

CREDIT OPINION

27 November 2023

Update



Send Your Feedback

RATINGS

Yara International ASA

Domicile	Oslo, Norway
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Yara International ASA

Credit Opinion Update following affirmation

Summary

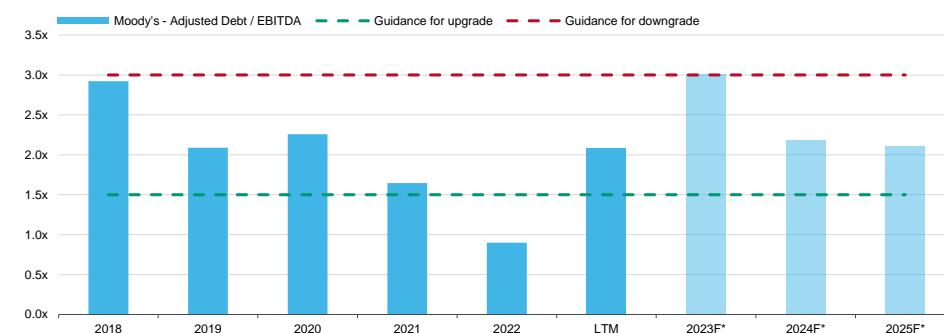
[Yara International ASA's](#) Baa2 rating is underpinned by the significant scale and high degree of integration of its operations. Yara has a leading position in the nitrogen fertiliser market, both as a producer and a distributor. These positives are tempered by the highly cyclical nature of the fertiliser industry and Yara's significant exposure to the energy and agricultural commodity markets.

Recent Events

On 16 November 2023 we affirmed Yara's Baa2 issuer rating and its Baseline Credit Assessment (BCA) of baa2. The outlook remains stable. While our affirmation reflects our expectation that Yara will maintain credit metrics in line with its Baa2 rating through the next twelve to eighteen months (see Exhibit 1) we expect Yara's leverage, measured by Moody's adjusted debt/EBITDA to be 3.0x for 2023 in our base case. This is higher than the company's long-term average and places Yara weakly positioned for its Baa2 rating in the near term. Yara's earnings have been negatively impacted by a sharp correction in fertiliser prices in 2023 and reflect what we believe is the cyclical trough. Nevertheless, Yara has established a long track record of prudently managing financial policies. The company has achieved an effective balance between maintaining capital investment, and distributing returns to shareholders, while operating in an industry subject to cyclicity. Furthermore, Yara's credit profile is supported by management's publicly stated commitment to maintain a Baa2 rating, a credit positive.

Exhibit 1

Yara is currently weakly positioned in the Baa2 rating category



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

Periods are financial year-end unless indicated.

LTM = Last 12 months as of 30 September 2023.

*Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Source: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Credit strengths

- » Resilient business model, underpinned by significant scale and leading positions in the fertiliser market, as well as an extensive global distribution network and sizeable marketing operations for nitrogen fertilisers
- » Flexible growth strategy, tempered by a conservative financial policy and strong track record of producing premium fertiliser products, for which the price volatility is more moderate than commodity fertilisers
- » Robust balance sheet, with relatively moderate leverage through the cycle

Credit challenges

- » The cyclical fertiliser business is subject to capacity additions, demand and pricing trends in agricultural commodities
- » Significant exposure to natural gas prices, both as a feedstock and as a source of fossil fuel, which can be volatile
- » Credit metrics could be stretched by major capital outlays which are planned from 2025 onwards

Rating outlook

The stable rating outlook reflects our view that despite the fluctuation in Yara's key credit metrics through the cycle, the company will maintain metrics in line with guidance for the Baa2 rating position. We expect global fertiliser capacity additions to have reached their peak for the next twelve to eighteen months, supporting an improvement in fertiliser prices from the cycle trough.

Factors that could lead to an upgrade

Yara's rating could be upgraded if:

- » the company improves its profitability and cash flow generation, leading to a permanent reduction in financial leverage
- » its Moody's-adjusted total debt/EBITDA is maintained at around 1.5x through the cycle and retained cash flow (RCF)/net debt towards the 40s in percentage terms

An upgrade of the ratings would also require Yara's commitment to a financial profile consistent with a higher rating.

