

Recommendation

EUR: BUY

USD: BUY

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Ineos continues to reduce its debt

Company Description

Ineos Group Holdings plc. (Ineos) is the holding company for a group of chemicals companies. The group's main products are petrochemicals and oil products, but the product range includes a broad range of specialty chemicals.

Ineos is headquartered in Southampton, UK, and its 67 manufacturing facilities are mainly located in Europe and the US. In terms of sales, the company is the third-largest chemicals company in the world. Globally, Ineos ranks No. 1 in the production of phenol and acetone, No. 2 within linear alpha olefins with 26% of the world market, No. 3 within polypropylene with 6% of the world market and No. 5 within ethylene and polyethylene with a market share of 5% and 7%, respectively.

Bond ratings

Moody's: B3 (stable outlook)

S&P: B- (stable outlook)

Issues

| | Bid | Yield | Spread | Bond ID |
|-----------------|-------|--------|--------|---------|
| €7.875% 2/2016* | 86.25 | 10.41% | 624 bp | B01059 |
| \$8.5% 2/2016** | 92 | 9.95% | 604 bp | B02281 |

* The bond is callable on and after the following dates at the prices indicated: 15/2-11@103.938, 15/2-12@102.625, 15/2-13@101.313, 15/2-14@100.

** The bond is callable on and after the following dates at the prices indicated: 15/2-11@104.25, 15/2-12@102.633, 15/2-13@101.417, 15/2-14@100.

Both issues have a change of control provision at 101 and an equity claw at 35% until 15/2-09 at par plus one year's coupon. Both issues are also subject to a makewhole provision until 15/2-11 at 50 bp above the yield on German and American government bonds, respectively.

Recent Developments

Ineos' latest quarterly accounts had both positive and negative elements; the weak USD was the worst culprit.

Sales for the latest quarter were 6.2% lower than sales for the same period in 2006. However, the fall in sales was heavily affected by a fall in USD of 8.5% compared to last year. Adjusted for exchange-rate effects, sales rose

slightly. Costs were also affected by the exchange-rate effect, but this was not enough to prevent a fall in net earnings which were reduced by about USD 90m, mainly due to the reduced gross result. Through reduction of debt and higher EBITDA, Ineos reduced its net debt/EBITDA, and the improvements of the credit profile thus continued.

Recommendation

Despite falling sales and falling net earnings, Ineos' accounts had many positive elements. The continued reduction of debt and strong cash flows improve Ineos' credit profile quarter by quarter. Therefore we maintain our BUY recommendation on the company's bonds.

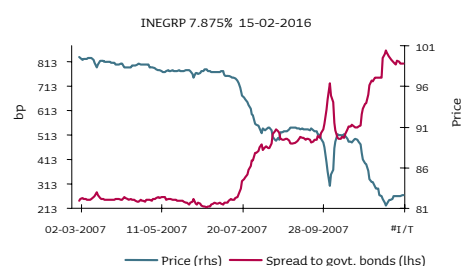
Strengths/Opportunities

- Strong market position in many markets.
- Good geographical and product diversification.
- Competent management with experience in company acquisitions and in increasing earnings in these companies.
- Good vertical integration.
- Generates positive free cash flows.
- Initiatives to reduce overheads have been launched.

Weaknesses/Threats

- Risk of downturn in the petrochemical cycle through keener competition within olefins and polyolefins as of 2008, 2009 or 2010.
- The end markets for most of Ineos' petrochemical and refined products are cyclical.
- Unstable earnings margins and a sensitive FCF.
- The integration of Innovene.
- Keen competition.
- Aggressive financial policy.
- Dependent on cooperation with BP which is Ineos' most important supplier and customer.

