Viterra's Stellar First-Half Results Increase Rating Headroom

October 10, 2022

This report does not constitute a rating action.

PARIS (S&P Global Ratings) Oct. 10, 2022--S&P Global Ratings today said that it sees increased rating headroom for agricultural trading and processing firm Viterra Ltd. (BBB-/Stable/--), thanks to higher-than-expected profitability and credit metrics for the first six months of 2022.

During this period, Viterra continued to benefit from rising global demand for grains and oilseeds. Profitability in merchanting operations benefited from the high volatility of market prices in soft commodities, notably due to lower supply from large growing areas like Canada and the Black Sea and logistical disruptions in key destination markets like China.

Underpinned by its global scale, large sourcing and distribution capabilities, the pass-through features of its sales contracts, recent facility upgrades and capacity expansion, and past cost-savings programs, Viterra's profitability increased sharply, with the trailing 12-month return on capital rising to 23% from about 13% a year ago and adjusted EBITDA rising to $2.5 billion versus $1.6 billion a year ago. Meanwhile, credit metrics also improved, with adjusted debt to EBITDA decreasing to 0.7x (versus 2.3x a year ago) and funds from operations (FFO) to debt at 118% (versus 35%).

We believe that EBITDA, FFO generation, as well as other credit metrics will likely normalize at a lower level over the next 12-24 months from the very favorable market conditions in first-half 2022. We take into account that debt will increase, given its fully debt-finance acquisition of U.S. grain merchandiser Gavilon for $1.1 billion (excluding funding for associated working capital needs). Nevertheless, current strong results create good rating headroom at a time of rising financing costs and high operating cost inflation. We forecast adjusted debt to EBITDA of about 1.5x in 2022 and below 2.5x in 2023, assuming the full-year consolidation of Gavilon in 2023.

Regarding the financial position, we note Viterra retains its good access to bank financing, as supported by a new three-year $2.5 billion committed revolving credit facility and assume the group should be able to fully refinance the $950 million bridge loan contracted for the Gavilon acquisition before it matures in 18 months.

Related Research

- Viterra's Acquisition Of U.S. Grain Merchandiser Gavilon Leaves Sufficient Rating Headroom, Jan. 26, 2022
- Viterra's Strong First-Half Results Mean Greater Credit Metric Headroom, Sept. 27, 2021
- Global Agriculture Commodity Trading And Processing Firm Viterra Ltd. Rated 'BBB-'; Outlook Stable, April 12, 2021