Credit Rating Announcement

07 February 2025

Scope puts BBB- issuer rating of Norwegian chemicals firm Elkem under review for a possible upgrade

The rating action follows Elkem's announcement of a strategic review of its Silicones division, which may result in a full or partial sale.

The latest information on the rating, including rating reports and related methodologies, is available on this LINK.

Rating action

Scope Ratings GmbH (Scope) has today placed the BBB- issuer rating of Elkem ASA (Elkem) under review for a possible upgrade. Scope has also placed the BBB- senior unsecured debt rating under review for a possible upgrade. No action has been taken on the S-2 short-term debt rating.

The rating action follows Elkem's announcement on 23 January 2025 that it has initiated a strategic review of its Silicones division (Silicones) with a target to i) streamline the company and ii) enable allocation of capital to accelerate growth in its Silicon Products division (Silicon Products) and Carbon Solutions division (Carbon Solutions). At present, there is limited visibility on the potential timeline of the strategic review. By Scope's understanding, Elkem is targeting either a full or partial sale of Silicones. If executed, this could have an impact on the composition of the business risk and financial risk profiles.

Silicones contributed approximately 40% of Elkem's revenues in FY 2023, though very limited EBITDA (NOK 145m for 9M 2024 and a loss of NOK 605m in FY 2023) and represent the majority of the company's exposure to China.

A sale of Silicones could result in a balanced impact on the business's risk profile, with a reduced scale in terms of sales, and reduced geographical and segmental diversification being offset by improved profitability. This is based on the comparatively higher and more stable margins of Silicon Products and Carbon Solutions compared to Silicones.

Moreover, the company may be in a position to deleverage following a sale, although this will be contingent on post-transaction capital allocation and valuation, for which there is currently limited visibility. Scope considers Elkem to be committed to its financial policy (i.e. net debt/EBITDA as defined by the company of 1.0x-2.0x over the cycle) and believes that Elkem will strive to at least maintain its current credit metrics following a sale.

While the potential details of the transaction have yet to be determined, Scope's assessment is comforted by the counterbalancing elements in Elkem's business risk assessment, as well as the company's financial policy and deleveraging target. As a result, Scope considers a deterioration of the financial risk profile to be the least likely scenario, while an improvement could lead to upward pressure on the rating.

The full list of rating actions and rated entities is at the end of this rating action release.

Under review for a possible upgrade

Elkem's issuer and senior unsecured debt ratings are placed under review for a possible upgrade. In Scope's view, the potential positive impact on the financial risk profile could outweigh the potential negative impact on the business risk profile if a transaction were to materialise. Scope will closely monitor developments in Elkem's strategic review of the Silicones business.

Scope could take a positive rating action if a sale of Silicones materialises and results in a deleveraging that improves the financial risk profile, as evidenced by a leverage (debt/EBITDA*) below 2.5x and/or an improvement in cash flow coverage towards 15%, both on a sustained basis; in the absence of a deterioration in the business risk profile at the closing of the transaction.

The ratings could be affirmed if a sale of Silicones is not completed or if a sale is completed with an overall credit-neutral impact, with an offsetting impact on the business and financial risk profiles.

In Scope's view, a negative rating action is the least likely scenario. This is because the rating agency considers Elkem as committed to its financial policy (i.e. net debt/EBITDA according to Elkem's definition of 1.0x-2.0x over the business cycle) and does not expect the company to undertake a voluntary transaction that would be detrimental to its credit profile. A negative rating action could still occur if there is limited or no post-transaction debt reduction following a sale of Silicones or if there is a deterioration of the business risk profile at the closing of the transaction.

Debt ratings

Following the rating action on the issuer rating, Scope has also placed the BBB- senior unsecured debt rating under review for a possible upgrade. No action has been taken on the S-2 short-term debt rating.

Environmental, social and governance (ESG) factors

Overall, ESG factors have no impact on this credit rating action.

All rating actions and rated entities

Elkem ASA

Issuer rating: BBB-/Under review for a possible upgrade, under review placement

Short-term debt rating: S-2, no action

Senior unsecured debt rating: BBB-/Under review for a possible upgrade, under review placement

**All credit metrics refer to Scope-adjusted figures.*

Stress testing & cash flow analysis

No stress testing was performed. Scope Ratings performed its standard cash flow forecasting for the company.

Methodology

The methodologies used for these Credit Ratings, (General Corporate Rating Methodology, 16 October 2023; Chemicals Rating Methodology, 16 April 2024), are available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlook and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at https://scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.

Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Ratings: public domain, the Rated Entity and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting these Credit Ratings originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and the principal grounds on which the Credit Ratings are based. Following that review, the Credit Ratings were not amended before being issued.

Regulatory disclosures

These Credit Ratings are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings are UK-endorsed.

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The Credit Ratings/Outlook were first released by Scope Ratings on 17 December 2021. The Credit Ratings/Outlook were last updated on 20 December 2024.

Potential conflicts

See www.scoperatings.com under Governance & Policies/Regulatory for a list of potential conflicts of interest disclosures related to the issuance of Credit Ratings, as well as a list of Ancillary Services and certain non-Credit Rating Agency services provided to Rated Entities and/or Related Third Parties.

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With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and

Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment Framework (ECAF). The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

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