Development in Price and Spread



INEOS GROUP HOLDING

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| Selected accounting figures | | | |
|--|----------|----------|----------|
| EURm | Q3 2007 | Q3 2006 | 2006 |
| Sales | 6,934.1 | 7,395.7 | 26,587.4 |
| Gross profit | 485.9 | 562.6 | 1,987.9 |
| Distribution costs | 133.8 | 119.4 | 424.1 |
| Administrative costs | 129.6 | 157.6 | 641.5 |
| EBIT | 222.5 | 285.6 | 922.3 |
| Net financing costs | 217.8 | 182.3 | 727.7 |
| Other costs | 5.6 | 6.4 | 0.2 |
| Profit/loss before tax | (0.9) | 96.9 | 194.4 |
| Profit/loss for the period after tax | 1.2 | 91.5 | 115.4 |
| EBITDA before one-off items | 499.6 | 476.9 | 1,816.3 |
| Tangible fixed assets | 6,137.9 | 6,613.3 | 6,609.1 |
| Intangible fixed assets | 617.9 | 444.4 | 538.2 |
| Debt | 8,357.7 | 9,194.0 | 8,901.0 |
| Cash and cash equivalents | 811.6 | 636.3 | 659.7 |
| Net debt | 7,546.1 | 8,557.7 | 8,241.3 |
| Total assets | 14,790.9 | 13,700.9 | 13,770.5 |
| Funds from operations (FFO) | 1,056.5 | 447.0 | 1,673.6 |
| CF from operations | 706.0 | 410.6 | 1,806.4 |
| Free cash flow | 474.4 | 271.1 | 1,309.0 |
| Key figures | | | |
| EBITDA margin (excl. one-off items) | 7.2% | 6.4% | 6.8% |
| EBIT margin (incl. one-off items) | 3.2% | 3.9% | 3.5% |
| Gross margin | 7.0% | 7.6% | 7.5% |
| Net debt/EBITDA*** | 3.8 | 4.0 | 4.5 |
| EBITDA/net financing costs | 2.3 | 2.6 | 2.5 |
| FFO****/debt | 29.2% | 17.2% | 18.8% |
| Tangible assets/balance sheet total | 41.5% | 48.3% | 48.0% |
| Equity ratio | 4.7% | 4.2% | 2.8% |
| * EBITDA for the latest 12 months excl. one-off items is used. | | | |
| **FFO for the latest 12 months. | | | |

Source: Ineos and Jyske Bank

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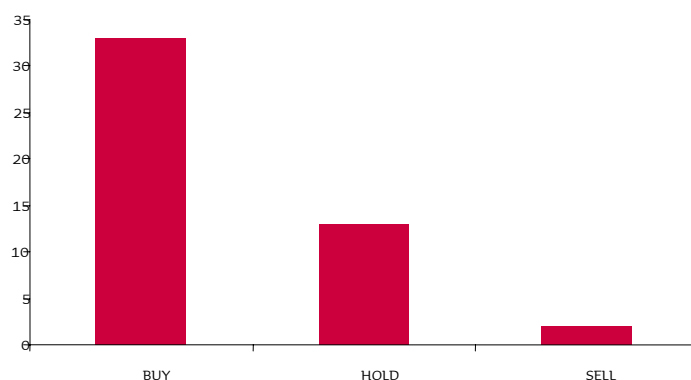
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Jyske Bank's corporate bond recommendations – current breakdown

Breakdown of recommendations, corporate bonds (number)



Source: Jyske Bank

Financial models

Jyske Bank uses mainly Credit Edge from Moody's.

Risk

Investment in this corporate bond is associated with risk. Movements in the credit market, the sector and / or the news flows, etc. regarding the company may affect the price of the bond. See the front page of the research report for our view of the risk associated with the corporate bond. The risk factors stated and / or calculations of sensitivities in the research report are not to be considered all-encompassing. If the corporate bond is denominated in a currency other than the investor's base currency, the investor accepts an FX risk.

Update of the research report

The planned update of the report will be prepared immediately upon the release of the company's financial statements.

See the front page for the initial date of publication of the report.

All prices stated are the latest trading prices at the time of the release of the research report, unless otherwise stated.

Recommendation concepts

Our recommendations are based on market developments and an assessment of the expected return. A positive recommendation (BUY) is based on expectations that investment in the corporate bond will generate a return above that of the general credit market. On the other hand, a negative recommendation (SELL) implies that we expect investment in the corporate bond to generate a return below that of the general credit market.

The future and historical returns estimated in the research report are stated as returns before costs since returns after costs depend on a number of factors relating to individual customer relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors.