S&P Global
Ratings

RatingsDirect®

Yara International ASA

Primary Credit Analyst:
Paulina Grabowiec, London (44) 20-7176-7051; paulina.grabowiec@spglobal.com

Secondary Contact:
WEN LI, Frankfurt + 49 69 33999 101; wen.li@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Covenant Analysis

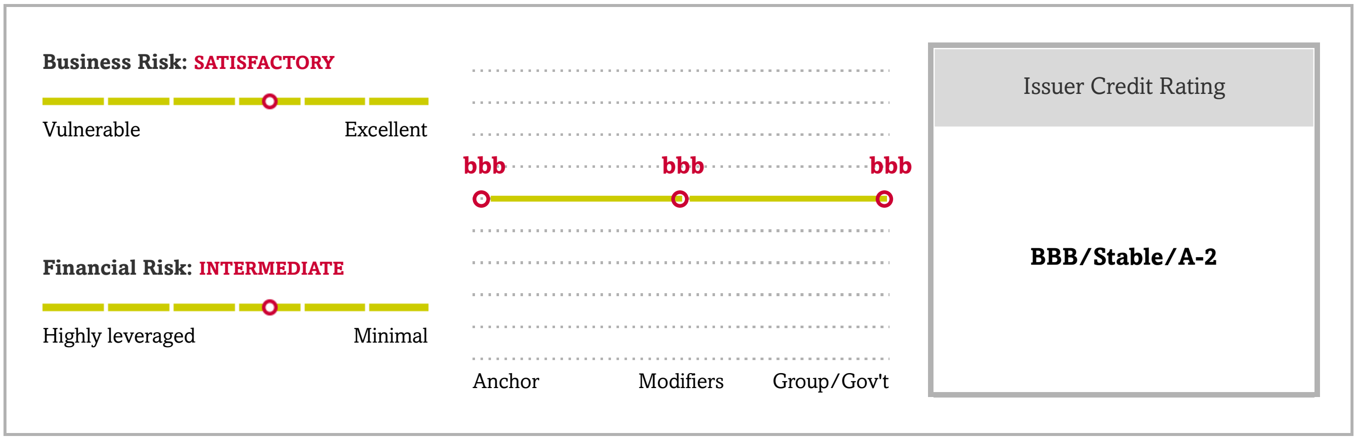
Issue Ratings--Subordination Risk Analysis

