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Oil Refineries Ltd.

August 11, 2025

Rating

Update

Issuer and bond rating reaffirmed, '+iIA', and removed from the watch list with negative implications; outlook negative
Due to risk of deviation from ratios appropriate for the rating

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1. | August 11, 2025 | Rating Update

****Oil Refineries Ltd.****

Summary of the Rating Action

- On June 16, 2025, Oil Refineries Ltd. ("Bazan" or "the company") reported that as a result of a missile attack from Iran and damage to the company's complex and its subsidiaries ("Bazan Group" or "the group") in the Haifa Bay, the power station responsible for part of the steam and electricity production used by the group's facilities was significantly damaged, along with other damages. The company began operating part of the refining facilities (MZ"G 1 and MZ"G 3) as well as some of the downstream facilities.
- On August 4, 2025, the company reported a transaction to acquire about 52% of the shares of CantiumManagement LLC and its controlled entities ("Cantium"), which hold oil discoveries and licenses for oil production in the Gulf of America, for about \$100 million.
- Despite the temporary shutdown of some of the company's facilities and the acquisition of Cantium, in our updated base scenario we estimate that in 2025-2026 Bazan will maintain an average adjusted debt to EBITDA ratio below 4x, which is appropriate for the rating.
- Accordingly, on August 11, 2025, we reaffirmed the issuer rating and the bond ratings of Bazan, '+ilA', and removed them from the watch list with negative implications.
- The negative outlook reflects our concerns regarding Bazan's ability to maintain leverage and business positioning appropriate for the rating over time, in light of the increased risk due to the damage to the company's facilities in the missile attack from Iran. The company's ability to deliver operational and financial performance in line with our forecasts depends materially on its ability to successfully complete the recovery plan, the timing and amount of payments received from the Property Tax Fund and insurance, the expected receipt of dividends from Cantium, the scope of refining activity, and the continued positive trend in refining margins.

Key Considerations for the Rating Action

Bazan is working to implement the recovery plan for its facilities damaged in the missile attack from Iran and is expected to return to full operation in the fourth quarter of 2025. As a result of the missile attack from Iran in June 2025, the power station responsible for part of the steam and electricity production used by the group's facilities was significantly damaged, along with other damages, and all group facilities were shut down. The company began to gradually implement the recovery plan, and currently, part of the refining facilities (MZ"G 1 and MZ"G 3) as well as the downstream facilities Meidan and CCR have returned to operation. In our assessment, and based on information received from the company, the actions Bazan has taken since the attack, which included the purchase of boilers in Israel and abroad for the temporary restoration of steam production essential for the refining process, are expected to return the company to full operation already in the fourth quarter of 2025. The restoration of the power station for electricity and steam production at the company's site is expected to continue until the first half of 2026, given the complexity of construction and completion of procurement, which is subject to a separate discussion in the planning institutions. We believe that the power station is essential for restoring the company's operations, as steam production from boilers and purchasing electricity instead of self-production increases production costs and affects the company's profitability and operational continuity.

In the first half of 2025 there was a significant deterioration in Bazan's operational performance, and its debt increased. Due to periodic maintenance at the Meidan facilities, including hydrogen production units and MZ"G 3, as well as the shutdown of the company's facilities in June 2025 following the missile attack, Bazan's operational performance deteriorated. In addition, the company's profitability was adversely affected by the decline in refining margins compared to the first half of 2024. As a result, there was a decrease of about 62% in adjusted EBITDA compared to the same period last year, amounting to only about \$96 million. In addition, the company's adjusted debt increased to about \$1.4 billion at the end of the first half of 2025 from about \$1.3 billion at the end of 2024, increasing leverage pressure.

We believe that most of the costs derived from the recovery plan will be covered by the compensation fund, considering the company's rights under the Property Tax Law. On July 16, 2025, the company reported that the estimated direct damage from the missile strike to its facilities is about \$150-200 million. The company also stated that it received an advance of about \$48 million from the compensation fund in July, and we estimate that additional amounts are expected to be received as the recovery plan progresses. We also estimate that a large part of the impact of the shutdown of the company's facilities on EBITDA in 2025-2026 will be covered by future receipts from the company's insurance policy, which provides certain coverage against loss of profits resulting from acts of terrorism and war. If the recovery period is extended and the return to full operation is delayed, if the damage costs are higher than the company's estimates and the scope of compensation and insurance payments is insufficient, the likelihood that the company will deviate from the characteristics appropriate for the rating will increase, and the negative pressure on the rating will intensify.

We believe that Bazan constitutes essential national infrastructure for the Israeli economy. In the first half of 2025, the company produced on average about 61% of the diesel and about 54% of the gasoline used for transportation in Israel, in addition to the production of jet fuel essential during wartime. The temporary exemption the company received from obtaining a permit under the Planning and Building Law for the construction of buildings, facilities, and steam boilers required to replace structures and facilities damaged by missiles strengthens our assessment of the importance of the company's operations to the economy. The Ashdod refinery, the company's main competitor, reported a malfunction in its facilities expected to lead to a reduction in refining activity and even a shutdown for several months. Therefore, and in the absence of the necessary infrastructure to import refined fuel products in quantities that can compensate for a prolonged shutdown of Bazan, our assessment of the need for the economy to restore Bazan's operations to full capacity as soon as possible has increased.

The company entered into an investment transaction to acquire rights in the energy corporation Cantium in the Gulf of America, USA. On August 4, 2025, Bazan reported that it entered, through Energil LLC, a dedicated American corporation wholly owned by it, into binding agreements to invest in Cantium, the corporation operating in oil production in the Gulf of America, USA. The company's investment is made through an American dedicated partnership, LP Energy Cantium.

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which was established for the purpose of acquiring full ownership of Cantium and is managed by the general partner Community SPV GP LP.

Bazan holds, indirectly, about 52% of the equity rights in the partnership, alongside additional rights granted by virtue of being a strategic investor. The company invested a total of \$100 million in the acquisition partnership, and the transaction price was set at a business value of \$275 million for Cantium, reflecting a multiple of about 1.2 relative to Cantium's expected 2025 EBITDA (\$220-230 million). We estimate that the acquisition will be financed from Bazan's own sources, including taking on debt, which is expected to weigh on leverage ratios, mainly in 2025. Looking ahead, leverage ratios are expected to improve based on our assessment that Cantium will distribute dividends starting in 2026, which is expected to contribute to an increase in the adjusted EBITDA base. However, the scope and timing of distributions depend, in our view, on Cantium's oil production volume and WTI barrel prices in its market. If the pace of dividend distribution is lower than expected, the likelihood that the increase in EBITDA will be lower compared to our base scenario will increase, and the probability of deviation from leverage appropriate for the rating will increase. At this stage, we estimate that the company does not have a significant competitive advantage in the US oil production sector, and the impact of the new investment on the business profile will be assessed over time.

Rating Outlook

The negative outlook reflects our concerns regarding Bazan's ability to maintain leverage and business positioning appropriate for the rating over time, in light of the increased risk due to the damage to the company's facilities in the missile attack from Iran. The company's ability to deliver operational and financial performance in line with our forecasts depends materially on its ability to successfully complete the recovery plan, the timing and amount of payments received from the Property Tax Fund and insurance, the receipt of dividends from Cantium, the scope of refining activity, and improvement in refining margins.

Negative Scenario

We may lower the company's rating by one or more notches if we assess that there has been a deterioration in its financial condition, so that the adjusted gross debt to EBITDA ratio is above 4x over time. Pressure on the rating will also increase if we assess that there has been a deterioration in the business profile, or in the event of a deterioration in the company's liquidity position.

Positive Scenario

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We will consider changing the outlook to stable if we assess that the company can present leverage ratios appropriate for the rating and when its business activity stabilizes. We believe that an adjusted gross debt to EBITDA ratio of 3x-4x is appropriate for the rating given the business cycle. Changing the outlook to stable also depends on the implementation of Bazan's financial policy, which includes maintaining a balance between investments and dividends, and its ability to cope with possible changes resulting from market volatility.

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Company Description

Bazan operates in the fields of refining and petrochemicals, mainly through a single production site located in Haifa Bay. The production process is integrated, so that some of the refining products feed the petrochemical activity and some of the petrochemical products return to the refinery. Refining activity generates about 90% of the company's revenues, and the petrochemical activity the rest. We expect refining activity to remain the main source of the company's revenues.

The main shareholder in the company is ISRAEL PETROCHEMICAL ENTERPRISES LTD., which holds about 24.7% of its shares. About 6.8% of the shares are held by Mr. Jeremy Blank and the rest of the shares are held by the public.

Base Scenario

Our base scenario is based on the following key assumptions:

- GDP growth of about 3.3% in Israel in 2025, inflation rate of about 2.8%, and unemployment rate of about 3%.
- In 2026, GDP growth of about 3.9%, inflation rate of about 2.1%, and unemployment rate of about 3%.
- Maintaining the company's business position as the largest refining and petrochemical corporation in Israel.
- Refining margin of about \$8-9 per barrel in 2025-2026.
- Margin of about \$570-600 per ton of polyethylene in 2025-2026.
- Margin of about \$590-620 per ton of polypropylene in 2025-2026.
- Gradual improvement in the utilization of refining facilities from about 70%-72% in 2025 to about 85%-87% in 2026, and utilization of about 70%-90% in petrochemical facilities in 2025-2026, considering recovery plans and planned periodic maintenance of the facilities.
- EBITDA of about \$310-350 million in 2025 and about \$380-420 million in 2026.
- Annual investments as part of the recovery plan alongside planned maintenance activities totaling about \$250-265 million in 2025-2026.
- Continued receipt of payments from the compensation fund, expected to cover about 80%-85% of the cost of restoring the company's facilities, and receipt of payments under the company's insurance policy, which provides certain coverage against consequential damage resulting from acts of terrorism and war.
- Completion of an investment of about \$100 million in the Cantium transaction.
- Receipt of dividends totaling about \$25-40 million per year from Cantium starting in 2026.
- No dividend distribution in the second half of 2025 and in 2026.

