S&P Global
Ratings

RatingsDirect®

Research Update:

Borealis 'BBB+' Ratings Affirmed After Large Extra Dividend; Outlook Stable

February 24, 2025

Primary contact

Wen Li
Frankfurt
49-69-33999-101
wen.li
@spglobal.com

Secondary contact

Gaetan Michel
Paris
33-14-420-6726
gaetan.michel
@spglobal.com

Rating Action Overview

- Following a strong operating performance in 2024, Borealis AG paid €978 million in special dividends to its shareholders at the end of 2024.
- This reduces the ample headroom built up in recent years and weakens credit metrics, although metrics remain fully commensurate with the current rating.
- We therefore affirmed our 'BBB+' issuer credit and issue-level ratings on Borealis and its senior unsecured notes.
- The stable outlook reflects our view that, despite current low cycle conditions Borealis will maintain S&P Global Ratings-adjusted funds from operations (FFO) to debt of 30%-45% over the next 12-24 months.

Rating Action Rationale

We expect Borealis to report and deliver solid performance in 2024 and 2025, despite challenging industry conditions for European commodity chemicals. We expect Borealis will report increased S&P Global Ratings-adjusted EBITDA by nearly 38% to €1.10 billion-€1.15 billion in 2024, ahead of our previous forecast, followed by a slight decline to a still solid level of €1.0 billion-€1.1 billion in 2025. Key drivers for the earnings rise in 2024 include much stronger polyolefin indicator margins (polyethylene +34%, polypropylene +13%) due to reduced imports and recovering demand, alongside higher sales volumes across all industries (polyethylene +12%, polypropylene +9%). Specialty polyolefin products especially showed substantial growth in margins. Borealis' base chemicals business also improved through higher plant utilization, despite slight margin pressure from elevated feedstock costs. Operational efficiency rose, with European steam cracker utilization climbing to 84% from 80% in 2023. Dividends received from equity-accounted Borouge, which we add to our adjusted EBITDA, amounted to €434 million, a similar level as in 2023.

We estimate that ongoing polyolefin capacity additions, especially in China and the Middle East, will lead to continuous global oversupply weighing on polyolefin margins. Europe will be hit particularly hard due to relatively high energy and feedstock costs and subdued demand amid low economic growth. Assuming a similar dividend contribution from Borouge, this will likely lead to a modest decrease in polyolefin margins and EBITDA in 2025, before a significant increase in 2026 stemming from the start-up of the new second propane dehydrogenation (PDH) plant in Belgium. In the medium term, we expect a gradual normalization of global supply and demand by 2030, with polyolefin margins gradually strengthening due to underlying demand recovery and the closure of older, inefficient plants, as well as nonintegrated assets.

The large extra dividend consumed the ample leeway built up in recent years, resulting in weaker credit metrics, which are fully commensurate with the current rating, however. Following a strong operating performance in 2024 and accumulated cash of about €2 billion on the balance sheet, Borealis paid €978 million in special dividends to its shareholders at the end of 2024. This also follows headroom built as a consequence of the disposal of the nitrogen business in 2023. We now estimate a nearly 40% weakening in our adjusted FFO to debt to 40%-45% in 2024 due to the extra dividend, then down slightly further to 35%-40% in 2025 on lower polyolefin margins in Europe, before returning to above 40% from 2026. The weighted average for 2024-2026 will likely be 35%-45%, compared with our previous forecast of 45%-60% and 61.2% in 2023. This indicates reduced, but still comfortable, headroom under leverage ratios compared with the 30%-45% range that we view as commensurate with the current rating.

We believe the financial policy is supportive of the rating. The large special dividend follows a track record of maintaining a net cash position (as reported by the company) since 2021 and strong financial results in 2024. We estimate a higher net gearing ratio of 7%-12% (as reported by the company) in 2024-2025, still well below Borealis' stated target gearing range of 35%-65%. This is fully in line with our previous expectation of potential releveraging in the near term given very low gearing in previous years. We understand that management and shareholders do not plan any further extra dividends at this stage and that it remains committed to maintaining the current rating and corresponding gearing range.