Reconciliation

Ratings Score Snapshot

Related Criteria

Yara International ASA



Credit Highlights

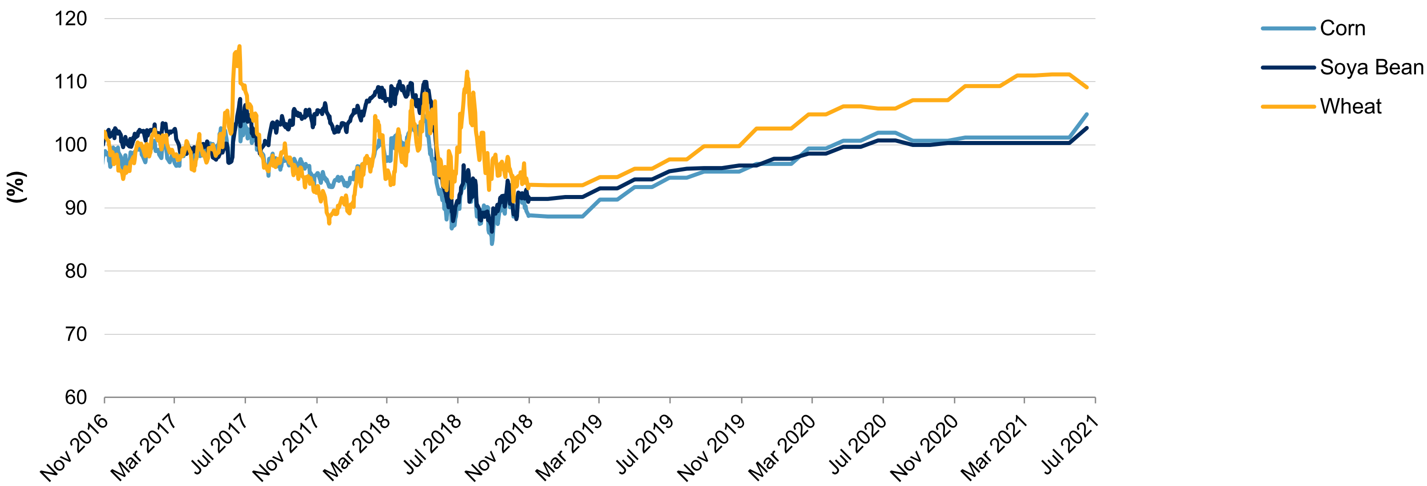
Overview

Key Strengths	Key Risks
World's largest distributor of fertilizer by volume, with good geographic diversity.	Profits anchored in the highly cyclical nitrogen fertilizer industry.
Joint ventures in low-cost gas areas and large-scale efficient production facilities.	Exposure to volatile--and currently increasing--European gas prices.
Higher-margin specialty fertilizers are a large contributor to profits.	Cash flow swings reflecting cyclicality of the fertilizer industry.
Financial policy commitment to maintain at least a 'BBB' rating.	Capital intensity and long lead time to add or expand capacity.

Supply and demand balance in nitrogen and phosphates will be key to the strength and pace of fertilizer price recovery. Risks over the medium term include resumed exports from China if nitrogen prices recover sufficiently, and potentially material capacity additions in Iran. In phosphate, capacity additions at OCP Group and Ma'aden could pressure prices and operating rates in the coming years. At the same time, we assume that falling inventories and gradually improving grain prices, albeit from a historically low level, should support farm economics and demand for fertilizers.

Chart 1

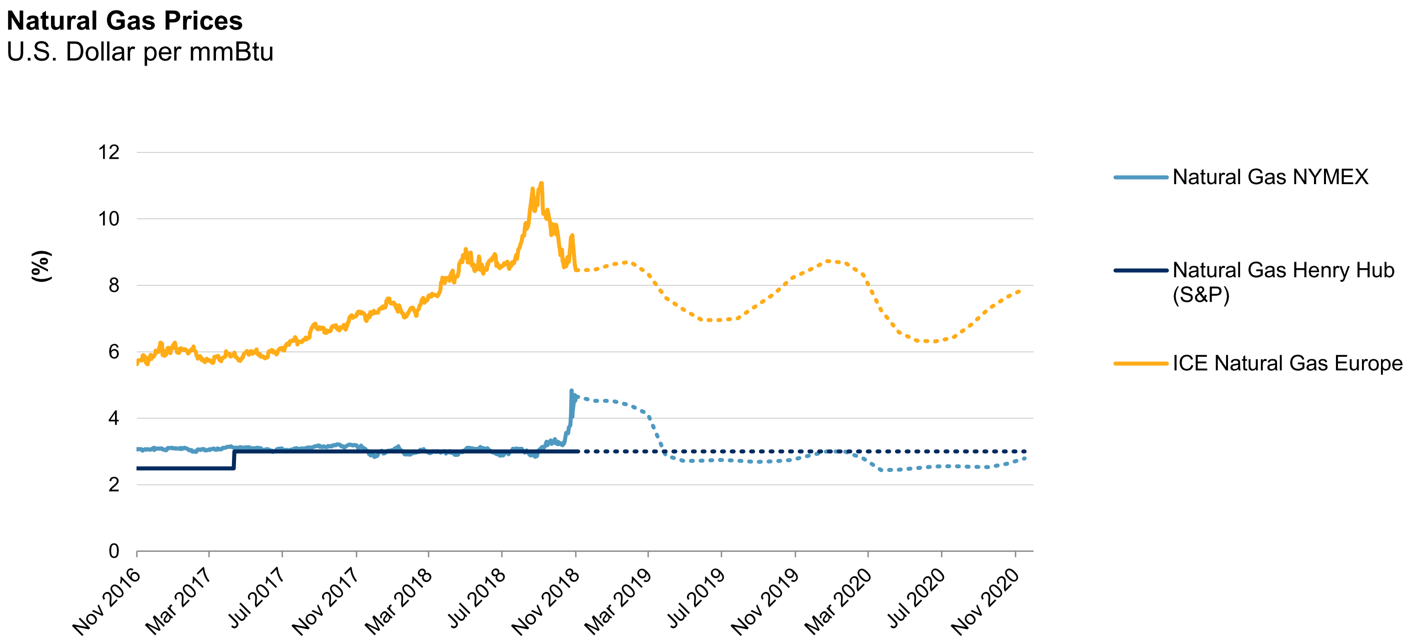
CBOT Spot & Futures (Indexed)