Factors that could lead to a downgrade

Downward rating pressure could develop if the company were to:

- » suffer a severe and sustained deterioration in its operating results and cash flow generation
- » embark on a more aggressive debt-funded capital spending programme for the Yara Clean Ammonia projects or future acquisitions
- » experience a pronounced weakness in its credit metrics, including debt/EBITDA increasing above 3.0x and RCF/net debt falling to the low 20s in percentage terms on a sustained basis

Key indicators

Exhibit 2

Yara International ASA

(in \$ billions)	2018	2019	2020	2021	2022	LTM	12-18 months Forward View*
Revenue	12.9	12.9	11.6	16.6	23.9	17.4	15.0 - 16.0
EBITDA Margin %	12.9%	16.2%	18.1%	16.7%	20.4%	11.7%	12.0% - 13.0%
EBIT / Avg. Assets	4.2%	6.9%	6.8%	10.6%	22.0%	6.1%	5.0% - 8.0%
Debt / EBITDA	2.9x	2.1x	2.3x	1.6x	0.9x	2.1x	2.0x - 2.5x
RCF / Net Debt	27.0%	36.4%	27.3%	25.2%	89.0%	-10.8%	40.0% - 45.0%
EBITDA / Interest Expense	7.3x	9.4x	12.7x	17.9x	20.4x	7.7x	7.5x - 8.5x

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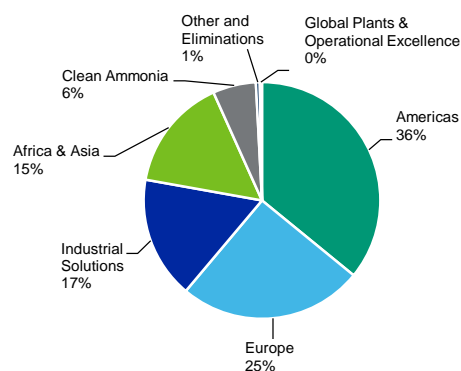
Profile

Headquartered in Oslo, [Norway](#) (Aaa stable), Yara International ASA (Yara or the company) is the largest European producer and marketer of nitrogen fertilisers. As of 30 September 2023, Yara had about 8.4 million tonnes of ammonia production capacity, including the capacity in Yara's associate entities. Yara is the world's largest producer of nitrates, the most important type of fertiliser in Europe measured by annual consumption and the largest producer of compound NPKs (nitrogen, phosphate and potassium), which contain all three primary crop nutrients, the most common multi-nutrient fertilisers in Western Europe. For the 12 months ended September 2023, Yara reported revenue of \$17.4 billion and Moody's-adjusted EBITDA of \$2.2 billion. As of 18 November 2023, Yara's market capitalisation was around \$11.4 billion.

The largest markets for Yara are Europe (35% of revenue for the 12 months that ended September 2023), Brazil (23%), Asia (14%) and North America (12%).

Exhibit 3

External revenue by operating division (LTM)

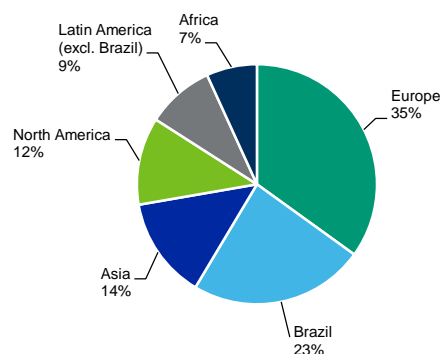


LTM = Last 12 months as of 30 September 2023.

Source: Company information

Exhibit 4

External revenue by region (LTM)



LTM = Last 12 months as of 30 September 2023.

Source: Company information

As of September 2023, the group's activities consisted of six operational segments, of which three are regional units (Europe, the Americas and Africa and Asia); one is for Global Production and Operational Excellence, one for Clean Ammonia and one for Industrial Solutions.