We expect free operating cash flow (FOCF) to remain healthy with slightly lower capital investments. Following the disposal of the nitrogen business in 2023, we expect total capital expenditure (capex) to reduce to about €700 million-€750 million annually in 2024-2025 from €808 million in 2023. Main growth projects include the construction of Borouge 4, a world-scale ethane cracker, and polyethylene production assets, and the new PDH plant in Kallo, Belgium for on-purpose propylene production with start-up expected for the first half-2026. The Bayport Polymers LLC (Baystar) polyethylene plant in the U.S. started operating last year. We expect investments in the circular economy to drive higher sustainability-related growth capex from 2026, which we think the company has some flexibility to postpone if needed.

Our assessment of Borealis' business risk reflects its leading market position in polyethylene and polypropylene in Europe, some resilience in its portfolio due to its focus on specialty polyolefins and plastics circularity, and its geographical expansion through joint ventures (JVs). Borealis' assets are mainly concentrated in Europe, from where it generated 82% of its revenues in 2023. However, it benefits from an expanded production footprint in the Middle East and North America with low feedstock costs via its Borouge and Baystar JV. Borealis' 36% stake in Borouge (the world's largest integrated polyolefin complex) is a significant profit and cash contributor. In addition, the company’s diversified end markets including consumer products, energy, healthcare, infrastructure, and automotive contribute to relatively resilient sales volume.

We think the shareholder structure will continue to support our rating on Borealis. Borealis is 25% owned by Abu Dhabi National Oil Company (ADNOC) and 75% by OMV AG (not rated) and we continue to view Borealis as a moderately strategic entity for ADNOC. This reflects ADNOC's direct and indirect ownership of Borealis (also via its 24.9% stake in OMV) and Borealis' material stake in Borouge (36% post IPO), one of the Abu Dhabi government's strategic petrochemical projects, integrated with ADNOC's refinery. We understand that Borealis will remain an important partner to ADNOC, given the technology and chemicals license Borealis brings to Borouge's operations in Abu Dhabi. We therefore consider ADNOC to be an influencing shareholder and Borealis' credit profile will continue to benefit from this shareholder structure. We note that OMV and ADNOC have outlined plans to potentially acquire Nova Chemicals Corp. from Mubadala Investment Co. as part of ongoing talks to merge Borealis and Borouge. This cannot be reflected in the rating, because neither the Nova acquisition; nor the merger has come to a stated agreement.

Outlook

The stable outlook reflects that despite current low cycle industry conditions, we expect Borealis will maintain S&P Global Ratings-adjusted FFO to debt of 30%-45% over the next 12-24 months, in line with the current rating.

Downside scenario

We could lower the rating if Borealis' FFO to debt fell below 30%, with no prospects of a swift recovery, because of aggressive debt-funded acquisitions, much higher growth capex than expected or more frequent extraordinary shareholder remuneration amid weak operating performance.

Upside scenario

We could raise the rating if Borealis' FFO to debt exceeds 45% at any point in the cycle, notably at low market prices, in conjunction with continued solid FOCF and supportive financial policy with strong shareholder commitment to maintaining leverage at the commensurate level.

Company Description

Headquartered in Vienna, Borealis is an international provider of polyolefins and base chemicals. The company operates primarily in Europe (82% of net sales in 2023). It also provides services and products to customers in the Middle East and Asia (7% of sales) through Borouge, a JV with ADNOC, and has access to the U.S. market (4%) via Baystar, a JV with TotalEnergies.

Borealis currently employs about 6,000 people and operates in over 120 countries. In 2023, the company reported €7.1 billion in sales (excluding discontinued operations) and generated S&P Global Ratings-adjusted EBITDA of about €826 million (including €456 million dividends received from equity-accounted Borouge investments).

Borealis operates two segments: polyolefins and base chemicals. The divestment of the nitrogen business unit, including fertilizer, technical nitrogen, and melamine products, was completed in the second half of 2023.

Our Base-Case Scenario

Assumptions

- Eurozone GDP growth of 0.8% in 2024 and 1.2% in 2025.