Source: S&P Global --

Structural cost disadvantage between European and U.S. fertilizer producers to remain. As with its European peers, headwinds from the natural gas prices were evident in Yara's EBITDA margins, especially in the first half of 2018. European producers remain at a structural cost disadvantage versus broader fertilizer peers operating in North America, Russia or the Middle East, which benefit from access to competitively priced feedstock. For Yara, the comparative margin gap is also a function of its extensive low-margin distribution activities with an EBITDA margin of 6%-8%, on average, pointing to slightly higher profitability of the production segment when stripped out. We also note the favorable cost position of Yara's European plants compared with the regional average.

Chart 2


Natural Gas Prices
U.S. Dollar per mmBtu
12
10
8
6
4
2
0
(%)
Nov 2016
Mar 2017
Jul 2017
Nov 2017
Mar 2018
Jul 2018
Nov 2018
Mar 2019
Jul 2019
Nov 2019
Mar 2020
Jul 2020
Nov 2020
Natural Gas NYMEX
Natural Gas Henry Hub (S&P)
ICE Natural Gas Europe

mmBt --

Outlook: Stable

The stable outlook on Yara reflects our view that it will maintain adjusted FFO to debt of about 30%-45% through the cycle, which we view as commensurate with the rating. This is based on our assumption that, in 2019, Yara's adjusted EBITDA will recover to $2.1 billion-$2.2 billion, benefiting from its improvement program; additional volumes from capacity expansions and acquisitions; and recovery in prices of fertilizers from the bottom of the cycle conditions seen in 2016-2017.

Downside scenario

We could lower the rating if Yara's adjusted FFO-to-debt ratio declined below 30%. This could occur, in our view, if Yara's margins declined as a result of further pressure from the European natural gas prices, or if the company increased its capital expenditure (capex), acquisitions, or shareholder distributions.

Upside scenario

Over time, upside potential could emerge and would depend on our confidence that Yara was able to sustain adjusted FFO to debt of more than 45% through the cycle, and that the company's financial policy and growth strategy would support a higher rating.

Our Base-Case Scenario

Assumptions	Key Metrics

Assumptions

- Benefits from the cost improvement program, additional volumes from capacity expansions and acquisitions, and recovering fertilizer prices to support recovery in Yara's adjusted EBITDA to about $1.5 billion-$1.6 billion in 2018 and $2.1 billion-$2.2 billion in 2019, up from about $1.3 billion in 2017.
- Capex of about $1.6 billion in 2018 and $1.2 billion in 2019.
- Acquisitions of $0.7 billion in 2018 and none in 2019, in line with guidance from Yara.
- No disposal proceeds, as the company evaluates strategic options for its Yara Marine Technologies business, which may include a potential sale.
- $0.1 billion-$0.2 billion of working capital outflows reflecting production growth and increase in sales.
- Shareholder distributions at about 40%-45% of previous years' net income.

Key Metrics

	2017A	2018E	2019E
EBITDA (bil. $)	1.3	1.5-1.6	2.1-2.2
FFO to debt (%)	33.4	~30.0	~40.0
Debt to EBITDA (x)	2.4	2.6-2.8	1.9-2.1

Note: All figures are S&P Global Ratings adjusted. FFO--Funds from operations. A--Actual. E--Estimate.