The projected financial ratios are as follows:

- Gross debt to EBITDA ratio of about 3.8-4.0x on average in 2025-2026
- EBITDA to interest payments coverage ratio of 5.0x-5.1x on average in 2025-2026.

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Liquidity

According to our criteria, the company's liquidity level is "adequate." We estimate that the ratio between the company's sources and uses will exceed 1.2x in the 12 months starting July 1, 2025, in line with the refining margins in our base scenario. Our assessment of the company's liquidity is supported by the significant cash balance it held at the end of the second quarter of 2025, the fact that advances were received from the Property Tax Fund, and expected receipts from loss of profit insurance. Over the years, Bazan has maintained a good relationship with the banking system and enjoys access to the capital market, factors that contribute to our assessment of its financial flexibility.

Below are the company's main sources and uses for the 12 months starting July 1, 2025:

Main Sources	Main Uses
<ul style="list-style-type: none">• Cash and cash equivalents totaling about \$549 million.• Annual operating cash flow of about \$300-320 million.• Receipt of an advance of about \$48 million in 2025 from the Property Tax Fund (received).	<ul style="list-style-type: none">• Debt maturities of about \$201 million.• Working capital needs of about \$100-150 million.• Capital expenditures for ongoing investments and maintenance of about \$150-160 million.• Capital expenditures for facility restoration of about \$160-170 million.• Acquisition of Cantium for about \$100 million.

Methodology and Related Articles

- Methodology - General: Industry Risk, November 19, 2013
- Methodology: Country Risk Assessment Methodology, November 19, 2013
- Methodology: Liquidity Profile Assessment Methodology for Corporates, December 16, 2014
- Methodology: Recovery Rating Methodology for Non-Financial Corporates, December 7, 2016
- Methodology: Financial Ratios and Adjustments Calculation Methodology, April 1, 2019
- Methodology - General: Group Rating Methodology, July 1, 2019
- Methodology - General: Credit Risks from Environmental, Social, and Governance Factors, October 10, 2021
- Methodology - General: Local Scale Credit Ratings, June 8, 2023
- Methodology: General Corporate Rating Methodology, January 7, 2024
- Methodology: Corporate Governance and Management Assessment Methodology for Non-Financial Companies, January 7, 2024
- Methodology: Industry-Specific Corporate Rating Methodology, July 7, 2025
- Rating Scales and Definitions: S&P Global Ratings Scale Definitions, December 2, 2024

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- Rating Scales and Definitions: The Relationship Between the Global Rating Scale and the Local Rating Scale, March 27, 2025

List of Ratings

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Oil Refineries Ltd.	Rating	Date First Rating Published	Last Date Rating Updated
Issuer Rating(s)			
Long Term	ilA+\Negative	01/07/1995	17/06/2025
Issue Rating(s)			
Senior Unsecured Debt Series 9	ilA+	09/04/2017	17/06/2025
Series 13	ilA+	09/03/2023	17/06/2025
Series 15	ilA+	16/09/2024	17/06/2025
Series 10	ilA+	19/08/2019	17/06/2025
Series 12	ilA+	01/09/2020	17/06/2025

Issuer Rating History

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Long Term	
August 11, 2025	ilA+\Negative
June 17, 2025	ilA+\Watch Neg
March 08, 2023	ilA+\Stable
March 15, 2022	ilA\Stable
March 31, 2020	ilA-\Negative
April 07, 2019	ilA\Stable
April 03, 2018	ilA-\Positive
April 09, 2017	ilA-\Stable
May 31, 2016	ilBBB+\Positive
May 17, 2015	ilBBB+\Stable
January 01, 2015	ilBBB\Positive
December 18, 2013	ilBBB\Stable
October 14, 2013	ilBBB-\Watch Neg
December 02, 2012	ilBBB+\Negative
May 06, 2012	ilBBB+\Stable
November 30, 2011	ilA-\Watch Neg
March 25, 2010	ilA-\Stable
July 07, 2009	ilA\Negative
April 23, 2009	ilA\Watch Neg
November 12, 2008	ilA\Negative
November 11, 2007	ilAA\Stable
March 16, 2003	ilAA
September 21, 1992	ilAAA

Additional Details

Additional Details	Data
Time of event	11/08/2025 14:13
Time first known about event	11/08/2025 14:13
Rating initiator	The rated company

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