FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Viterra's Outlook to Positive; Affirms IDR at 'BBB-'

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Fitch Ratings - Milan - 04 Oct 2022: Fitch Ratings has revised Netherlands-based agricultural commodity trader Viterra Limited's Outlook to Positive from Stable, while affirming its Long-Term Issuer Default Rating (IDR) at 'BBB-'. Fitch has also affirmed the senior unsecured rating of notes issued by Viterra's wholly-owned subsidiary Viterra Finance B.V. at 'BBB-'.

The Positive Outlook reflects Fitch's confidence that Viterra will sustain over the medium term some of the increased profits it achieved over 2021-2022 and its scope for swift deleveraging after the completion of its acquisition of Gavilon in October 2022.

Viterra's EBITDA performance in 2021 and 2022 has been exceptional, which we do not expect to repeat. However, network expansion, enhanced vertical integration, increased efficiency of its infrastructure, continuing favourable demand trends for agricultural commodities, and the Gavilon contribution should allow EBITDA to stabilise from 2023 at higher levels compared with 2020. We believe over 2023-2024 this should provide further capacity to maintain leverage at levels that are consistent with a 'BBB' IDR.

Successful integration of Gavilon, as well as management's continuing commitment to maintain a conservative financial policy would support an upgrade to 'BBB'.

KEY RATING DRIVERS

Peak in Commodity Price Cycle: Like its peers, Viterra has benefited since 2H20 from high agricultural commodity prices, which have almost doubled its sales but also led to large cash outflows, due to an increase in working capital. With the majority of the working-capital impact driven by inventory-value increases, this has only had a limited impact on Fitch's readily marketable inventories (RMI)-adjusted net leverage, which improved sharply in 2021, due to strong EBITDA. We view some of the profits achieved in the current time of exceptionally high and volatile prices for agricultural commodities as sustainable.

Strong Performance: Strong and highly volatile prices led to a material increase of EBITDA in 2021 and in 1H22. Viterra has enjoyed benefits from geographically diversified sourcing and from its integrated supply chain, which includes its own chartering fleet, despite disrupted operations in the Black Sea region and drought in Canada in 1H22. Fitch-adjusted EBITDA jumped to USD1.9 billion in last 12 months to June 2022 from USD956 million in 2020 and an average USD550 million over 2017-2019. This performance was supported by a combination of exceptional events that we do not expect to repeat in our-through-the cycle approach.

EBITDA to Normalise: We expect annual Fitch-adjusted EBITDA to stabilise at a minimum of USD1.3 billion-USD1.4 billion, including Gavilon's contribution from 2023. This is aided by a USD150 million structural improvement from 2019 levels, due to a cost-efficiency programme and capacity expansion. Additionally, the quality of earnings will benefit from higher geographical diversification due to entry into the US market.

Strong Control over Value Chain: Viterra's efficient and integrated network of own storage, handling, shipping and processing assets in major world regions of agriculture production and export supports sustainable profitability in an industry that is characterised by low manufacturing added value and thin margins. We view its strategy of investing in regions with agricultural growth prospects to enhance its traded volumes and network of assets as appropriate. Moreover, due to its diversification by sourcing region, Viterra is able to supply without interruptions despite trade restrictions or weather events, which typically require traders of agricultural commodities to quickly shift their sales and procurement across countries.

Strong Position in Growing Commodities: Viterra is a leading global trader in grains (wheat, corn, barley), oilseeds (soy, rapeseed, sunflower), meal and oils. This is complemented by sugar, pulses and cotton. The OECD/ FAO Agricultural Outlook projects continued growth in global seaborne trade of grains and oilseeds of around 1% per year over 2022-2032. However, revenue in this sector can be volatile, with shortages of commodity availability, weather events or trade disruption causing major price swings.

Revenue Composition Constrains Profits: Unlike its larger peers Cargill, Archer Daniels Midland (ADM), Bunge and Olam, Viterra chooses to focus on upstream sourcing and processing, and to only very selectively diversify into downstream production. Its main downstream operations consist of flour milling and sugar production in Brazil (under 10% of 2020 EBITDA). This strategy will continue to constrain level of profit margins and expose profits to volatility, but we view benefits in minimising capex requirement and limiting operational complexity. Overall, as agricultural commodity prices normalise, we expect Fitch-adjusted EBITDA and funds from operations (FFO) margins to be around 2%-3% and 1.5%-2.5%, respectively, which are consistent with an investment-grade rating in the sector.

Adequate Cash-Generation Capability: In times of growth in traded volumes or price increase of commodities, Viterra's free cash flow (FCF) generation is constrained by working-capital absorption. However, if we exclude these movements in working capital, which can be volatile but have limited impact on RMI-adjusted leverage, we believe Viterra has the ability to generate healthy FCF. This is supported by a conservative approach to capex and M&A and a financial policy that pursues a conservative leverage and historically has included freezing dividends when trading performance weakened.

Moderate, Improving Leverage: We project the Gavilon acquisition will lead to an increase of RMI-adjusted FFO net leverage, which we forecast to temporarily increase to around 2.0x in 2022 from 1.0x in 2021. From 2023 onwards, despite our expectation of lower EBITDA as commodity prices and volatility abate, we project that leverage could remain sustainably at or below 2.0x, which may support an upgrade. This assumes that management will maintain their conservative approach to investments and dividend distribution.

