June 21, 2018

S&P Reaffirms ICL's BBB- Rating with a Stable Outlook

The Company hereby reports that S&P has reaffirmed the company's Long-Term Issuer Default Rating at BBB- with a Stable Outlook. Local rating reaffirmed at ilAA with stable outlook.

The S&P report is attached.

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S&P Global
Ratings

RatingsDirect®

Summary:
Israel Chemicals Ltd.

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Summary:

Israel Chemicals Ltd.

Business Risk: SATISFACTORY

Vulnerable — Excellent

Financial Risk: SIGNIFICANT

Highly leveraged — Minimal

Anchor	Modifiers	Group/Gov't
bbb-	bbb-	bbb-

CORPORATE CREDIT RATING
Foreign Currency Rating
BBB-/Stable/--

Rationale

Business Risk: Satisfactory	Financial Risk: Significant
• One of the leading global potash producers and the largest global bromine producer. • Competitive advantage from mining in the Dead Sea, which provides access to unique, high-quality raw materials; logistical advantages; proximity to ports; and a more favorable cost position for potash and bromine than peers. • A synergy between the manufacturing processes for different specialty chemicals products that provide added value. • Cyclical and competitive nature of the fertilizer industry. • Exposure to regulatory changes and political pressure in Israel pertaining to extending the Dead Sea mining concession, which is valid until 2030.	• Our expectation of improved leverage metrics following the sale of the fire safety unit in March 2018. • Prudent financial policy. • Large non-discretionary capital expenditure (capex) requirements at the Dead Sea concession. • Adequate liquidity.

Outlook: Stable

The stable outlook on Israel Chemicals Ltd. (ICL) reflects our expectation that ICL will maintain S&P Global Ratings-adjusted debt to EBITDA of 3.0x-3.5x in the slowly recovering fertilizer pricing environment. Our expectation is based on the company's plan to undertake midsize mergers and acquisitions (M&A) in the coming years and maintain its current dividend policy.

We anticipate that ICL will generate EBITDA of about $950 million-$1 billion in 2018, benefiting from a strong position in the fertilizer markets and low production costs in Israel. We consider an adjusted debt-to-EBITDA ratio of 3.0x at the top of the business cycle and 4.0x at the bottom of the cycle to be commensurate with the current rating. We also expect the company to generate positive free cash flows over time.

Downside scenario

We would consider a negative rating action if the company's debt to EBITDA was close to 4.0x without near-term prospects of recovery, and its operating performance deteriorated, contrary to our expectations. In our view, this scenario is possible if ICL implements aggressive business or financial policies, whether by significantly deviating from its publicly stated dividend policy or through sizable leveraged acquisitions. Further deterioration in market conditions that may hurt operating results could also lead to a downgrade.

In the medium term, the rating could come under pressure if uncertainty regarding the renewal of the Dead Sea concession continues. In this scenario, we expect pressure on the company's business risk profile, which currently benefits from its inherent advantages in the Dead Sea.

Upside scenario

We would consider a positive rating action if ICL strengthened its financial risk profile such that its adjusted debt to EBITDA dropped below 2.5x on a sustainable basis.

Our Base-Case Scenario

Assumptions

- Annual revenues of $5.2 billion-$5.3 billion in 2018-2019.
- Reported EBITDA of about $1.0 billion in 2018-2019.
- Annual dividend distribution of up to 50% of adjusted net profit in 2018-2019.
- Larger capex needs of about $650 million in the coming year, including the salt harvest project, works in Spain, and Dead Sea water pumping, up from $450 million in 2017.
- Positive free cash flow generation, but less than in 2017, owing to higher investment requirements.
- M&A, or simply acquisitions, of about $400 million in the coming years, in line with ICL's stated strategy. Still, the timing of the acquisitions is uncertain.
- Lower interest expenses due to a nominal decrease in debt.