Detailed credit considerations

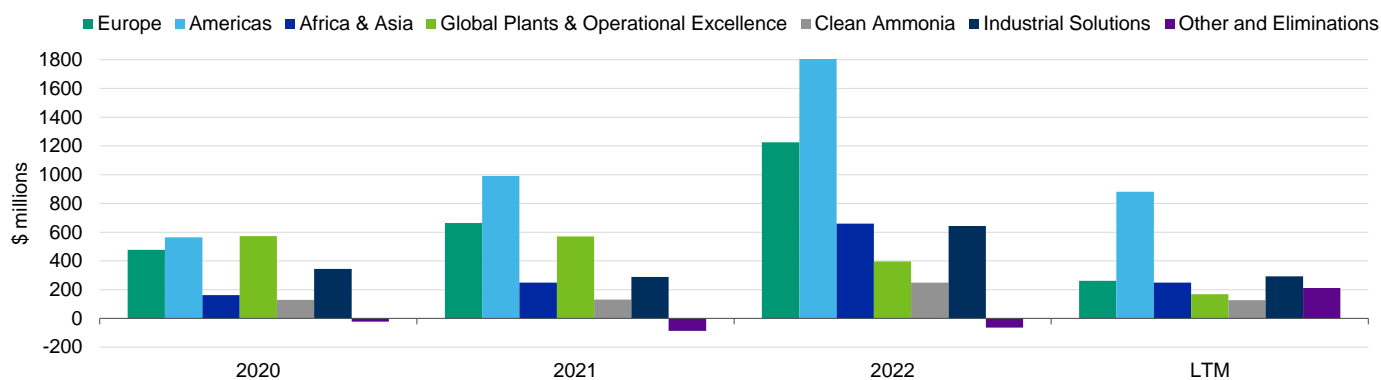
Leading position in nitrogen fertilisers and global network underpin earnings through the cycle

As the world's largest producer of nitrogen fertilisers, Yara's business profile is underpinned by the significant scale and high degree of integration of its operations. Yara is well diversified with leading positions in the global fertiliser market (Exhibits 4,5 and 6). To complement the company's nitrogen fertiliser product offerings, the company also markets and distributes phosphate and potash-based fertilisers, largely sourced from third parties. Yara markets both commodity based fertilisers, such as urea and premium fertilisers, such as NPK and nitrate-based fertilisers. Additionally, the company's product offering includes digital farming tools, which enable farmers to increase yields and sustainability of crop production.

These positives are tempered by the relatively high earnings volatility that is characteristic of its core nitrogen-based fertiliser business. Profitability margins for nitrogen fertilisers are predominantly determined by the spread between fertiliser prices and natural gas prices. Additionally margins are exposed to periodic market supply and demand imbalances, resulting from extended periods of investments for capacity additions and the seasonality and cyclical nature of agricultural markets. The company has exposure to swings in both energy and raw material costs. Yara is significantly exposed to feedstock costs, which can account for up to 80% of the total input costs for production. More positively, the company's premium fertiliser products, NPK and nitrate-based fertilisers, although exposed to fluctuations in phosphate and potash markets, are typically higher margin.

Exhibit 5

Reported EBITDA by operating division (LTM)



LTM = Last 12 months as of 30 September 2023.

Source: Company information

Weak fertiliser prices in 2023 reflect capacity additions and hurt Yara's earnings