Base-Case Projections

Continued gradual recovery in nitrogen prices over the near term. Supportive drivers include lower exports from China, no meaningful and confidently predictable urea capacity additions (excluding China) past 2018, and steady demand of about 2.0%-3.0%.

Chart 3

Urea Prices

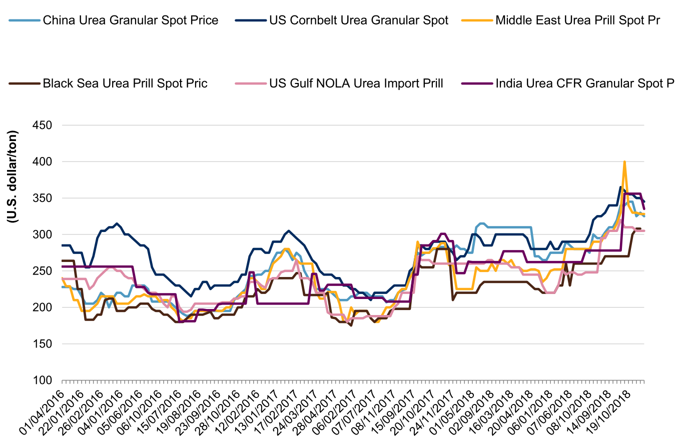
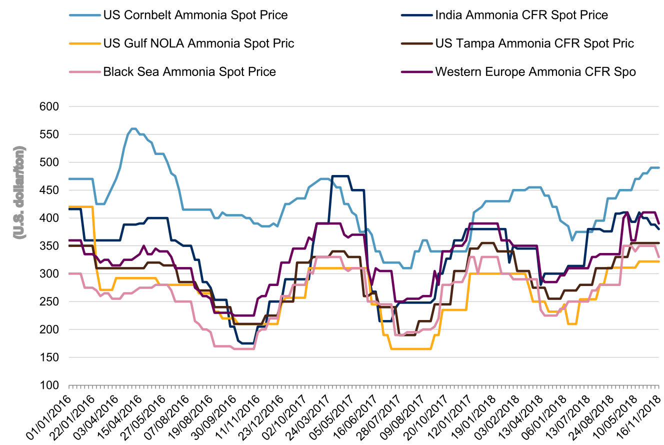


Chart 4

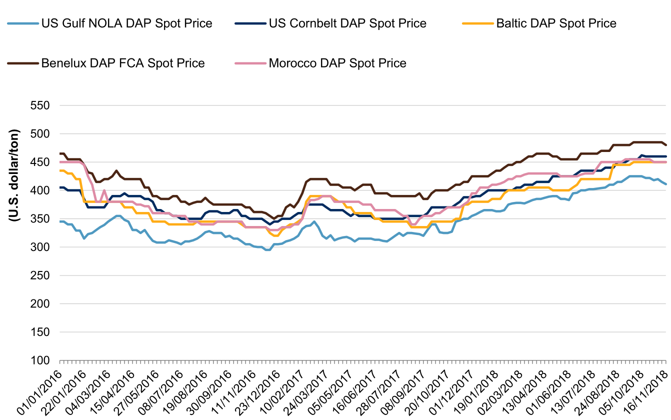
Ammonia Prices



Strengthening in phosphates. This reflects our expectation of 2%-3% growth in demand and some reductions in supply, for example thanks to idled capacity at Plant City by Mosaic and reduced exports from China, which should support prices. At the same time, capacity additions in Morocco and Saudi Arabia could pose a risk to price recovery and operating rates over the medium term, in our view.

