

Fitch Affirms Dow Chemical's 'BBB/F2' IDRs; Outlook Stable

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the long- and short-term IDRs and debt ratings of The Dow Chemical Company (Dow) as follows:

The Dow Chemical Company

--Long-term IDR at 'BBB';

--Senior unsecured revolving credit facility at 'BBB';

--Senior unsecured debt at 'BBB';

--Short-term IDR at 'F2';

--CP ratings at 'F2'.

Dow Capital BV

--Long-term IDR at 'BBB';

--Senior unsecured debt at 'BBB'.

Union Carbide Corporation (Union Carbide)

--Long-term IDR at 'BBB-';

--Senior unsecured debt at 'BBB-'.

Rohm and Haas Company (Rohm and Haas)

--Senior unsecured debentures and notes guaranteed by Dow Chemical at 'BBB'.

The Rating Outlook is Stable. This rating action affects approximately \$17.8 billion of debt as of March 31, 2014.

KEY RATING DRIVERS

The ratings reflect Dow's position as the largest North American chemical company, its highly integrated production streams, which result in significant economies of scale and scope, and leading market positions in many commodity and specialty chemicals segments.

Dow's operating earnings are driven by its Performance Plastics segment, accounting for over 40% of the company's first quarter operating segment EBITDA. Dow is one of the largest ethylene and ethylene derivative producers in the world, with roughly 70% of its cracker capacity located in the cost-advantaged Americas and Middle East. Dow is benefiting from low cost feedstocks in North America which result from the shale oil and gas boom. Fitch expects this segment to continue to produce a significant share of Dow's profit.

Dow's business profile is partly offset by its moderately levered capital structure. Dow's funding of its April 2009 Rohm and Haas Co. acquisition with \$12 billion of debt (summing acquisition financing and assumed debt) in combination with the recession led to greater than historic leverage in 2009 and 2010. Dow has meaningfully decreased debt levels

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since that acquisition with Dow's March 31, 2014 debt totaling \$17.8 billion, down from \$23.8 billion reported June 30, 2009.

Dow has \$4 billion of preferred shares outstanding with a coupon of 8.5%. The preferreds are due to Dow's financing of the Rohm and Haas acquisition. The preferreds are convertible to common at Dow's discretion once common trades above \$53.72 for 20 days in a 30 day window. The preferreds are considered debt-like but have not been included in Fitch's gross debt calculation. Fitch expects Dow to force conversion to shares when possible.

Dow produced \$7 billion of operating EBITDA in the LTM period ended March 31, 2014. Total debt to operating EBITDA at March 31, 2014 was 2.5x. In the period, Dow produced \$8 billion in cash from operations and free cash flow (FCF) after capital expenditures and dividends of \$3.5 billion. Dow's cash from operations in the period included the \$2.2 billion cash payment from Petrochemical Industries Company of Kuwait related to the K-Dow arbitration resolution on May 7, 2013.

Fitch expects cash from ops will be strong again in 2014. However, Dow's free cash flow generation is expected to be under pressure given the company's planned capital expenditures. Capital spend is expected to be more than a billion dollars more year over year. Dividends are also expected to be higher due to four full quarters in 2014 (2013's first quarter dividend was pulled into 2012) and a 15% dividend per share increase earlier this year. Fitch believes FCF could be modestly negative in 2014.

Dow has announced expansions of its North American ethylene and propylene capacity in order to take advantage of low feedstock costs. These expansions are expected to increase Dow's capital expenditures over the next few years. However, the risks are mitigated by opportunities in domestic and export markets for Dow's downstream products, which likely offer good margins and competitive advantages from low feedstock costs.

Dow plans to repurchase a further \$3 billion of shares in 2014. Dow had \$4.4 billion in cash at March 31, 2014. The gross share repurchase amount will be partially offset by share issuance as part of employee compensation. Dow also plans for large divestitures and while the timing of these is uncertain, Fitch expects Dow to be successful in finding buyers. Those sales will also add to cash balances

LIQUIDITY

Dow has strong liquidity. The Stable Outlook reflects Dow's robust liquidity. As of March 31, 2014, Dow's liquidity totaled \$10.6 billion, consisting of cash on hand and \$6.2 billion available under its undrawn \$5 billion five-year revolving credit facility and seven bilateral committed revolving facilities. The five-year facility, which expires October 2016, is governed by a debt to capital covenant maximum of 65% when borrowings are greater than \$500 million. At March 31, 2014, Dow's debt to capital was 38%, providing the company with adequate cushion.

Dow's near-term maturities are not sizable and very manageable given its substantial liquidity and proven access to capital markets. At Dec. 31, 2013, the company had maturities of \$697 million in 2014, \$407 million in 2015, \$1,366 million in 2016, \$775 million in 2017 and \$930 million in 2018. Dow does not face any large towers of debt relative to its cash from operations until the company's 2019s are due. Approximately \$2.1 billion of the 2019s are outstanding.

STRUCTURAL CONSIDERATIONS

Union Carbide is a wholly-owned subsidiary of Dow Chemical, and its rating is based on the high degree of financial, legal and business integration into Dow's operations. While the close integration would justify equalizing the rating, the one notch rating difference reflects Union Carbide's continuing exposure to asbestos litigation.

The rating of the Rohm and Haas' notes and debentures is based on the unconditional and irrevocable guarantee from Dow Chemical.

RATING SENSITIVITIES

Positive: Future developments that may, individually or collectively, lead to positive

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rating action include:

--Material progress in deleveraging the balance sheet including redemption of high coupon preferred shares;

--Operating performance improvements and capital spending discipline which generates consistent positive FCF;

--Total debt to operating EBITDA of 2x.

Negative: Future developments that may, individually or collectively, lead to negative rating action include:

--A sustained return of adverse economic conditions for the chemical industry leading to weak sales and profits;

--Expectations for prolonged meaningful negative FCF;

--Total debt to operating EBITDA of more than 3x.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (August 2013);

--'Rating Chemical Companies' (August 2012).

Applicable Criteria and Related Research:

Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

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Rating Chemical Companies

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Additional Disclosure

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