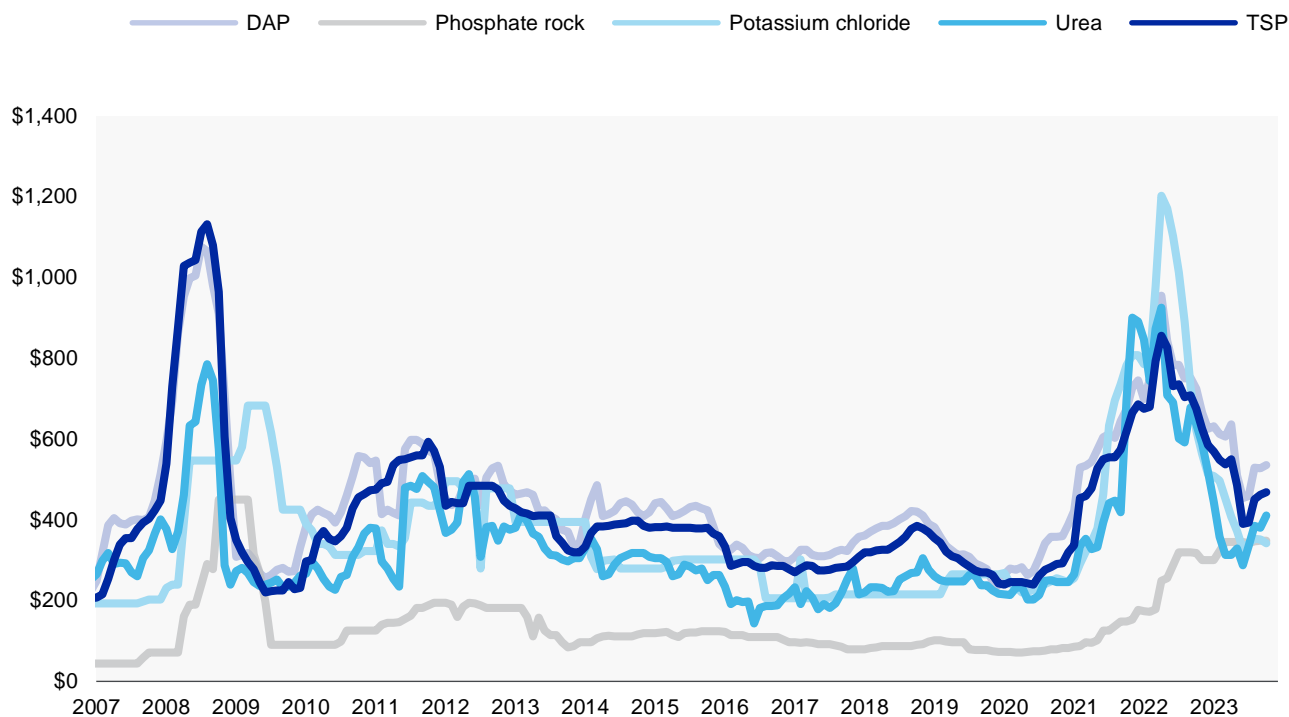
Fertiliser prices fell from the historic levels triggered by the Russian-Ukrainian crisis to levels lower than we previously expected (see Exhibit 6). This was primarily driven by capacity coming on line across India, Russia, and the Middle East, as well as China which intermittently loosened export restrictions. There was a downward shift in the global cost curve as gas prices, the key raw material in the production of nitrogen fertilisers dropped from the highs in August 2022, [although in Europe are around double the long term average](#). We expect Yara's Moody's adjusted EBITDA to fall to \$1.4 billion in 2023 from \$4.9 billion in 2022. Nevertheless, the fundamentals in agricultural commodity markets remain positive. Grain prices stabilised in September 2023, above historic levels, supporting farmers' margins and fertiliser affordability. We expect fertiliser prices to increase in 2023 and then the rate of increase to taper through 2024 as the equilibrium between supply and demand comes back into balance, supporting an increase in Yara's earnings. However, China's export policies will continue to pose a risk to the equilibrium.

If prices vary materially from our expectations, Yara's focus on expanding sales of products where pricing and demand is less volatile and improvements in operational efficiencies, will provide a degree of resilience to volatile market conditions. Around 50% of Yara's total deliveries are derived from value-added products such as calcium nitrate (CN), compound fertiliser (NPK) and differentiated products, such as calcium ammonium nitrate (CAN) and ammonium nitrate (AN), all of which attract solid price premiums. Furthermore, Yara benefits from relatively low fixed cash costs and has a leading cost position in Europe, underpinned by the significant economies of

scale of its operations. Yara's significant footprint outside Europe and its own extensive distribution network partly mitigates exposure to European energy prices.

Exhibit 6

Nitrogen fertiliser prices eased from record highs but are likely to remain elevated above the 5-year average



Source: Haver Analytics and Moody's Investors Service

Yara's higher than long-term average leverage reflects the sharp correction in fertiliser prices in 2023

We expect Moody's adjusted debt/EBITDA to increase to 3.0x in 2023 in the Moody's base case from 0.9x in 2022, reflecting weaker earnings (see Exhibit 1). The increase in the leverage metric reflects what we believe to be the cyclical trough and places Yara weakly in its Baa2 rating category. We expect Yara's earnings to improve through 2024 and its leverage metric to improve to around 2.2x in the Moody's base case. Our base case projections preclude any material debt-funded acquisitions or capital spending programmes, beyond the company's guidance (see discussion below).

