:
Yara International ASA

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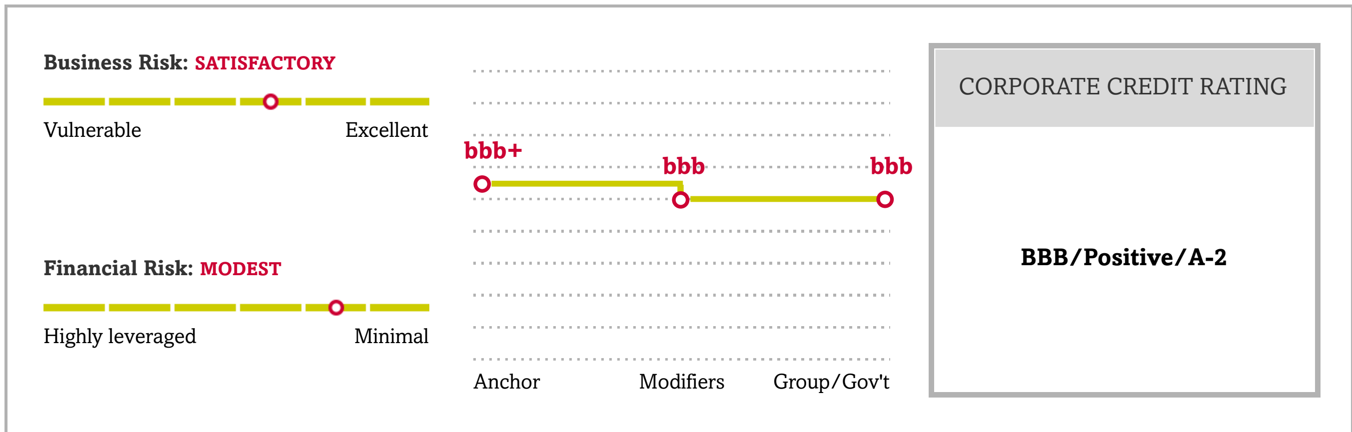

Rationale

Business Risk: Satisfactory	Financial Risk: Modest
• World's largest distributor of fertilizers, with good geographic diversity. • Higher-margin specialty fertilizers that contribute a large proportion of profits. • Joint ventures in low-cost gas areas and efficient production facilities. • Profits anchored in the highly cyclical commodity nitrogen fertilizer industry. • Exposure to relatively high European gas prices.	• Commitment to maintaining adjusted funds from operations (FFO) to debt above 35%, which is commensurate with the rating. • Very strong credit metrics expected as at end-2014, affording sizable leeway for expected substantial acquisitions, investments, or shareholder distributions. • Strong liquidity position. • High free cash flow generation. • Cash flow swings, reflecting cyclical industry conditions. • Capital intensity and a long lead time to add or expand capacity.

Outlook: Positive

The positive outlook on Norway-based fertilizer producer, Yara International ASA, reflects the potential for a one-notch upgrade in 2015, depending on the company's financial policy, especially regarding possible future acquisitions and shareholder distributions. Yara's credit metrics have been strong for the rating since 2010, helped by favorable industry conditions in the cyclical fertilizer sector and no major cash spending. FFO to debt surpassed 130% in 2013, well above the 35% or higher that we consider commensurate with the rating.

Downside scenario

We could revise the outlook to stable if Yara undertook a series of material acquisitions, investments, and/or shareholder distributions, or if we believed such transactions to be very likely over time. If this occurred, the FFO-to-debt ratio could decline markedly from the high levels in recent years to about 35%-40%.

Upside scenario

We could consider an upgrade of Yara if we believed that the ratio of FFO to debt would remain at about 45%, even after taking into account possible acquisitions and other major cash uses.

If Yara made large acquisitions, FFO to debt could temporarily fall below 45% and stay commensurate with a 'BBB+' rating, as long as we continued to see potential for the ratio to return to at least 45% within a year.

Standard & Poor's Base-Case Scenario

Absent large acquisitions or shareholder distributions, our base case shows Yara's credit metrics remaining strong over 2014-2015, well above the 35% FFO-to-debt threshold for the current rating.

Assumptions

- On balance, stable to slightly less favorable industry conditions in 2015 as a result of new capacity, leading to lower prices, largely offset by cheaper oil and gas prices.
- Significant capital expenditures (capex) in 2015, owing to expansion.
- No significant changes in working capital, although large positive or negative fluctuations are possible.
- Hypothetical but midsize acquisitions in 2015, as seen in 2014, while larger spending remains possible as per the company's strategy.
- Shareholder distributions in line with the company's financial policy, with a 48% payout ratio in 2014 and our assumption of dividends at the upper end of the company's 40%-45% range.

Key Metrics

(Bil. NOK)	2013	2014E	2015E
Reported EBITDA (1)	13	14-15	14
--Of which net income from joint ventures	1.25	2	1.5-2
Capital expenditure	4.4	10	10
Free operating cash flow	7.7	2-3	0-1
Acquisitions	4.3	4.6	4.5
Debt to EBITDA (x)(2)	0.6	0.8	1.3
FFO to debt (%)(2)	130	>95	>55

(1)Excluding special items, as defined by the company. (2) Standard & Poor's fully adjusted. NOK--Norwegian krone (figures are rounded). E--Estimate.

