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Summary:

Ciech SA

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Corporate Credit Rating	B/Stable/--

Profile Assessments			
BUSINESS RISK	WEAK	Vulnerable	Excellent
FINANCIAL RISK	AGGRESSIVE	Highly leveraged	Minimal

Rationale

Business Risk: Weak

- Leading market positions in Central and European soda ash industry.
- Exposure to cyclical construction end market.
- Increasing competition in Europe, notably from low-cost U.S. producers or from potential new capacity additions, such as the low-cost natural soda ash in Turkey.
- Limited product diversity; about 75% of 2012 EBITDA is generated from soda ash activities.
- Limited suppliers' diversity, notably for key raw materials such as brine and limestone.

Financial Risk: Aggressive

- "Adequate" liquidity and long debt maturity profile.
- Significant expansionary capital expenditure (capex) plans, potentially limiting free cash flows generation and deleveraging over the near term.
- High leverage; we forecast adjusted debt to EBITDA of about 4x at year-end 2013.

Outlook: Stable

The stable outlook reflects our view that Ciech's liquidity will remain "adequate" and that its soda ash business will continue to perform satisfactorily in 2013, despite the difficult economic climate prevailing in Europe. We view an adjusted ratio of debt to EBITDA of up to 5x as commensurate with the current rating.

Upside scenario

Ratings upside could arise in 2013 if Ciech maintains satisfactory profits in the soda ash business and achieves adjusted debt to EBITDA of less than 4x on a sustainable basis. In particular, an upgrade depends on Ciech effectively executing its strategy of restructuring and disposing of noncore activities. In our upgrade considerations, we will also take into account Ciech's investment plans and the company's capacity to sustainably generate positive free operating cash flows (FOCF), despite its high capex plans for 2013 and 2014.

Downside scenario

Rating pressure could arise if the company's adjusted debt to EBITDA exceeded 5x, without short-term prospects of recovery. In our view, this could take place if Ciech continued to invest while its operating performance weakened, for example, because the macroeconomic climate in Europe remained tough, or because competition in the domestic market increased.

Standard & Poor's Base-Case Scenario

Assumptions

- Company revenue growth of about 2%.
- EBITDA margins of about 11.0%-12.0%.
- High capex of about Polish zloty (PLN) 200 million in 2013 and PLN300 million in 2014.
- No dividends or acquisitions.

Key Metrics

(*)	2012A	2013E	2014E
Fully adjusted debt/EBITDA (x)	4.1	3.7-4.1	3.9-4.3
Adjusted EBITDA margin (%)	11.9	11-12	11-12

*Actual data is based on preliminary accounts available. A--Actual. E--Estimate

Business Risk: Weak

Our assessment of Ciech's business risk profile as "weak" takes into account the company's high exposure to the cyclical construction industry, which is Ciech's key end market; its limited product diversity through its core soda ash production; and its reliance on a small number of suppliers for key raw materials such as brine and limestone. However, we recognize that there is some backward integration, notably of the company's Polish operations into steam production and electricity, and its German operations into limestone and brine, and partly into steam and electricity. Our assessment also reflects our view of sustainable competitive threats to Ciech's market position (despite its landlocked location), in particular from U.S. producers and new capacity additions such as the low-cost natural soda ash in Turkey, potentially by 2017.

Factors supporting our assessment of Ciech's business risk profile include its leading market positions in soda ash market in Central and Eastern Europe, reflected in its 98% market share in Poland and No. 2 position in Europe, after market leader Solvay S.A. We also see Ciech's soda ash activities as less cyclical than the chemical industry as a whole because about 60% of its end-market demand comes from glass applications. In our view, the profitability of Ciech's soda ash activities is healthy, underpinned by low cash costs and close proximity to its well-established group of customers. Competitive threats are mitigated by transportation costs, which we anticipate will limit the risk of imports from places such as Russia or Asia.

In our view, Ciech performed well in 2012, benefiting from stable supportive soda ash prices and its past investments, especially those related to energy efficiency. The company reported EBITDA from continuing operations of about PLN400 million on a margin of 11.8%, in line with our forecast of PLN390 million for the year. We also consider Ciech's performance healthy in the first quarter to March 31, 2013; it reported EBITDA from continuing operations of

about PLN111 million.

Under our base case, we forecast that Ciech will report broadly flat EBITDA of about PLN380 million-PLN400 million in 2013, reflecting our assumption of slightly lower soda ash volumes due to the prolonged weakness in the macroeconomic climate in Europe, and pressure on soda ash spot prices in Europe as a result of increased competition from low-cost U.S. producers. Our forecast is underpinned by our expectation that the eurozone will see GDP contract by 0.5% this year, and that demand from Ciech's key end market, the construction industry, will be subdued.

However, we also expect these tough operating conditions to be partly offset by Ciech's restructuring program, which chiefly focuses on improving production efficiencies and profitability, as well as its noncore asset disposals. For example, in March 2013 Ciech completed the sale of parts of its TDI (toluene di-isocyanate) business to BASF SE.

Our corporate credit rating on Ciech reflects its stand-alone credit profile of 'b', without any uplift for extraordinary support from the government of Poland. Although the Polish government owns 39% of Ciech, we view the likelihood of it providing timely and sufficient extraordinary support to Ciech in the event of financial distress as "low," under our criteria on government-related entities.

Financial Risk: Aggressive

Our view of Ciech's financial risk profile as "aggressive" factors in our adjusted leverage forecast of about 3.9x at year-end 2013. We see the company's adequate liquidity and long-dated debt maturity profile as the key supporting factor.

Under our base-case scenario, we anticipate that the company could generate modestly negative FOCF in 2013, as most of its internally generated cash flows may be consumed by the substantially higher capex of about PLN200 million. This is in contrast to our previous assumption of PLN120 million capex for the year and expectation of positive FOCF in 2013.

However, we also anticipate that the increased investments, notably into domestic soda ash and sodium bicarbonate capacity expansions, will also be supported by Ciech's strong cash balance. This stood at PLN338 million on March 31, 2013, and was boosted in the first quarter of 2013 by disposal proceeds of about PLN188 million from the sale of the TDI business.

Liquidity: Adequate

We assess Ciech's liquidity as "adequate" under our criteria. This reflects the absence of medium-term maturities and comfortable headroom under the revolving credit facility (RCF) covenant, although we note that the covenant steps down substantially over the medium term.

We estimate that liquidity sources should cover liquidity uses by more than 1.2x over the next 12-18 months.

Principal Liquidity Sources	Principal Liquidity Uses
• About PLN250 million of funds from operations (FFO) under our base case; • PLN100 million long-term committed RCF due 2015 which was fully available on March 31, 2013; • About PLN245 million of surplus cash on March 31, 2013 (excluding PLN70 million that we consider as tied to operations, and PLN22 million of restricted cash); and • Disposal proceeds from further asset sales, although the exact magnitude of these is currently uncertain.	• No material near- to medium-term debt maturities; the PLN320 million domestic notes mature in 2017 and the €245 million notes mature in 2019; • Moderate working capital outflows of about PLN60 million-PLN70 million; and • Expansionary capex of about PLN200 million in 2013.

Structural Subordination

The issue rating on the €245 million senior secured notes issued by Ciech Group Financing AB is 'B', in line with the corporate credit rating. We consider that the structural subordination of the notes is not material, and is effectively mitigated by an extensive security package.

In terms of the insolvency jurisdiction, any insolvency proceedings against Ciech would most likely originate in Poland. Although we have assigned an issue rating to the €245 million notes, we have not assigned a recovery rating because our review of Poland's insolvency regime is not complete.

For detailed structural subordination analysis, please see "Poland-Headquartered Soda Ash Producer Ciech Assigned 'B' Rating; Outlook Stable," published on Dec. 18, 2012, on RatingsDirect.

Related Criteria And Research

- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Criteria Guidelines For Recovery Ratings On Global Industrial Issuers' Speculative-Grade Debt, Aug. 10, 2009
- Key Credit Factors: Business and Financial Risks In The Commodity And Specialty Chemical Industry, Nov. 20, 2008

Business And Financial Risk Matrix

Business Risk	Financial Risk					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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