Free cash flow (FCF) hindered in 2023 as a result of material shareholder distributions

Moody's adjusted free cash flow (FCF) in 2023 will be hindered by a material shareholder return (see Exhibit 7). A dividend was declared on top of the cycle earnings in 2022 and \$1.3 billion was paid in early 2023, negatively impacting Moody's FCF and reducing Yara's buffer through the cycle trough. We do not expect Yara to make any meaningful return to shareholders in 2024, reflecting lower earnings in 2023 and in line with the company's policy of dividends of 50% of net income per annum.

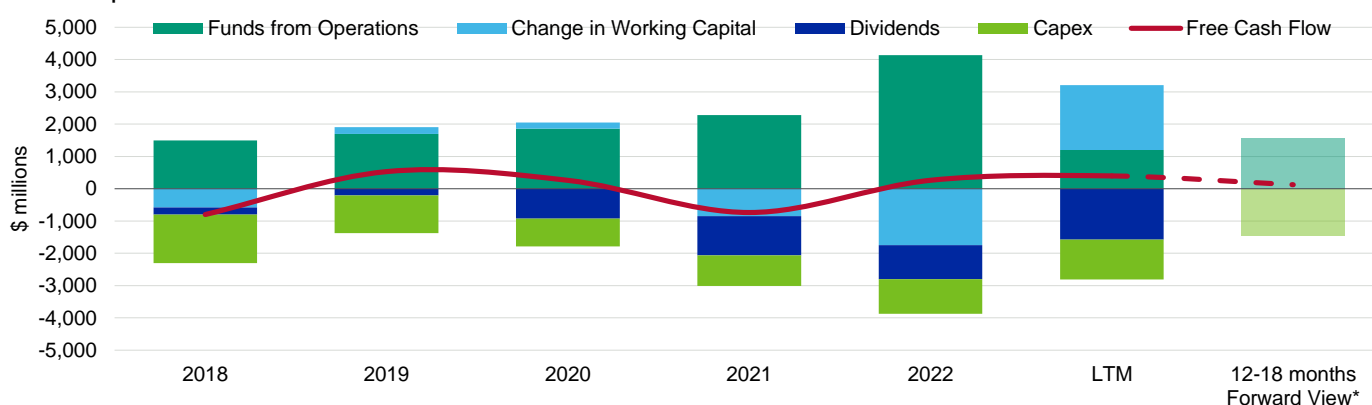
Positively, we expect Yara to benefit from an overall material working capital release in 2023, offsetting margin declines. Yara's operations typically exhibit a strong inverse correlation through the cycle between fertiliser prices and working capital release, with a 2-3 month time lag. Higher fertiliser prices support stronger margins and higher earnings but price-driven inventory and receivables increase, absorbing working capital. In periods of declining fertiliser prices and lower margins, which Yara is experiencing in 2023, the company benefits from

working capital release, with urea prices as the principal driver. We expect a working capital release of \$1.7 billion in 2023 in the Moody's base case, reflecting a flat working capital in Q4.

We expect Yara will maintain capital spending within the guidance of around \$1.2 billion - \$1.4 billion in 2023. This includes around \$800 - \$900 million of maintenance spending. Growth capital expenditure comprises uncommitted projects (net of disposal proceeds) which can be delayed. Yara is assessing structural moves to reallocate capital. This consists of assessing the European footprint and prioritize assets which will underpin future growth. Yara will also consider the potential for divesting non-core assets. Yara's overall capital spending remains disciplined and the company will not commit capital to projects that are not profitable.

Yara has established a long track record of prudently managing financial policies to achieve an effective balance between maintaining credit metrics within the Baa2 rating category, maintaining capital investment and distributing returns to shareholders, while operating in an industry subject to cyclicalities. We view Yara's publicly stated commitment to the Baa2 rating position as credit positive.