Chart 5

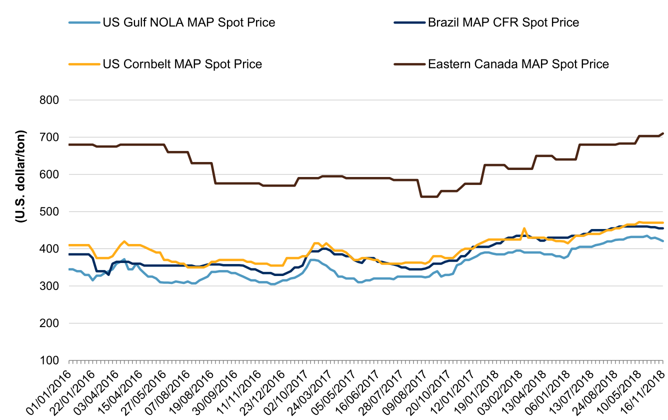
DAP Phosphate Prices



Source: Bloomberg. DAP--Diammonium phosphate (46% phosphate, 18% nitrogen).

Chart 6

MAP Phosphate Prices



Source: Bloomberg. MAP--Monoammonium phosphate (46% phosphate, 11% nitrogen.

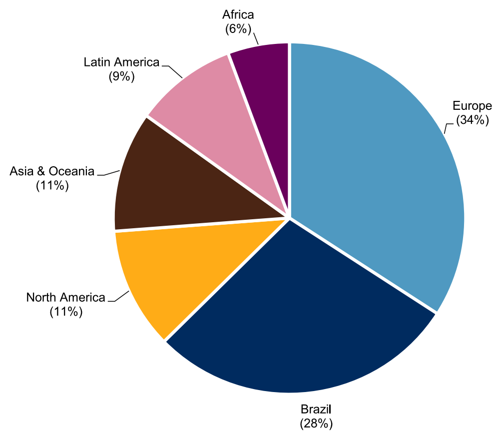
Company Description

Yara is the world's largest nitrogen fertilizer producer and fertilizer distributor. The group's network includes more than 200 terminals, warehouses, and blending plants, located in more than 60 countries across the globe.

The group distributes and markets standard and differentiated fertilizers from its wholly and partly-owned (through joint ventures) production plants, as well as from third parties. It sources raw materials, such as potash and phosphate, from third parties. Yara is also a major supplier of nitrogen chemicals for industrial explosives and other industrial markets.

Chart 7

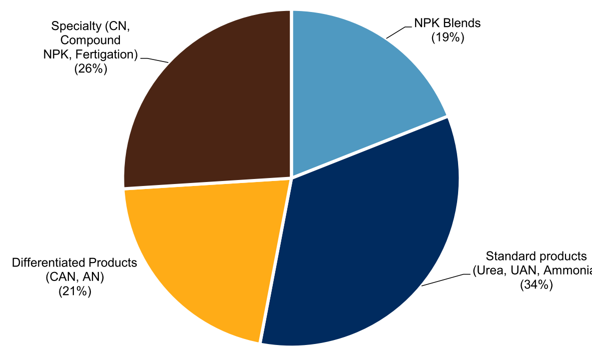
Yara's 2017 Revenue By Region



N --

Chart 8

Yara's Fertilizer Product Portfolio



The State of Norway, through the Ministry of Trade, Industry, and Fisheries is Yara's largest shareholder, with a 36.21% stake as of Dec. 31, 2017, with The Government Pension Fund of Norway accounting for a further 4.7%. We view Yara's shareholder structure as stable and anticipate no major changes to it at present. Yara's market capitalization was about Norwegian krone (NOK) 93 billion in November 2018, down from more than NOK100 billion on Dec. 11, 2017.

Business Risk: Satisfactory

Our business risk profile assessment takes into account Yara's position as one of the world's largest producers and distributors of fertilizers, with a strong and geographically extensive marketing network. Yara derives a large share of profits from premium, higher-margin fertilizers as opposed to commodity products such as ammonia and urea--the profits of which depend not on selling prices but on the spread between selling and feedstock prices. The premium generally translates into more resilient profits and provides important margin support during peaks in natural gas prices.