Key Metrics

	2017A	2018E	2019E
Debt/EBITDA (x)	3.5	3.0-3.5	3.0-3.5
FFO/debt (%)	19.1	22.0-23.0	22.0-23
EBITDA margin (%)	19.1	19-20	19-20

A--Actual. E--Estimate. FFO--Funds from operations.

Company Description

ICL is a multinational company that operates in the manufacturing and marketing of commodity and specialty chemicals in two main divisions:

- The essential minerals division, which includes product lines for potash, magnesium, phosphate, and specialty fertilizers, and primarily serves various agriculture markets.
- The specialty solutions division, which includes three product lines: industrial products, advanced additives, and specialty food ingredients, and primarily serves various industrial markets.

ICL's operations are based primarily on natural resources--potash, bromine, magnesium, and sodium chloride from the Dead Sea; and phosphate rock from the Negev Desert, on the basis of concessions and licenses from the Israeli government. Operations are also based on potash and salt mines in Spain and England and on phosphate mines and processing plants in China. ICL is the sixth-largest global potash producer, and the largest global producer of bromine, purified phosphoric acid, and other materials.

ICL is a public company traded on The New York Stock Exchange and on the Tel-Aviv Stock Exchange. The company's main shareholder is Israel Corporation Ltd. (46%). The public holds the remainder of its shares.

Business Risk: Satisfactory

Strong business position in the potash and bromine markets, a competitive advantage stemming from the Dead Sea concession, and the ability to develop specialty products to offset lower profit margins in the fertilizers sector

Our assessment of ICL's business risk profile is based, among other things, on its positions as the sixth-largest global potash producer--a market with continuously growing demand and a small number of players--and the largest global bromine producer. ICL's business position is satisfactory, underpinned by inherent advantages including direct access to a concentrated source of unique high-quality raw materials in the Dead Sea; a good cost position of potash and bromine mining compared with competitors; low storage costs and easier inventory maintenance due to the dry weather in the Dead Sea area; proximity to ports and strategic clients (China and India); and a synergy between the manufacturing processes for different specialty chemicals products.

Our view of ICL's business position is supported by its wide geographic sales spread, which we believe reduces its exposure to demand shifts due to regional factors (for example, extreme weather), and by a diversified portfolio of products used in many industries. We note that ICL's business position in the phosphate market is weaker than that of peers, due to the relatively low quality of the phosphate rock mined in the Negev desert in Israel, relatively high production costs, and a lack of an alternative mining site while reserves in the current site are dwindling.

Potash and phosphate prices recovered somewhat in the fourth quarter of 2017 and the first quarter of 2018, but remain lower than top-of-the-cycle levels. ICL's shift from the production of fertilizer to the production of value-added complementary products enables it to maintain stable profitability, despite significantly lower margins in the fertilizer segment. In addition, in the past few years, ICL implemented cost-reducing measures in its phosphate mines in China and potash mines in England in order to minimize its losses in these sites, including personnel cutbacks and a shift toward value-added products.

ICL has also committed to invest in its Spanish mines in order to make potash production more efficient and comply with local regulatory requirements. In our base-case scenario, therefore, we assume an increase in capex in the coming years, due to high investment needs in England, Spain, the Negev desert, and the Dead Sea (including the salt harvest project). We estimate that these actions will erode profit margins in the near future, as production decreases while fixed costs remain unchanged. However, we believe these moves will allow ICL to return to full capacity in the medium term at somewhat lower production costs.

A constraining factor for ICL's business risk profile is its dependence on the extension of its Dead Sea concession by the Israeli Government in 2030, and its exposure to political pressures and regulatory changes.

Operating Base-Case Scenario

- A decline of around 3% in revenues in 2018, mainly due to the sale of the fire safety unit.
- A slight increase of about 1%-2% in 2019 revenues, mainly due to our expectation of a continued gradual recovery in potash prices, partly offset by a decrease in production capacity in England and Spain.
- An adjusted EBITDA margin of around 19%-20% in 2018-2019, to increase to slightly above 20% from 2020. We anticipate that margins will be supported by stable profitability from ICL's specialty products, and over the longer

term, by efficiency measures in mines in Spain and England. These measures will start bearing fruit in 2020, partly offsetting lower margins in the core commodity fertilizer segments (potash and phosphate).