Exhibit 7

FCF development

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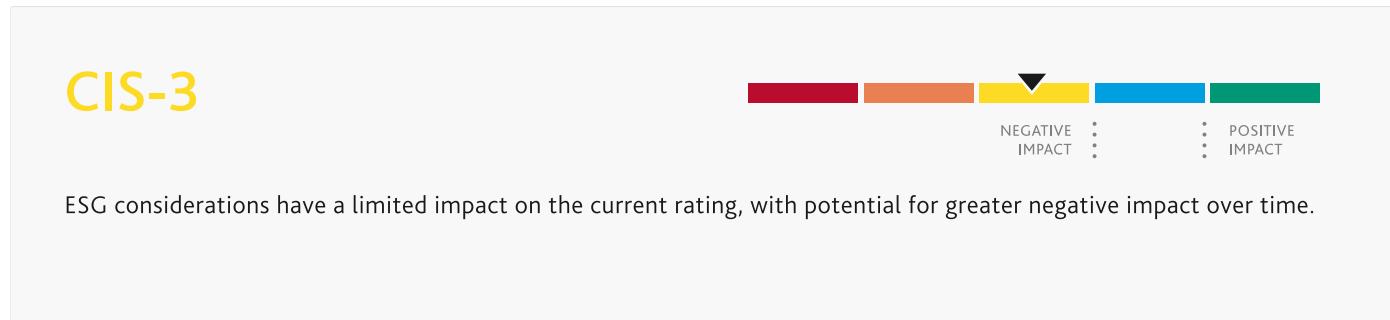
Source: *Moody's Financial Metrics™ and Moody's Investors Service forecasts*

ESG considerations

Yara International ASA's ESG credit impact score is CIS-3

Exhibit 8

ESG credit impact score



Source: Moody's Investors Service

CIS 3 - The credit impact score for Yara International ASA is moderately negative. This reflects our assessment that the ESG exposures are overall considered to have a limited impact on the current credit rating with the potential for greater negative impact over time. Yara has highly negative environmental and social risks. Conversely, governance risk assessment benefits from the adoption of conservative financial policies, strong management credibility, track record, and transparent, reliable compliance and reporting.

Exhibit 9

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

E-4 - Yara plays an important role in agricultural food production which is in turn heavily exposed to climate risk. Unpredictable and extreme weather conditions negatively impact crop production and contribute to volatility in agricultural commodity prices and the demand for fertilizer. Yara remains exposed to an increasing trend for more stringent regulations relating to an environmental risk which could have a substantial impact on earnings. Collaboration with government agencies, private companies, and organizations will be required to facilitate and fund large-scale carbon capture and clean hydrogen and ammonia projects designed to meet global emission targets.

Social

S-4 Yara operates large industrial plants, distribution, and storage facilities, and many of Yara's raw materials, intermediaries, and products are classified as hazardous to human health, thereby presenting occupational risks, and the possibility of accidents, and injuries. Yara's social risk assessment benefits from a strong safety record and long-standing business-to-business customer relations.

Governance

G-2 Yara maintains a prudent financial strategy and risk management, with a strong balance sheet and liquidity position. The company has a publicly stated commitment to a Baa2 rating, which has been maintained throughout years of operating in a volatile industry, a testament to the management's credibility and track record.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Yara maintains sound liquidity. As of 30 September 2023, the company had cash balances of \$868 million, as well as long-term committed revolving credit facilities of \$1.35 billion of which \$1.05 billion have been extended to July 2026. The facilities are currently undrawn and contain a financial covenant under which Yara maintains adequate headroom. The large liquidity buffer should enable Yara to meet total debt maturities of around \$301 million falling due in 2024.

Methodology and scorecard

The principal methodology used in rating Yara is our [Chemical Industry methodology, updated in October 2023](#). Our Chemical Industry scorecard indicates a Baa2 for the 12-18 month forecast period.

