



Oil Refineries Ltd.

August 11, 2025

Research Update

‘iIA+’ Issuer And Issue Ratings Affirmed, Removed From CreditWatch With Negative Implications; Outlook Negative On Risk Of Deviation From Ratios Commensurate With The Rating

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Rating Action Overview

- On June 16, 2025, Oil Refineries Ltd. ("Bazan" or the "Company") reported that as a result of a missile attack and damage to the Haifa Bay complex belonging to the Company and its subsidiaries ("Bazan Group" or the "Group"), the power plant manufacturing part of the steam and electricity used by the Group's facilities was materially damaged, alongside additional damage, the Company initiated the operation of some of its refining facilities (Mazg 1 and Mazg 3) as well of some of its downstream facilities.
- On August 4, 2025, the Company reported a transaction to acquire about 52% of the shares of Cantium Management LLC and the corporations it controls ("Cantium"), which hold oil discoveries and oil production licenses in the Gulf of America, for about \$100 million.
- Despite the temporary downtime of some of the Company's facilities and the Cantium acquisition, in our current base case scenario we estimate that in 2025-2026, Bazan will maintain on average an adjusted debt-to-EBITDA ratio below 4x, which is commensurate with the rating.
- Therefore, on August 11, 2025, we affirmed our 'iIA+' ratings on Bazan and on its bonds and removed them from CreditWatch with negative implications.
- The negative outlook reflects our concerns regarding Bazan's ability to consistently maintain leverage ratios and business positioning commensurate with the rating, given the increased risk due to the damage caused to the Company's facilities by the Iranian missile attack. The Company's ability to post operating and financial performance consistent with our forecasts depends materially on its ability to successfully complete the restoration plan, on the timing and scope of receipts from the property tax fund and insurance, on expected dividend receipts from Cantium, on the scope of refining activities and on the continued positive trend in refining margins.

Rating Action Rationale

Bazan is endeavoring to implement the restoration plan for its facilities damaged in the Iranian missile attack, and is expected to return to full operation in Q4 2025. As a result of an Iranian missile attack in June 2025, the power plant manufacturing part of the steam and electricity used by the group's facilities was materially damaged, alongside additional damage, and all of the group's facilities were shut down. The Company began gradually implementing the restoration plan, and today some of the refining facilities (MAZG 1 and MAZG 3) as well as the downstream facilities Midan and CCR, have returned to operation. Based on information received from the Company, we estimate that the actions that Bazan has taken since the attack, which included the purchase of boilers in Israel and abroad for

the temporary restoration of steam production activities essential to the refining process, are expected to allow the Company to return to full operation as early as Q4 2025. The restoration of the power plant for electricity and steam production at the Company's compound is expected to continue until H1 2026, given the complexity of the construction and completion of the procurement, which is subject to a separate discussion in the planning institutions. We believe that the power plant is essential for restoring the Company's operation, as boiler steam production and electricity purchase instead of generation increase production costs and affect the Company's profitability and the continuity of its operations.

In H1 2025, Bazan's operating performance materially deteriorated, and its debt grew. Bazan's operating performance deteriorated due to periodic maintenance at Midan facilities, including hydrogen production units and Mazg 3, as well as due to the shutdown of the Company's facilities in June 2025 following the missile attack. In addition, the Company's profitability was negatively affected by lower refining margins compared to H1 2024. As a result, adjusted EBITDA declined by about 62% compared to the same period last year, totaling only about \$96 million. In addition, the Company's adjusted debt increased to about \$1.4 billion at the end of H1 2025 from about \$1.3 billion at year-end 2024, which increased pressure on leverage.

We believe most of the costs of the restoration plan will be covered by the compensation fund, taking into account 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 on its facilities was about \$150 million - \$200 million. The Company also noted that in July it received an advance of about \$48 million from the compensation fund, and we estimate that additional amounts are expected to be received as the facilities' restoration plan progresses. We also estimate that a large portion of the impact caused by 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 some coverage against loss of profits resulting from acts of terrorism and war. If the restoration period is extended and the return to full operation is delayed, if the costs of damage are higher than the Company estimated and the scope of compensation and insurance payments are insufficient, the likelihood that the Company will deviate from the characteristics commensurate with the current rating will increase, as well as the negative pressure on the rating.

We believe that Bazan constitutes essential national infrastructure for the Israeli economy. In H1 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, which is essential in wartime. The temporary exemption the Company received from obtaining a permit under the Planning and

Construction Law for the construction of buildings, facilities and steam boilers required to replace buildings and facilities damaged by missiles reinforces our assessment of the importance of the Company's activities to the economy. The Ashdod refinery, the Company's main competitor, reported a malfunction in its facilities that is expected to lead to a decrease in refining activity and even a shutdown for a period of several months. Therefore, and in the absence of the infrastructure required to import refined fuel products in quantities that could compensate for the cessation of Bazan's operations for a long period of time, our assessment of the economy's need to restore Bazan's operations to full production as soon as possible has increased.

The Company entered into an investment deal to acquire rights in the Cantium energy corporation in the Gulf of America in the U.S.A. On August 4, 2025, Bazan reported that it had entered into binding agreements, through Energil LLC, a wholly-owned U.S. special purpose vehicle, to invest in Cantium, a corporation operating in the oil production sector in the Gulf of America in the U.S.A. The Company's investment is made through an investment in a U.S. special purpose partnership, Cantium Energy LP, which was established for the purpose of acquiring full ownership of Cantium and is managed by the general partner, Community SPV GP LP. Bazan indirectly holds about 52% of the equity rights in the partnership, alongside additional rights granted by virtue of being a strategic investor. The Company invested \$100 million in the acquisition partnership, and the transaction price was determined based on an operating value of \$275 million for Cantium, reflecting a multiple of about 1.2 relative to Cantium's expected EBITDA for 2025 (\$220 million - \$230 million). We estimate that the acquisition transaction will be financed by Bazan's independent sources, including new debt, which is expected to weigh on leverage ratios, especially in 2025. Looking forward, leverage ratios are expected to improve based on our assessment that Cantium will distribute dividends starting in 2026, which is expected to contribute to increasing the adjusted EBITDA base. However, the scope and timing of the distributions depend, in our opinion, on the scope of Cantium's oil production and WTI barrel prices in the market in which it operates. If dividend distribution is lower than expected, the likelihood that EBITDA growth will be lower than our base case scenario will increase, as well as the likelihood of a deviation from a leverage level commensurate with the rating. At this point we estimate that the Company does not have a significant competitive advantage in the U.S. oil production sector, and the impact of the new investment on its business profile will be examined over time.

Outlook

The negative outlook reflects our concerns regarding Bazan's ability to consistently maintain leverage ratios and business positioning commensurate with the rating, given the increased risk due to the damage caused to the Company's facilities by the Iranian missile attack. The

Company's ability to post operating and financial performance consistent with our forecasts depends materially on its ability to successfully complete the restoration plan, on the timing and scope of receipts from the property tax fund and insurance, on dividend receipts from Cantium, on the scope of refining activities and on improved refining margins.

Downside Scenario

We may lower the Company's rating by one or more notches if we assess that its financial condition has deteriorated such that its adjusted gross debt-to-EBITDA ratio is higher than 4x over time. The pressure on the rating will also increase if we assess that its business risk profile has deteriorated, or in the event of a deterioration in the Company's liquidity position.

Upside Scenario

We may consider changing the outlook to stable if we assess that the Company can post a leverage ratio commensurate with the rating and when its business operations stabilize. We believe that a gross debt-to-EBITDA ratio of 3x-4x is commensurate with the rating given the business cycle. Revising 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 handle any changes that may arise due to volatile market conditions.

