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Israel Corporation Ltd.

Registrar Number: 520028010

Securities of the Corporation are listed in the Tel Aviv Stock Exchange

Short name: Israel Corporation

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The Securities Authority	The Tel Aviv Stock Exchange
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Immediate Report

The Event: S&P Maalot's Report

Attached is S&P Maalot's report - Affirmed Corporate Credit Rating ilA/Stable.

The date when the event first became known to the corporation: November 23, 2017
Time: 14:00

The name of the authorized signatory to the report and the name of the authorized electronic signatory: Maya Alcheh-Kaplan
Position: Vice President, General Counsel and Company Secretary
Date of signing: November 23, 2017

Israel Corporation Ltd.

November 23, 2017

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Israel Corporation Ltd

Affirmed Corporate Credit Rating	ilA/Stable

Rationale

Business Risk	Financial Risk
• Israel Corporation Ltd.'s creditworthiness is underpinned by its main holding, Israel Chemicals Ltd. ("ICL"), one of the leading global potash producer; and the largest global bromine producer. • ICL's competitive advantage stem from mining in the Dead Sea and from high synergy in specialty product production. • The fertilizer market in which ICL operates is characterized by cyclicality and intense competition. • ICL's exposure to regulatory changes and political pressure in Israel pertaining to extending the Dead Sea mining concession.	• There is a correlation between the market value of Israel Corp's holding portfolio and ICL's performance and its consolidated financial statements. We therefore analyze Israel Corp's financial profile based on its consolidated reports. • ICL's financial policy supports divestments of at least $500 million in 2018-2019 in order to mitigate the recent increase in leverage. • Large non-discretionary capital expenditures (capex) requirements related to the Dead Sea concession.

Outlook: Stable

The stable outlook reflects our assessment that Israel Corporation Ltd ("Israel Corp") is likely to revert to a leverage level commensurate with the current rating in the next 12 months. We consider an adjusted debt to EBITDA ratio of 4.0x at the top of ICL's business cycle and 5.0x at the bottom of the cycle to be commensurate with the current rating. We also expect the company to maintain adequate liquidity in order to preserve the current rating. The stable outlook also reflect our assessment that the company's financial flexibility will not deteriorate further as a result of material increase in the LTV (loan-to-value) ratio.

Our assessment is based on ICL's policy presented to us, which involves continued divestments and using the proceeds to deleverage. The outlook is also based on our assessment that Israel Corp. will not distribute material dividends to shareholders without first deleveraging at the company level and will consider actions to deleverage at the stand alone level. Furthermore, the outlook is based on: the improvement in ICL's operating efficiency in the past year; our assessment that ICL will maintain its leading position in core markets; a favorable cost position; and ICL's ability to mitigate the weakness in the phosphate segment by developing specialty products.

Downside Scenario

We would consider a negative rating action if the company's debt to EBITDA remained close to 5.0x without near-term prospects of recovery, if the company's operating flexibility as reflected in the LTV ratio deteriorated or if ICL's operating performance deteriorated contrary to our expectations. In our view, this scenario is possible if ICL failed to divest on time, or if either Israel Corp or ICL implemented aggressive business or financial policies, whether through aggressive dividend distributions or through sizable leveraged acquisitions by either company.

Upside Scenario

We would consider a positive rating action if the company strengthened its financial risk profile such that its adjusted debt to EBITDA dropped below 3.5x on a sustainable basis.

Base-Case Scenario

Principal Assumptions

- Potash prices will remain at their low level in the next few years and phosphate prices will remain under pressure, due to oversupply and lack of supply-demand balance in fertilizer markets.
- Closure of inefficient production lines at ICL in the short term will somewhat decrease average potash and phosphates production costs in 2017, which will remain stable in 2018.
- Dividend receipts from Oil Refineries Ltd. of about $40 million-$50 million (company's share) in 2017-2018.
- Stable EBITDA margin, about 19%-20%, due to a shift in ICL from commodity fertilizers whose profitability decreased in the past few years to more profitable specialty products.
- Increase in effective tax rate following new tax regime on exploiting natural treasures in Israel.
- Annual capex of about $670 million from 2018 due to mandatory investment (including the Dead Sea salt harvest project).
- No material dividend distribution in the short term, as part of the effort to deleverage.
- About $150 million in proceeds from the IDE sale (by ICL) in 2017. We do not include unsigned asset divestments in our base-case scenario, due to execution risks.

Key Metrics

	2016A	2017E	2018E
Debt/EBITDA	~5.3x	5.3x-4.9x	4.5x-5.0x
FFO*/debt	~12%	12%-13%	12.5%-13.5%
EBITDA/interest	~3.5x	3.5x-4.0x	4.0x-4.5x

A – Actual, E – Estimate

*FFO – funds from operations

Company Description

Israel Corp. is in essence a holding company traded on the Tel Aviv Stock Exchange. In 2015 the company completed a strategic move in which it span off its holdings and was left with a 46% stake in Israel Chemicals Ltd. ("ICL", ilAA/Stable) and a 33% stake in Oil Refineries Ltd. (ilA-/Stable). ICL is fully consolidated into Israel Corp's financial statements, while Oil Refineries is an affiliated company whose results are reported using the equity method, as part as Israel Corp's share in the earnings of affiliated companies. Israel Corp's main shareholder is Millennium Investments Elad Ltd., whose main beneficiary is Mr. Idan Ofer.

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

1. The essential minerals division, which includes product lines for potash, magnesium, phosphate, and specialty fertilizers.
2. The specialty solution division, which includes three product lines: industrial products, advanced additives, and specialty food ingredients.

For additional information on ICL's rating, see our rating report published November 1, 2017.

Oil Refineries Ltd. is the largest refining and petrochemical company in Israel. For additional information on Oil Refineries' rating, see our rating report published April 9, 2017.

Business Risk

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

Our assessment of Israel Corp's business risk profile and creditworthiness is underpinned by the operating performance of its main holding, ICL. We estimate that ICL's performance directly affects the market value of Israel Corp's holding portfolio, the size of dividends it receives from ICL to service its own debt, and its financial flexibility as reflected in its LTV ratio.

ICL the fifth largest global potash producer, a market with continuously growing demand and high concentration, and the largest global bromine producer. ICL's business position is relatively strong, underpinned by inherent advantages including direct access to a concentrated source of unique high-quality raw materials in the Dead Sea; low costs of potash and bromine mining compared with competitors; lower 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 high synergy in manufacturing specialty products. ICL's business position is positively affected 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 product portfolio used in many industries.

In the past two years, ICL's specialty products have constituted a gradually larger share of its revenue mix at the expense of commodity fertilizers, due to a sharp price drop in the potash and phosphate markets and a higher growth rate in the specialty products segment. The company's ability to shift from production of commodities such as potash and phosphate to production of added-value specialty products has enabled it to maintain sufficient profitability despite significantly lower margins in its core segments.

These advantages are partly offset by the weaker fertilizer markets which brought about sharp price drops. We estimate that potash prices will remain low in the next few years due to oversupply, and that phosphate rock prices will remain under pressure on added global capacity, mainly coming from Morocco-based OCP S.A. (BBB-/Stable) and Saudi Arabia-based Ma'aden. Another 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. We note that ICL's business position in the phosphate market is weaker than peers', due to relatively low quality phosphate rock in at the Negev desert in Israel, relatively high production costs and lack of alternative mining sites while reserves in the current site are dwindling.

Financial Risk

Higher leverage in recent years; financial policy supportive of deleveraging in the next two years

ICL's performance is correlated with the market value of Israel Corp's holding portfolio, its LTV ratio and financial metrics based on its consolidated statements. We analyze Israel Corp's financial risk profile on the basis of its consolidated statements while adjusting its EBITDA to reflect any dividend receipts from Oil Refineries Ltd. At the same time, we examine its LTV ratio as an indicative metric for its financial flexibility and ability to refinance its debt.

The company's leverage increased in the past few years, and in the third quarter of 2017 its adjusted debt to EBITDA ratio was around 5.0x, a small margin from the current rating's target ratio. The increase in leverage resulted mainly from challenging market conditions for ICL in the past few years. In response to these conditions and in order to deleverage, the group took several steps, including cost-reducing steps in ICL, selling some shares in Oil Refineries in early 2017 which generated about $56 million, and an asset sale by ICL for about $150 million. We believe ICL's cost-reducing potential has been exhausted and it now faces an increase in investment needs, including in the Dead Sea salt harvest project.

ICL's management has declared a $500 million divestment plan for 2018-2019. Based on ICL's policy as presented to us, we expect the proceeds from this plan to be used for deleveraging. In addition, Israel Corp's management will examine active steps to deleverage at its own level, although at this stage no real steps have been specified as part of a strategic plan.

We do not include asset sales that have yet to be signed in our base-case scenario. However, we did include a dividend distribution of about $120 million-$150 million (at 100%) from affiliated company Oil Refineries Ltd. in the next few years. We expect the company's adjusted debt to EBITDA to be about 5.0x in 2017 and drop below 5.0x in 2018. We consider this to be a small margin from the target ratio. However, we qualitatively take into account the timely implementation of ICL's divestment plan in order to maintain the current rating, especially considering the weakness in fertilizer markets. We also take into account the fact that the company maintains an adequate cash balance to service its debt in order to maintain the current rating, despite the relatively high leverage ratio. the completion of the stated divestment plan will contribute to deleveraging in the short to medium term, assuming no further deterioration in market conditions.

We estimate that Israel Corp's financial flexibility remains adequate, as reflected in an LTV ratio still around 39% at the time of this report, similarly to the same time last year.

Table 1.

Israel Corp. Ltd. -- Financial Summary

Industry Sector: Chemical Cos

	--Fiscal year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Revenues	5,363.0	5,405.0	6,111.0	11,040.0	11,459.0
EBITDA	1,031.5	1,212.9	1,458.4	1,912.0	2,415.5
Funds from operations (FFO)	668.3	965.7	1,045.5	972.0	1,687.2
Interest Expense	290.5	233.1	278.9	522.4	506.7
Net income from continuing operations	(116.0)	440.0	(1.0)	(620.0)	(146.0)
Working capital changes	270.0	(42.0)	39.0	(194.0)	(35.0)
Cash flow from operations	1,100.3	626.7	1,144.5	1,211.0	1,744.2
Capital expenditures	610.0	598.0	1,256.0	1,165.0	1,097.0
Free operating cash flow	490.3	28.7	(111.5)	46.0	647.2
Dividends paid	87.0	478.0	427.0	330.0	632.0
Discretionary cash flow	403.3	(449.3)	(538.5)	(284.0)	15.2
Cash and short-term investments	842.0	787.0	1,397.0	1,680.0	1,842.0
Debt	5,297.2	5,350.3	4,284.1	8,683.0	8,694.9
Equity	2,261.0	2,722.0	3,723.5	3,948.3	4,164.0
Adjusted ratios					
Annual revenue growth (%)	(0.8)	(11.6)	(44.6)	(3.7)	(1.3)
EBITDA margin (%)	19.2	22.4	23.9	17.3	21.1
EBITDA interest coverage (x)	3.6	5.2	5.2	3.7	4.8
Debt/EBITDA (x)	5.1	4.4	2.9	4.5	3.6
FFO/debt (%)	12.6	18.0	24.4	11.2	19.4
Cash flow from operations/debt (%)	20.8	11.7	26.7	13.9	20.1
Free operating cash flow/debt (%)	9.3	0.5	(2.6)	0.5	7.4
Discretionary cash flow/debt (%)	7.6	(8.4)	(12.6)	(3.3)	0.2

(*) We note that 2012-2014 are atypical as they reflect the holding structure prior to the spin-off.

Liquidity: Adequate

We examine Israel Corp's liquidity profile at the stand-alone level, i.e. cash balances held by the company plus dividends from subsidiaries ICL and Oil Refineries. We estimate the company's liquidity as adequate, reflecting our expectations that its sources/uses ratio will exceed 1.2x in the 12 months starting July 1, 2017. Our assessment is based on the company's adequate cash balance and relatively good predictability of dividends from ICL, based on its stated dividend distribution policy.

We believe Israel Corp has some financial flexibility due to the fact that 29% of its ICL shares are unencumbered. We believe the company has good access to the Israeli capital market and is meeting its financial covenants with adequate headroom.

We estimate that the company’s principal sources and uses from July 1, 2017, until June 30, 2018, are as follows:

Principal Liquidity Sources	Principal Liquidity Uses
• Available cash and cash equivalents of about $650 million. • Repayment of loans given to ICL of $150 million during the period. • Dividend receipts from ICL and Oil Refineries totaling about $120 million-$130 million per year.	• Long term debt maturities of about $330 million; • Administrative and general expenses and interest expenses of about $115 million.

Modifiers

Diversification portfolio effect: Neutral

Capital structure: Neutral

Liquidity: Neutral

Financial policy: Neutral

Management/Governance: Neutral

Comparable ratings analysis: Negative

The fact that most of the company's operation is performed through the holding of public companies and not through direct ownership of assets adversely affects the rating.