Because of Yara's 36% ownership by the Government of Norway, Yara falls within the scope of our [Government-Related issuers rating methodology](#). Under this methodology, we continue to assume low dependence, considering Yara's broadly diversified international footprint and the modest operational and financial links between the company and the government. Furthermore, our assumption of low support from the Norwegian government reflects the absence of guarantees or formal obligations on behalf of the Norwegian government to support Yara's obligations; the government's track record of supporting capital raising, jointly with other shareholders; no precedent of direct government intervention; and the relative importance of Yara to the domestic economy. Although recent steps to broaden Yara's international profile diversify and strengthen its standalone credit quality further reducing its domestic concentration in Norway. Based on our assumptions of low dependence and low support, the Baa2 rating does not currently incorporate any uplift from the baa2 BCA (Exhibit 10).

Exhibit 10

Rating factors

Yara International ASA

Chemical Industry Scorecard			Current LTM 9/30/2023		Moody's 12-18 months forward view*	
Factor 1 : Scale (15%)	Measure	Score	Measure	Score		
a) Revenue (\$ billions)	17.4	A	15.0 - 16.0	A		
Factor 2 : Business Profile (25%)						
a) Business Profile	Baa	Baa	Baa	Baa		
Factor 3 : Profitability (10%)						
a) EBITDA Margin	11.7%	Ba	12.0% - 13.0%	Ba		
b) Return on Average Assets	6.1%	B	5.0% - 8.0%	B		
Factor 4 : Leverage & Coverage (30%)						
a) Debt / EBITDA	2.1x	Baa	2.0x - 2.5x	Baa		
b) RCF / Net Debt	-10.8%	Ca	40.0% - 45.0%	A		
c) EBITDA / Interest Expense	7.7x	Ba	7.5x - 8.5x	Baa		
Factor 5 : Financial Policy (20%)						
a) Financial Policy	Baa	Baa	Baa	Baa		
Rating:						
a) Scorecard-Indicated Outcome		Baa3				Baa2
b) Actual Rating Assigned						Baa2
Government-Related Issuer						
	Factor					
a) Baseline Credit Assessment	baa2					
b) Government Local Currency Rating	Aaa					
c) Default Dependence	Low					
d) Support	Low					
e) Actual Rating Assigned	Baa2					

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Source: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Ratings

Exhibit 11

<u>Category</u>	<u>Moody's Rating</u>
YARA INTERNATIONAL ASA	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2

Source: Moody's Investors Service

Appendix

Exhibit 12

Peer Comparison Yara International ASA

(in \$ millions)	Yara International ASA Baa2 Stable			Nutrien Ltd. Baa2 Stable			Mosaic Company (The) Baa2 Stable			CF Industries Holdings, Inc. Baa3 Positive			OCI N.V. Baa3 Stable		
	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM	FY	FY	LTM
	Dec-21	Dec-22	Sep-23	Dec-21	Dec-22	Sep-23	Dec-21	Dec-22	Jun-23	Dec-21	Dec-22	Sep-23	Dec-21	Dec-22	Jun-23
Revenue	16,617	23,902	17,364	27,712	37,884	30,925	12,357	19,125	16,828	6,538	11,186	7,668	6,319	9,713	7,271
EBITDA	2,775	4,872	2,040	6,798	11,993	6,885	3,467	6,220	4,417	3,089	6,454	3,926	2,466	3,656	1,958
Total Debt	4,570	4,374	4,264	11,281	12,262	15,321	4,416	3,815	3,843	3,828	3,276	3,298	4,303	3,422	4,427
Cash & Cash Equivalents	350	908	739	499	901	554	770	735	626	1,628	2,323	3,254	1,580	1,717	1,652
EBITDA margin %	16.7%	20.4%	11.7%	24.5%	31.7%	22.3%	28.1%	32.5%	26.2%	47.2%	57.7%	51.2%	39.0%	37.6%	26.9%
ROA - EBIT / Average Assets	10.6%	22.0%	6.1%	10.0%	19.1%	9.0%	12.4%	23.0%	14.5%	17.4%	43.0%	22.4%	19.3%	30.4%	13.3%
EBITDA / Interest Expense	17.9x	20.4x	7.7x	13.8x	22.1x	9.2x	15.0x	29.7x	19.9x	15.4x	18.0x	37.7x	10.1x	18.9x	13.2x
Debt / EBITDA	1.6x	0.9x	2.1x	1.7x	1.0x	2.2x	1.3x	0.6x	0.9x	1.2x	0.5x	0.8x	1.7x	0.9x	2.3x
RCF / Debt	23.3%	70.5%	-8.9%	39.7%	66.8%	28.0%	61.4%	123.8%	74.3%	55.8%	127.4%	76.6%	29.9%	40.2%	-19.4%

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

LTM = Last 12 months.

Source: Moody's Financial Metrics™

Exhibit 13

Moody's – Adjusted debt reconciliation

Yara International ASA

(in \$ millions)	2018	2019	2020	2021	2022	LTM
As Reported Total Debt	3,998.0	4,025.0	4,294.0	4,326.0	4,217.0	4,107.0
Pensions	319.2	330.0	449.4	243.8	157.0	157.0
Operating Leases	570.0	0.0	0.0	0.0	0.0	0.0
Moody's - Adjusted Total Debt	4,887.2	4,355.0	4,743.4	4,569.8	4,374.0	4,264.0

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Source: Moody's Financial Metrics™

Exhibit 14

Moody's – Adjusted EBITDA reconciliation

Yara International ASA

(in \$ millions)	2018	2019	2020	2021	2022	LTM
As Reported EBITDA	1,225.0	1,934.0	1,955.0	2,530.0	4,869.0	2,293.0
Pensions	6.0	2.0	(1.0)	(6.0)	3.0	3.0
Leases	190.0	0.0	0.0	0.0	0.0	0.0
Unusual	251.0	150.0	146.0	251.0	0.0	(256.0)
Moody's - Adjusted EBITDA	1,672.0	2,086.0	2,100.0	2,775.0	4,872.0	2,040.0

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Source: Moody's Financial Metrics™

Exhibit 15

Overview of Moody's - Adjusted financial data

Yara International ASA

(in \$ millions)	2018	2019	2020	2021	2022	LTM
INCOME STATEMENT						
Revenue	12,928	12,858	11,591	16,617	23,902	17,364
EBITDA	1,672	2,086	2,100	2,775	4,872	2,040
EBIT	701	1,164	1,135	1,792	3,873	1,024
Interest Expense	230	223	165	155	239	265
BALANCE SHEET						
Cash & Cash Equivalents	150	265	1,331	350	908	739
Total Debt	4,887	4,355	4,743	4,570	4,374	4,264
Net Debt	4,737	4,090	3,412	4,220	3,466	3,525
CASH FLOW						
Funds from Operations (FFO)	1,499	1,693	1,856	2,278	4,138	1,197
Cash Flow From Operations (CFO)	920	1,907	2,047	1,429	2,391	3,207
Capital Expenditures	(1,500)	(1,174)	(861)	(951)	(1,075)	(1,233)
Dividends	219	203	926	1,214	1,054	1,577
Retained Cash Flow (RCF)	1,280	1,490	930	1,064	3,084	(380)
RCF / Net Debt	27.0%	36.4%	27.3%	25.2%	89.0%	-10.8%
Free Cash Flow (FCF)	(799)	530	260	(736)	262	397
FCF / Debt	-16.3%	12.2%	5.5%	-16.1%	6.0%	9.3%
PROFITABILITY						
% Change in Sales (YoY)	13.8%	-0.5%	-9.9%	43.4%	43.8%	-26.3%
EBIT margin %	5.4%	9.1%	9.8%	10.8%	16.2%	5.9%
EBITDA margin %	12.9%	16.2%	18.1%	16.7%	20.4%	11.7%
INTEREST COVERAGE						
EBIT / Interest Expense	3.0x	5.2x	6.9x	11.5x	16.2x	3.9x
EBITDA / Interest Expense	7.3x	9.4x	12.7x	17.9x	20.4x	7.7x
LEVERAGE						
Debt / EBITDA	2.9x	2.1x	2.3x	1.6x	0.9x	2.1x
Net Debt / EBITDA	3.0x	2.0x	1.6x	1.5x	0.7x	1.7x

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LTM = Last 12 months as of 30 September 2023.

Source: Moody's Financial Metrics™ and Moody's Investors Service forecasts

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