Company Description

Bazan operates in the refining and petrochemical markets, mainly through a single manufacturing site in the Haifa Bay. It uses a combined manufacturing process such that some of the refining products are used in petrochemical production and some petrochemical products are used in the refinery. Refining activity generates about 90% of the Company's revenue, and petrochemical activity generated the remainder. We expect refining activity to remain a major 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 remaining shares are held by the public.

Base Case

Our base case scenario is underpinned by the following assumptions:

- About 3.3% GDP growth in Israel in 2025, inflation rate of about 2.8% and unemployment rate of about 3%. In 2026: about 3.9% GDP growth, inflation rate of about 2.1% and unemployment rate of about 3%.

- Maintenance of the Company's business position as the largest refining and petrochemical corporation in Israel.
- Refining spread of about \$8-\$9 per barrel in 2025-2026.
- Spread of about \$570-\$600 per ton of polyethylene in 2025-2026.
- Spread of about \$590-\$620 per ton of polypropylene in 2025-2026.
- Gradual improvement in the refining facilities' utilization rate from about 70%-72% in 2025 to about 85%-87% in 2026, and a utilization rate of about 70%-90% in the petrochemical facilities in 2025-2026, taking into account the restoration plan and planned periodic maintenance.
- EBITDA of about \$310 million - \$350 million in 2025 and about \$380 million - \$420 million in 2026.
- Annual investments as part of the restoration plan, as well as planned maintenance activities, totaling about \$250 million - \$265 million in 2025-2026.
- Continued receipt of payments from the compensation fund, which are expected to cover about 80%-85% of the restoration costs of the Company's facilities, and receipt of payments from the Company's insurance policy, which provides some coverage against consequential damage resulting from acts of terrorism and war.
- Final investment of about \$100 million in the Cantium acquisition.
- Annual dividend receipts of about \$25 million - \$40 million from Cantium starting in 2026.
- No dividend distribution in H2 2025 and in 2026.

We forecast debt coverage ratios to be as follows:

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

Liquidity

According to our criteria, the Company's liquidity is "adequate". We estimate that the ratio between the Company's sources and its uses will exceed 1.2x in the 12 months starting July 1, 2025, considering refining margins in line with our base case scenario. Our assessment of the Company's liquidity is supported by its substantial cash balance at the end of Q2 2025, the fact that advances have been received from the property tax fund, and expected receipts from loss of profits insurance. Over the years Bazan has maintained a good relationship with the banking system and benefits from access to the capital market, which contribute to our assessment of its financial flexibility.

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

Principal liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • About \$549 million in cash and cash equivalents. • Annual operating cash flow of about \$320 million - \$330 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 million - \$150 million. • Capital expenditure for ongoing investments and maintenance of about \$150 million - \$160 million. • Capital expenditure for facilities restoration of about \$160 million - \$170 million. • Cantium acquisition for about \$100 million.

Related Criteria And Research

- [Methodology: Industry Risk](#), November 19, 2013
- [Country Risk Assessment Methodology And Assumptions](#), November 19, 2013
- [Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), December 16, 2014
- [Recovery Rating Criteria For Speculative-Grade Corporate Issuers](#), December 7, 2016
- [Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Group Rating Methodology](#), July 1, 2019
- [Environmental, Social, And Governance Principles In Credit Ratings](#), October 10, 2021
- [Methodology For National And Regional Scale Credit Ratings](#), June 8, 2023
- [Corporate Methodology](#), January 7, 2024
- [Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers](#), January 7, 2024
- [Sector-Specific Corporate Methodology](#), July 7, 2025
- [S&P Global Ratings Definitions](#), December 2, 2024

Ratings List

Oil Refineries Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
Issuer rating(s)			
Long term	ilA+/Negative	01/07/1995	17/06/2025
Issue rating(s)			
<u>Senior Unsecured Debt</u>			
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 Credit Rating history			
<u>Long term</u>			
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

Time of the event	11/08/2025 14:13
Time when the event was learned of	11/08/2025 14:13
Rating requested by	Issuer

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