- Brent crude oil prices of $75 per barrel for 2025, 2026, and beyond.
- Revenue growth at 3%-3.5% for 2024, further up by 5%-7% in 2025, driven by higher volume.
- S&P Global Ratings-adjusted EBITDA margins of about 15.5% in 2024, down to 14%-15% in 2025, driven by global overcapacity and weak demand in Europe, much higher than the 11.7% in 2023.
- Dividends received from Borouge to remain at a similar level as seen in 2024 of about €434 million.
- Total reported cash capex (maintenance and growth) of about €700 million-€750 million in 2024-2025, down from €808 million in 2023.
- Our estimate of €350 million-€450 million normal dividends paid to shareholders in 2025 without any further special dividend. This compares with a total of roughly €1.1 billion dividends paid in 2024 including €978 million in special dividends.
- No acquisition, no disposal.

Key metrics

Borealis AG--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. EUR)	2022a	2023a	2024e	2025f
Dividends received	595	456	400-450	400-450
EBITDA	1,613	826	1,100-1,150	1,000-1,100
Dividends paid to shareholders	699	388	1,093	350-450
Capital expenditure (reported)	725	808	700-750	700-750
Adjusted ratios				
Debt/EBITDA (x)	0.7	1.2	1.5-2.0	2.0-2.5
FFO/debt (%)	110.2	61.2	40-45	37-42

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Liquidity

We view Borealis' liquidity as strong, based on our expectation that liquidity sources will exceed uses by at least 1.5x in the 12 months started Jan. 1, 2025. Our assessment is underpinned by the availability of €1 billion syndicated revolving credit facility (RCF). It also reflects our view of the group's generally high standing in credit markets, well-established bank relationships, and our expectation that the group will have sufficient covenant headroom.

Principal liquidity sources	Principal liquidity uses
Cash and cash equivalent of about €1 billion. Full availability under the €1 billion RCF due in December 2026. Our estimate of cash FFO of about €0.9 billion-€1.1 billion.	Debt maturities of about €632 million, of which we expect the €300 million bond to be refinanced. Capex of €700 million-€750 million. Working capital outflow of about €100 million at year-end with about €200 million intra-year requirements for seasonality. About €400 billion of normal dividends in 2025.

Covenants

The vast majority of Boreals' loan agreements have financial covenants, including gearing and solvency ratios. As of June 30, 2024, Borealis had significant headroom compared with the thresholds stipulated by the loan agreements, which we expect to continue in the next 24 months.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2024, Borealis' capital structure primarily comprised total gross debt of €1.4 billion, with term loans of about €1.111 billion and senior bonds of €299 million.

Borealis also provided a parental guarantee of $650 million for the full amount of the senior notes issued by Bayport Polymers LLC (Baystar) in 2022.

Analytical conclusions

We rate Borealis' senior unsecured notes 'BBB+', in line with the issuer credit rating. In our view, subordination risk is not significant in the group's capital structure. This reflects Borealis' overall low leverage, negligible secured debt, and priority debt in the structure. The rated instruments are issued and guaranteed by Borealis AG, and rank at the same seniority as other instruments in the structure, mostly term loans.

We also equalize the issue rating on the $650 million notes issued by Baystar and guaranteed by Borealis with the issuer credit rating on the guarantor because in our view the guarantee qualifies for a rating substitution and satisfies our criteria (see "General Criteria: Guarantee Criteria," published Oct. 21, 2016, on RatingsDirect). The obligations of Borealis under its guarantee will rank equally with all of its other unsecured and unsubordinated obligations, except such obligations that have priority.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB+/STABLE/--
Local currency issuer credit rating	BBB+/STABLE/--
Business risk	Satisfactory
Country risk	Intermediate Risk
Industry risk	Moderately High Risk
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook 2025: Chemicals, Jan. 14, 2025

- Tear Sheet: Borealis AG, Feb. 16, 2024

Ratings List

Ratings list	
Ratings Affirmed	
Borealis AG	
Issuer Credit Rating	BBB+/Stable/--
Baystar	
Borealis AG	
Senior Unsecured	BBB+