Reconciliation

In order to create a basis for comparison with other rated companies, we adjust the data reported in the Company's financial statements that we use to calculate coverage ratios. The main adjustments we made to Israel Corporation's consolidated data for 2016 are as follows:

- Deducting cash reserves of about $850 million from financial debt.
- Deducting $77 million in derivatives from financial debt.
- Adjusting debt by about $180 million in respect of the company's obligations for operating leasing, in order to create a basis for comparison with companies with a different ownership/leasing mix. Respectively, we added about $40 million to EBITDA and $12 million to interest expenses.
- Adjusting financial debt, EBITDA and interest expenses to reflect pension expenses.
- Adding $22 million in capitalized interest expenses to interest expenses

Table 2.

Reconciliation Of Israel Corp. Ltd. Reported Amounts With S&P Global Ratings Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2016--						
Israel Corp. Ltd. reported amounts							
	Debt	**Shareholders' equity**	**EBITDA**	**Interest expense**	**EBITDA**	**Cash flow from operations**	**Capital expenditures**
Reported	5,579.0	804.0	880.0	236.0	880.0	1,296.0	632.0
S&P Global Ratings adjustments							
Interest expense (reported)	--	--	--	--	(236.0)	--	--
Interest income (reported)	--	--	--	--	20.0	--	--
Current tax expense (reported)	--	--	--	--	(94.0)	--	--
Operating leases	182.2	--	43.5	12.5	31.0	31.0	--
Postretirement benefit obligations/deferred compensation	455.0	--	(12.0)	20.0	(30.8)	(3.8)	--
Surplus cash	(842.0)	--	--	--	--	--	--
Capitalized interest	--	--	--	22.0	(22.0)	(22.0)	(22.0)
Share-based compensation expense	--	--	15.0	--	15.0	--	--
Dividends received from equity investments	--	--	12.0	--	12.0	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(201.0)	--
Non-controlling Interest/Minority interest	--	1,457.0	--	--	--	--	--
Debt - Derivatives	(77.0)	--	--	--	--	--	--
EBITDA - Other	--	--	93.0	--	93.0	--	--
D&A - Impairment charges/(reversals)	--	--	--	--	--	--	--
Total adjustments	(281.8)	1,457.0	151.5	54.5	(211.7)	(195.7)	(22.0)
S&P Global Ratings adjusted amounts							
	Debt	**Equity**	**EBITDA**	**Interest expense**	**Funds from operations**	**Cash flow from operations**	**Capital expenditures**
Adjusted	5,297.2	2,261.0	1,031.5	290.5	668.3	1,100.3	610.0

Related Criteria And Research

- Use Of CreditWatch And Outlooks, September 14, 2009
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, October 24, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, November 13, 2012
- Group Rating Methodology, November 19, 2013
- Corporate Methodology: Ratios And Adjustments, November 19, 2013
- Corporate Methodology, November 19, 2013
- Country Risk Assessment Methodology And Assumptions, November 19, 2013
- Methodology: Industry Risk, November 19, 2013
- Key Credit Factors For The Commodity Chemicals Industry, December 31, 2013
- Key Credit Factors For The Specialty Chemicals Industry, December 31, 2013
- National And Regional Scale Credit Ratings, September 22, 2014
- Standard & Poor's Maalot (Israel) National Scale: Methodology For Nonfinancial Corporate Issue Ratings, September 22, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, December 16, 2014
- S&P Global Ratings' National And Regional Scale Mapping Tables, August 14, 2017
- S&P Global Ratings Definitions, June 26, 2017

Rating Details (As of 23-November-2017)

Israel Corporation Ltd.	
Issuer rating(s)	
Local Currency LT	ilA/Stable
Issue Ratings	
Senior Unsecured Debt	
Series 7,9,10,11	ilA
Issuer Rating history	
Local Currency LT	
22-Nov-2016	ilA/Stable
25-Jan-2016	ilA+/Negative
21-Sept-2009	ilA+/Stable
11-Feb-2009	ilAA-/Negative
30-Nov-2008	ilAA/Watch Neg
01-Jan-2007	ilAA/Stable
12-July-2006	ilAA
03-July-2006	ilAA/Negative
Other Details	
Time of the event	13:07 23/11/2017
Time when the analyst first learned of the event	13:07 23/11/2017
Rating requested by	Issuer

Credit Rating Surveillance
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