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). Farmers tend to consider nitrogen fertilizers indispensable given their short-term impact on crop yields and the need for application every year. We consider Yara's competitive advantage as anchored primarily in its agronomic competence, strategic focus on sustainability, diverse product mix, and presence in key markets.

The main business risks include 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 on crop prices), the weather, and inventory levels. New supply depends on the speed at which projects 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 in India and China. The latter country is a swing producer in the industry, accounting for about 40% of global nameplate urea capacity, of which only about 20%-30% uses natural gas as feedstock (the availability of which fluctuates in winter months), with the rest depending on prices of coal, which are subject to government regulation. We note that the increased focus on the protection of the environment in China puts pressure on the local coal-based urea production, which is currently primarily destined to meet internal demand.

Yara is also exposed to relatively high and volatile gas prices in Europe, which accounted for a sizable 34% of its revenues in 2017, with Brazil contributing a further 29%, North America 11%, Asia & Oceania 11%, Latin America 9%, and Africa 6%.

Peer comparison

Table 1

Yara International ASA Peer Comparison				
Industry Sector: Chemical Cos				
	Yara International ASA	**CF Industries Inc.**	**OCI N.V.**	**The Mosaic Co.**
Rating as of Nov. 20, 2018	BBB/Stable/A-2	BB+/Negative/--	BB-/Stable/--	BBB-/Stable/NR
	--Fiscal year ended Dec. 31, 2017--	--Fiscal year ended Dec. 31, 2017--	--Fiscal year ended Dec. 31, 2017--	--Fiscal year ended Dec. 31, 2017--
(Mil. NOK)				
Revenues	93,531.0	33,779.7	18,415.2	60,602.2
EBITDA	11,068.0	9,384.0	4,299.6	10,487.0
Funds from operations (FFO)	8,699.0	6,355.7	1,788.5	9,763.7
Net income from cont. oper.	3,948.0	2,928.1	(847.4)	(876.8)
Cash flow from operations	6,989.0	14,256.7	1,753.5	8,303.7
Capital expenditures	10,449.0	3,852.4	1,204.8	6,512.2
Free operating cash flow	(3,460.0)	10,404.3	548.7	1,791.5
Discretionary cash flow	(6,192.0)	7,042.7	487.4	69.0
Cash and short-term investments	4,456.0	6,829.5	1,857.5	17,613.7
Debt	26,052.4	36,981.0	38,187.2	28,703.4
Equity	77,831.0	54,669.1	11,794.3	78,839.1
Adjusted ratios				
EBITDA margin (%)	11.8	27.7	23.3	17.3
Return on capital (%)	4.4	1.6	2.4	3.8
EBITDA interest coverage (x)	8.1	3.3	1.8	5.3

Table 1

Yara International ASA	Peer Comparison (cont.)			
FFO cash int. cov. (X)	9.1	3.6	2.2	8.0
Debt/EBITDA (x)	2.4	3.9	8.9	2.7
FFO/debt (%)	33.4	17.1	4.7	34.0
Cash flow from operations/debt (%)	26.8	38.5	4.6	28.9
Free operating cash flow/debt (%)	(13.1)	28.1	1.4	6.2
Discretionary cash flow/debt (%)	(23.8)	19.0	1.2	0.2

Financial Risk: Intermediate

Yara's reported EBITDA (excluding special items, as defined by the company) declined by about 5% to $0.7 billion in the first half of 2018, but improved by about 16% in the third quarter of the year to $0.4 billion, in comparison with the equivalent periods in 2017. The improvement reflects the improving fertilizer deliveries and pricing, which in the third quarter--in contrast to the first half of the year--more than offset higher energy costs. Yara's operational improvement program, encompassing productivity improvements, procurement excellence, efficiency of support systems, and others, progressed well, with $330 million of savings achieved at the end of the quarter, on track for the targeted $500 million by 2020.

We forecast that Yara will report adjusted EBITDA of about $1.5 billion-$1.6 billion in 2018 and $2.1 billion-$2.2 billion in 2019, factoring in gradual improvement in the fertilizer environment and higher delivery volumes supported by recent acquisitions and expansion projects. We also assume that Yara will return to positive free operating cash flow generation in 2019 as higher EBITDA and reduced capex, down to $1.2 billion from $1.6 billion in 2018, translate into free operating cash flow of $0.3 billion-$0.4 billion under our base-case scenario. We understand that the company is evaluating strategic options for its marine technology business, which include a potential sale. Given the uncertainty with regard to the timing and amount of the proceeds, we have not factored the sale into our model and the expectation of an improvement in the adjusted FFO-to-debt ratio to about 40% in 2019, from about 30% in 2018.

We anticipate Yara will balance its growth strategy (including acquisitions) with the publicly stated commitment to maintain at least a 'BBB' rating and the intention to reduce leverage in the coming years. We understand that the group's financial policy and rating commitment are unchanged, notwithstanding the departure of the CFO Petter Ostbo, and appointment of the new CFO Lars Rosaeg.

Financial summary

Table 2

Yara International ASA	Financial Summary				
Industry Sector: Chemical Cos					
	--Fiscal year ended Dec. 31--				
	2017	**2016**	**2015**	**2014**	**2013**
Rating history	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB/Positive/A-2	BBB/Positive/A-2

Table 2

Yara International ASA Financial Summary (cont.)

(Mil. NOK)					
Revenues	93,531.0	95,367.0	108,344.0	95,340.0	84,787.0
EBITDA	11,068.0	14,984.0	19,727.0	17,400.5	14,039.5
Funds from operations (FFO)	8,699.0	12,681.4	15,610.8	14,567.5	11,055.2
Net income from continuing operations	3,948.0	6,360.0	8,083.0	7,625.0	5,748.0
Cash flow from operations	6,989.0	14,698.4	15,698.8	9,578.5	12,905.2
Capital expenditures	10,449.0	12,509.0	9,520.0	7,019.0	4,421.0
Free operating cash flow	(3,460.0)	2,189.4	6,178.8	2,559.5	8,484.2
Discretionary cash flow	(6,192.0)	(1,918.6)	2,597.8	(211.5)	4,837.2
Cash and short-term investments	4,456.0	3,751.0	3,220.0	3,591.0	6,819.0
Debt	26,052.4	20,160.5	19,199.9	18,472.3	8,320.6
Equity	77,831.0	76,770.0	75,727.7	67,962.0	56,413.7
Adjusted ratios					
EBITDA margin (%)	11.8	15.7	18.2	18.3	16.6
Return on capital (%)	4.4	7.5	11.6	14.6	14.4
EBITDA interest coverage (x)	8.1	10.7	14.6	16.9	14.4
FFO cash int. cov. (x)	9.1	16.6	18.5	20.6	16.5
Debt/EBITDA (x)	2.4	1.3	1.0	1.1	0.6
FFO/debt (%)	33.4	62.9	81.3	78.9	132.9
Cash flow from operations/debt (%)	26.8	72.9	81.8	51.9	155.1
Free operating cash flow/debt (%)	(13.3)	10.9	32.2	13.9	102.0
Discretionary cash flow/debt (%)	(23.8)	(9.5)	13.5	(1.1)	58.1

Liquidity: Adequate

We assess Yara's liquidity as adequate, based on our view that liquidity sources will cover uses by about 1.4x over the 12 months from Sept. 30, 2018. We anticipate that Yara will refinance or otherwise have a plan to address its debt maturities well ahead of time, notably the $500 million bond due June 2019 and NOK2.2 billion bond due December 2019. We note that Yara issued a $1.0 billion senior unsecured bond in May 2018, of which it used the net proceeds for general corporate purposes.