Financial Risk: Significant

Lower leverage following the sale of the fire safety unit; financial policy supportive of maintaining the new leverage level

In our assessment of ICL's financial risk profile, we consider the cyclical nature of the fertilizer industry, which historically has led to significant volatility in ICL's adjusted EBITDA. We also consider ICL's investment needs, which mainly include maintenance capex and obligations to the Israeli government as part of the Dead Sea concession (including the salt harvest project). We also consider ICL's dividend distribution requirement as we assume that ICL's dividends are the main source of funding for its parent company, Israel Corp. Ltd., to service its debt.

In March 2018, ICL completed the sale of its fire safety unit for gross proceeds of about $1 billion. The company used the net cash proceeds from the sale, about $900 million, to repay about $800 million of its debt. This was part of its policy to reduce its debt and leverage. On the other hand, ICL declared that it intends to undertake M&A in the medium term, in accordance with its strategy to expand its specialty chemicals activity. Following the sale of the fire safety unit, which was profitable and had growth potential, ICL's EBITDA decreased by about $80 million.

We understand that ICL's board of directors approved the current dividend distribution policy, which is lower than the previous policy, despite the deleveraging following the fire safety unit sale.

In the coming years, ICL intends to invest in its mines in Spain and England in order to increase the efficiency of its potash production. In our base-case scenario, therefore, we assume an increase in capital expenditures (capex) in the coming years. Considering market conditions, capex needs, and the potential to reduce costs further, we expect that adjusted debt to EBITDA will be around 3.0x-3.5x and adjusted funds from operations to debt will be 22%-23% in 2018-2019, depending on the pace of M&A activity, compared with about 3.5x and 19.1% in 2017 and about 3.9x and 18.8% in 2016.

Liquidity: Adequate

ICL's liquidity is adequate. Our assessment of ICL's liquidity reflects our expectation that the ratio of sources and uses will exceed 1.2x in the 12 months from April 1, 2018, supported by available long-term committed credit lines of about $2 billion, with a relatively low debt maturity burden in the short term. We estimate that the company has good access to the banking system and to the Israeli and global capital markets.

Principal Liquidity Sources	Principal Liquidity Uses
We estimate ICL's main liquidity sources from April 1, 2018, until March 31, 2019, to be: • Available cash and cash equivalents of about $880 million (prior to the prepayment of debt completed in April 2018). • Available long-term committed credit facilities of about $2 billion (taking into account recent prepayments after the fire safety unit sale). • Operating cash flow of about $700 million. • New bond series issuance of about $600 million (completed).	We estimate ICL's main liquidity uses from April 1, 2018, until March 31, 2019, to be: • Long-term debt maturities of about $1.9 billion. This reflects prepayments from the proceeds of the fire safety unit sale completed in April 2018 and the prepayment of about $600 million of Series D bonds in May 2018. • Non-discretionary capex of about $650 million. • Dividend distribution of about $160 million-$220 million.

Ratings Score Snapshot

Corporate Credit Rating

Foreign Currency: BBB-/Stable/--

Business risk: Satisfactory

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

Financial risk: Significant

- **Cash flow/Leverage:** Significant

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:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb-

Issue Ratings--Subordination Risk Analysis

Capital structure

In May 2018, ICL's capital structure consisted primarily of about $1.5 billion of senior unsecured bonds issued at the company level; $0.7 billion of unsecured bank loans denominated in diverse currencies, issued mostly by the company and its 100% held subsidiaries; and $0.3 billion of securitization loans.

Analytical conclusions

We rate ICL's debt 'BBB-', the same as the issuer credit rating, because in our view, subordination risk is not significant in the capital structure.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Commodity Chemicals Industry, Dec. 31, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Specialty Chemicals Industry, Dec. 31, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 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-

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