Business Risk: Satisfactory

Our assessment of Yara's business risk profile as "satisfactory" is supported by the company's position as the world's largest distributor of fertilizers and its strong and geographically extended marketing network. Yara also derives a significant share of profits (about 60% in 2014) from premium, higher margin fertilizers, as opposed to commodity products like ammonia and urea, the profits of which depend not on selling prices but on the spread between selling and feedstock prices. This generally translates into more resilient profits. The company's operational flexibility in terms of sourcing and production capacity increases profits over a cycle. Yara's production is geographically diverse. It directly operates large scale, efficient plants in Europe and Canada, while its joint ventures also have efficient assets. Nitrogen fertilizers--Yara's primary focus--are by far the largest of the three fertilizer markets (the two others being phosphate and potash), and volume declines in this segment are limited. Farmers tend to consider nitrogen fertilizers indispensable given their short-term impact on crop yields.

The company's main business risks include the high cyclicality of profits in the nitrogen fertilizer industry, reflecting the prevalent supply-demand balance, which is difficult to predict as it depends on various factors. Demand depends on fertilizer price expectations, harvests, the crop mix, farmers' earnings (which themselves depend on crop prices), the weather, and inventory levels and policies. New supply depends on whether announced expansion projects have actually started and the speed at which they come onstream. Political decisions influence both demand and supply, through export allowances or taxes and subsidies in various core markets, especially in India and China.

Yara is also exposed to relatively high and volatile gas prices in Western Europe, which accounts for a large share of production. In terms of constraints in the industry, Yara, like other players, faces long lead times and capital intensity to expand capacity, especially for green-field projects.

Financial Risk: Modest

Yara's credit metrics strengthened noticeably over 2010-2012 and remained very strong for the rating in 2013 and 2014. On Sept. 30, 2014, FFO to debt surpassed 100%, while debt to EBITDA was only 0.7x. Even when excluding all cash (about $0.8 billion), FFO to debt remained strong at over 70%, while debt to EBITDA was a modest 1x. This compares with the 35% FFO to debt that we see as rating-commensurate. Adjusted debt reached Norwegian krone (NOK) 9.9 billion (about $1.5 billion) on Sept. 30, 2014, versus reported net debt of close to NOK5 billion. Our largest debt adjustment was to deduct surplus cash, which we calculate as cash of more than NOK0.7 billion. Other adjustments relate to operating leases and pensions.

These strong credit metrics provide substantial leeway for Yara's strategy to significantly increase production by 2016 through acquisitions and investments, and to return cash to shareholders. Absent major acquisitions, we anticipate that Yara's credit metrics will remain strong for the rating over 2015.

In line with Yara's management's guidance and track record, we expect the group to pay out 40%-45% of its net income on dividends and share buybacks.

Liquidity: Strong

We assess Yara's liquidity as "strong," as our criteria define the term.

Absent large acquisitions, Yara's liquidity sources will significantly exceed needs in 2015 by more than 1.5x. This is given the large amount of available cash (NOK5.0 billion or $0.8 billion) on Sept. 30, 2014, and Yara's ability to generate superior free cash flow. We expect available sources to stay positive, even if EBITDA were to fall by 30%. We view Yara as having good liquidity management. Its standing in the credit markets is enhanced by its partial ownership by the Norwegian government, in our opinion. We could revise liquidity to adequate, but only in the event of very large acquisitions or committed capital expenditures.

We anticipate ongoing significant headroom under the only principal financial covenant, which stipulates that net debt to equity in the consolidated accounts is at most 1.4x at each quarter's end. This ratio was a mere 0.08x on Sept. 30, 2014.

Principal Liquidity Sources	Principal Liquidity Uses
• Surplus cash of NOK4.3 billion on Sept. 30, 2014, after excluding NOK0.7 billion, which we treat as not available for debt reduction. • FFO exceeding NOK11 billion in 2014 and NOK10 billion 2015. • Full availability under a $1.25 billion committed bank line maturing in July 2018.	• Mandatory short-term debt payments of NOK3.9 billion on Sept. 30, 2014. • Significant capex, of which NOK5 billion is tied to maintenance. • Shareholder distributions of about NOK3 billion in 2014 and NOK3.5 billion in 2015. • Significant spending for contracted acquisitions (namely, Galvani Indústria, Comércio e Serviços S/A for an enterprise value of $320 million).

Other Modifiers

The only modifier that has an impact on the rating is Yara's financial policy. We regard it as negative, and therefore deduct one notch, because we consider the company's strategy to possibly seek large acquisitions, but have not factored this into our base case. Because these transactions are highly uncertain in terms of timing and size, we factor only Yara's committed acquisitions (which are midsize) and hypothetical midsize targets into our base case. Over the past four years, Yara has not made any large acquisitions, but it has actively looked at various targets. That said, we believe that if this stance were to continue, special shareholder distributions may occur.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Positive/A-2

Business risk: Satisfactory

- **Country risk:** Low
- **Industry risk:** Moderately high
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/Leverage:** Modest

Anchor: bbb+

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Negative (-1 notch)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Jan. 2, 2014
- Key Credit Factors For The Commodity Chemicals Industry, Dec. 31, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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