Principal Liquidity Sources	Principal Liquidity Uses
• Available cash and cash equivalents of around $0.6 billion as of Sept. 30, 2018; • FFO of about $1.5 billion-$1.6 billion; and • Full availability under the committed revolving credit facility (RCF) and other long-term committed facilities of about $940 million. The RCF of $1.25 billion matures in July 2020.	• Short-term debt of $865 million, of which $500 million relates to 7.875% bond due June 2019, and the remainder to various local lines with 12-month durations; • Capex (excluding acquisitions) of about $1.3 billion, of which $0.6 billion-$0.8 billion is maintenance; • Dividend payment of $0.1 billion-$0.2 billion; and • Working capital outflows of $0.1 billion-$0.2 billion.

Debt maturitiesas of Dec. 31, 2017

- 2018: NOK0.4 million
- 2019: NOK6.7 billion
- 2020: NOK0.2 billion
- 2021: NOK0.9 billion
- 2022: NOK3.9 billion
- Thereafter: NOK8.3 billion

Covenant Analysis

Our assessment also factors in comfortable headroom under the financial covenant incorporated in Yara's $1.25 billion RCF, which stipulates that net debt to equity in the consolidated accounts is 1.4x maximum at the end of each quarter.

Issue Ratings--Subordination Risk Analysis

Capital structure

Yara's capital structure consists primarily of a $500 million bond due 2019, $500 million bond due 2026, $1.0 billion due 2028, NOK2.2 billion bond due 2019, NOK700 million bond due 2021, NOK600 million due 2024, NOK3.25 billion due 2022-2027, and SEK1.25 billion due 2022, and various local lines. All notes are unsecured and unsubordinated obligations of the issuer, ranking at least equally with each other. Liquidity is supported by a $1.25 billion RCF due July 2020, which has the same seniority as Yara's current and present obligations.

Analytical conclusions

With no material priority obligations ranking ahead of the company senior unsecured obligations, we rate its senior unsecured bonds at 'BBB', in line with the issuer credit rating on Yara.

Reconciliation

Table 3

Reconciliation Of Yara International ASA Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. NOK)

--Fiscal year ended Dec. 31, 2017--

Yara International ASA reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	EBITDA	Cash flow from operations	Capital expenditures
Reported	23,840	75,541	93,812	10,239	3,777	467	10,239	6,478	11,030
S&P Global Ratings' adjustments									
Interest expense (reported)	--	--	--	--	--	--	(467)	--	--
Interest income (reported)	--	--	--	--	--	--	634	--	--
Current tax expense (reported)	--	--	--	--	--	--	(1,600)	--	--
Operating leases	3,323.2	--	--	1,089.0	230.4	230.4	858.6	858.6	--
Postretirement benefit obligations/deferred compensation	2,190.0	--	--	(47.0)	(47.0)	67.0	(178.1)	202.9	--
Surplus cash	(4,262.0)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	581	(581)	(581)	(581)
Dividends received from equity investments	--	--	--	68	--	--	68	--	--
Asset retirement obligations	490.2	--	--	--	--	17.0	6.5	30.5	--
Non-operating income (expense)	--	--	--	--	879	--	--	--	--
Non-controlling Interest/Minority interest	--	2,290	--	--	--	--	--	--	--
Debt - Contingent considerations	471	--	--	--	--	--	--	--	--
Revenues - Profit on disposals	--	--	(281)	(281)	(281)	--	(281)	--	--
Total adjustments	2,212.4	2,290.0	(281.0)	829.0	781.4	895.4	(1,540.0)	511.0	(581.0)

S&P Global Ratings' adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditures
Adjusted	26,052.4	77,831.0	93,531.0	11,068.0	4,558.4	1,362.4	8,699.0	6,989.0	10,449.0

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Satisfactory

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

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: bbb

Modifiers

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

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
- Criteria - Corporates - Industrials: Key Credit Factors For The Commodity Chemicals Industry, Dec. 31, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial 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-

Ratings Detail (As Of December 18, 2018)

Yara International ASA	
Issuer Credit Rating	BBB/Stable/A-2
Senior Unsecured	BBB
Issuer Credit Ratings History	
20-Nov-2015	BBB/Stable/A-2
30-Sep-2013	BBB/Positive/A-2
16-Nov-2010	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.