

Research Update:

Borealis AG Outlook Revised To Positive On Announced Merger With Borouge And Nova Acquisition; 'BBB+' Ratings Affirmed

March 21, 2025

Rating Action Overview

- OMV AG and Abu Dhabi National Oil Co. (ADNOC) intend to merge their petrochemical businesses, Borealis AG and Borouge PLC, and to acquire Nova Chemicals Corp. to form Borouge Group International (BGI).
- We expect BGI will be larger, with better geographic diversification, and stronger cost positioning than Borealis, while shareholders have guided to a net debt to EBITDA ratio of 2.5x through the cycle, along with an investment-grade rating target.
- Pending a more detailed debt structure and financial policy, characteristics of the shareholders' agreement, and potential for support to BGI, we believe the transaction could strengthen Borealis' credit quality.
- We therefore affirmed our 'BBB+' issuer credit and issue-level ratings on Borealis and on its senior unsecured notes.
- The positive outlook reflects our view that if the transaction is completed, Borealis will be integral to the BGI group, which displays stronger business risk characteristics than Borealis alone and will be supported by the shareholder structure, at least to the same extent as Borealis.

Rating Action Rationale

OMV and ADNOC have signed a binding agreement to merge their petrochemical businesses, Borealis and Borouge, and to acquire Nova Chemicals. Shareholders expect the transactions to close in the first quarter of 2026. With the subsequent integration of subsidiary Borouge 4 into the group by the end of 2026, shareholders expect to form a global industry leader in petrochemical olefins and polyolefins, Borouge Group International (BGI).

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Once this transaction is completed, Borealis will become integral to BGI, which will have stronger business risk characteristics than Borealis. The transaction will form the fourth-largest polyolefins producer globally, with combined polyolefins nameplate production capacity of approximately 13.6 million tons annually. BGI is also expected to display better geographic diversification and a stronger footprint in the high-growth markets in the Americas, the Middle East, and Asia than many of its peers. In addition, the group will have integrated facilities in all regions, with about 70% of production assets located in the first-quartile, feedstock-advantaged regions (50% in the Middle East and 20% in the Americas), leading to a more competitive cost positioning. Shareholders expect to achieve \$500 million run-rate synergies per year by 2030, to arrive at a combined through-the-cycle company-reported EBITDA of about \$7 billion. We expect the group to have an EBITDA margin of 24%-26% on average over the cycle, higher than for most commodity chemical producers. As key drivers for BGI's credit quality, we will be monitoring the precise business structure as well as underlying factors supporting organic growth and synergy realizations.

We recognize that BGI has a robust pipeline of organic growth projects poised to drive significant capacity expansions in the near term. Backed by over 16,500 granted patents, we believe BGI is well positioned to leverage its proprietary and differentiated technological expertise, innovation, and R&D capabilities to maintain a competitive edge, particularly in areas such as circular solutions.

The final capital structure of BGI is pending. Regarding financial policy, we understand shareholders expect the group to be a significant dividend contributor with a stated distribution target of at least 90% of net income and a floor dividend at \$2.2 billion. Nevertheless, both shareholders are committed to an investment-grade credit rating profile for the new group and have set a net leverage target of up to 2.5x EBITDA through-the-cycle. This captures notably the up to \$4 billion capital increase planned by BGI in 2026 to partly fund the Nova Chemicals acquisition. In addition, we understand that BGI will keep the flexibility concerning the timing and funding of the re-integration of Borouge 4 into the group, as a later step, taking into consideration overall market conditions and the credit rating. We do not have clarity yet on how the merged subsidiaries' debts will be standing in the structure, whether repaid or refinanced, and if so, at which level within the group.

Moreover, BGI will be jointly controlled by OMV and ADNOC, each to hold an equal share of 46.9% and exercise joint governance. BGI will be domiciled in Austria, with regional headquarters in Abu Dhabi. Once the transaction is completed, BGI will be listed in Abu Dhabi with plans for a future dual listing in Vienna. After the integration of Borouge 4 in 2026, about 47% of the new group's polyolefin capacity will be based in the United Arab Emirates. ADNOC views the merger as a transformational transaction and an important milestone in its global chemicals strategy in delivering on its international growth and sustainability mandate. This implies at least the same strategic importance of BGI to ADNOC versus the current importance of Borealis to ADNOC. We also factor in ADNOC's stronger credit profile than shareholding partner OMV, in which ADNOC holds 25% ownership. We will still need to understand the shareholder agreement governing BGI's strategy and assess the likelihood of BGI receiving extraordinary support from ADNOC and how this will ultimately impact the ratings.

Outlook

The positive outlook reflects our view that if the transaction is completed, Borealis will be an integral part of the BGI group, which displays stronger business risk characteristics than Borealis and will be supported by the shareholder structure, at least to the same extent as

Borealis is at this stage. We plan to update our ratings analysis as soon as we obtain more details on the transaction, including BGI's capital structure and financial policy after the merger and the Nova acquisition. We also need more information to assess the extent and timeliness of extraordinary support BGI will receive from its shareholders, particularly ADNOC, and how the arrangement between the two shareholders (ADNOC and OMV) would affect the group support mechanism.

Downside scenario

We could revise the outlook to stable if the transaction does not complete as planned or if, after the merger, BGI displays much weaker credit metrics that cannot be offset by a stronger business profile or potentially higher group support.

Upside scenario

We would likely raise our ratings by one or more notches if Borealis becomes a core entity of BGI with a stronger business profile than Borealis has today and at least the same strategic importance as Borealis to ADNOC, if not higher. In addition, BGI's capital structure and financial policy should also be commensurate with a higher rating.

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 joint venture (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.

NOVA Chemicals Corp. headquartered in Canada, produces olefins and polyolefins including ethylene, polyethylene (PE), and a variety of chemical and energy products. About two-thirds of ethylene production is used internally, with the balance sold to third parties. The company's PE products are used in a range of applications including rigid and flexible packaging, containers, consumer electronics and goods, building products, and housewares. About half of the company's PE product mix is linear low-density PE, with the balance spread across high-density PE and low-density PE. The company is owned by Mubadala as part of the government-related entity Mamoura Diversified Global Holding PJSC (AA/Stable/A-1+). We currently view NOVA as moderately strategic to Mubadala because we believe the parent is likely to provide indirect support if needed.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB+/Negative/--
Local currency issuer credit rating	BBB+/Negative/--
Business risk	3 - Satisfactory
Country risk	3 - Intermediate Risk
Industry risk	4 - Moderately High Risk
Competitive position	3 - Satisfactory
Financial risk	3 - Intermediate
Cash flow/leverage	3 - Intermediate
Anchor	bbb
Diversification/portfolio effect	3 - Neutral
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: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Bulletin: Both Merger With Borouge And Nova Acquisition Could Be Credit Positive For Borealis, Mar. 6, 2025
- Research Update: Borealis 'BBB+' Ratings Affirmed After Large Extra Dividend; Outlook Stable, Feb. 24, 2025
- Industry Credit Outlook 2025: Chemicals, Jan. 14, 2025

Ratings List

Ratings list

Ratings Affirmed; Outlook Action		
	To	From
Borealis AG		
Issuer Credit Rating	BBB+/Positive/--	BBB+/Stable/--
Ratings Affirmed		
Baystar		
Borealis AG		
Senior Unsecured	BBB+	

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