DERIVATION SUMMARY

Given its size and ranking as a global commodity trader, as well as breadth of operations and traded commodities Viterra has many similarities with peer Bunge Limited (BBB/Stable). Both have strong asset bases but Viterra is smaller in absolute EBITDA. The main operational difference between Viterra and Bunge are the latter's wider exposure to downstream commodities activities, with a presence in bottled oil and vegetable fats. This contributes to Bunge's FFO margin of 3.5% versus Viterra's 1.5% historically.

Conversely, Viterra enjoys a slightly lower reliance on a single category of commodities (oilseeds) and wider geographic diversification. Bunge made good progress over 2019-2021 to simplify its asset portfolio and align its business with its oilseeds core operations and to improve returns on invested capital. A portion of asset-sale proceeds was used for debt reduction and Fitch expects it will remain fairly conservative in its capital allocation, all of which supported its upgrade to 'BBB' in October 2021. Consistently conservative balance sheet management by Viterra following the Gavilon acquisition could support an upgrade of its rating to the same level of Bunge's.

Compared with global industry leaders Cargill Inc. and ADM, which are both rated 'A'/Stable, Viterra has smaller scale and less diversification, both by geography and business. This leads to both lower FFO and FCF margins. Finally, ADM and Cargill operate with lower leverage. At the other end of the rating scale, Fitch rates Kernel Holding S.A. (CC) and Aragvi Holding International Limited (B/Positive), which are smaller in size and trade sunflower oil and grains in the Black Sea region. Both Aragvi and Kernel before the conflict between Russia and Ukraine had stronger profitability but reliance on one sourcing region constrains their ratings.

We rate both France-based sugar-producing cooperative Tereos SCA and Andre Maggi Participacoes S.A. (Amaggi), an integrated agribusiness company based in Brazil, at 'BB'/Stable. Both companies have an asset-heavy business, which enables them to have a higher EBITDA margin than Viterra. However, their ratings are constrained by limited geographic (Amaggi) or commodity diversification (Tereos) as well as, compared with Viterra, smaller size and higher RMI-adjusted FFO net leverage of around 3.5x.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

-EBITDA in 2022-2023 boosted by high agricultural commodity prices and supply-chain disruptions, before stabilising at around EUR1.3 billion to 2025

-Continued absorption of working capital in 2022 in connection with high commodity prices and the Gavilon acquisition, followed by part normalisation in 2023 with release of working capital

-RMI at 75% of inventory for 2022-2025

-Cumulative capex of USD1.4 billion for 2022-2025

-No dividend payments in 2022-2023 and around USD450 million a year from 2024

-No material M&A in 2022-2025 besides the Gavilon acquisition, which was closed in October 2022

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to upgrade:

-- RMI-adjusted FFO net leverage falling below 2.2x or RMI-adjusted net debt/ EBITDA falling below 2.0x, supported by a conservative financial policy

--FFO margin growing above 2.5% as a result of further improvement of operational efficiency or successful expansion of operations

- Annual FCF (excluding working-capital movements related to RMI) growing above USD350 million

Factors that could, individually or collectively, lead to a revision of the Outlook to Stable:

--RMI-adjusted FFO net leverage above 2.2x or RMI-adjusted net debt/ EBITDA above 2.0x on a sustained basis due to a structural reduction in EBITDA or an adverse change in financial policy

--RMI-adjusted EBITDA to interest paid below 5x on a sustained basis

Factors that could, individually or collectively, lead to downgrade:

--RMI-adjusted FFO net leverage rising above 2.8x or RMI-adjusted net debt/ EBITDA rising above 2.5x due to a shift in financial policy or protracted weakening in trading performance

--FFO margin failing to remain above 2% as a result of inefficient operations

--Reduced financial flexibility, including access to committed bank lines and annual FCF (excluding working-capital movements related to RMI) dropping below USD100 million on a sustained basis

--RMI-adjusted EBITDA to interest paid below 4x on a sustained basis

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sectorspecific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: At end-June 2022, Viterra's cash of USD1.1 billion, trade receivables of USD1.9 billion and Fitch-estimated RMI of USD5.6 billion were less than short-term liabilities of USD9.9 billion, resulting in an internal liquidity ratio of 0.9x. Although its internal liquidity ratio is lower than 1x, our liquidity assessment is supported by Viterra's access to external funding. In particular, it has an USD1 billion three-year revolving credit facility (RCF) with two 12-month extension options at the lender's discretion, an USD4.1 billion one-year RCF with a one-year borrower's term-out option (to May 2024), plus a one-year extension option at the lender's discretion. In September 2022, the company added a USD2.5 billion, three-year revolving facility for its U.S. operations.

No Notching for Notes: The notes are rated in line with Viterra's IDR of 'BBB-', despite the presence of some secured debt in its capital structure. We estimate that prior-ranking debt is insufficient to indicate a material possibility of subordination and lower recoveries for unsecured notes. We also assume that the proportion of prior-ranking debt will not increase materially over 2022-2025.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍
Viterra Finance B.V.		

senior unsecured	LT	BBB-	Affirmed	BBB-
Viterra Limited	LT IDR	BBB- Rating Outlook Positive Affirmed		BBB- Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 15 Oct 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.3 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Viterra Finance B.V.	EU Issued, UK Endorsed
Viterra Limited	EU Issued, UK Endorsed

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