Rating Action

Moody's Ratings has downgraded Dow's rating to Baa2 from Baa1; Outlook negative

New York, July 07, 2025 -- Moody's Ratings (Moody's) has downgraded The Dow Chemical Company's ("Dow") senior unsecured credit rating to Baa2 from Baa1. At the same time, we have affirmed Dow's Prime-2 short term rating for commercial paper. The rating outlook remains negative.

Governance consideration is a key driver for today's rating action, particularly the company's track record of elevated dividend payouts and share repurchases despite weakened earnings performance.

RATINGS RATIONALE

The rating downgrade reflects Dow's depressed earnings and weakened credit metrics amid a prolonged downturn, and our expectation of lower mid-cycle earnings in the next several years due to global trade tensions and Chinese capacity additions. However, Dow's substantial asset base, diversified product portfolio, and cost-advantaged North American production should enable the company to navigate a challenging market environment more effectively than most peers, supporting the retention of its investment-grade rating over time.

Dow's earnings will likely decline in 2025 from an already low level of 2024 due to lower selling prices, unfavorable change in feedstock costs and restructuring expenses. Demand is depressed by weak construction and industrial activities amid high interest rates in the US, a sluggish property sector in China and subdued industrial activities in Europe. Escalating trade tension slowed customer orders and dented business sentiment in the seasonally strongest second quarter. We expect demand recovery is likely in 2026, given the cyclical nature of MDI, acrylics, silicones, and the fact that the current downturn will have lasted over three years by then. However, Dow's Packaging & Specialty Plastics segment, which is the largest earnings contributor, will remain challenged by trade tensions and new ethylene and polyethylene (PE) capacity additions in China in the next several years. Greater Chinese self-sufficiency in PE would place downward pressure on global prices and erode earnings for major PE exporters, including Dow, which is facing additional headwinds from US-China trade tensions.

Dow's credit metrics have deteriorated in the last three years. Adjusted Net debt/EBITDA rose to 5.2x at the end of March 2025, from 1.9x at the end of 2022. We expect its credit metrics will be depressed for a few more quarters amid the market uncertainty and will subsequently improve with a recovery in demand. Dow's ratings incorporate expectations of earnings volatility driven by commodity chemical pricing and credit metrics outside the rating boundaries for several quarters before reversal.

We expect management to take precautionary measures to safeguard its credit quality amid market challenges and uncertainty. For 2025, management is expecting nearly $6 billion cash support, including at least $2.4 billion proceeds from infrastructure assets divesture, $1 billion less capital expenditure by delaying the construction of Path2Zero project, anticipated $1 billion award from Nova litigation, and $1 billion annualized cost reduction. Additional measures are likely to help stem cash consumption given the company's large business scale and dividends payments, should market conditions fail to improve.

Dow's credit profile is supported by its large business scale, operational and geographic diversity, vertical integration into key commodity petrochemicals, strong market positions in chemicals used in construction, infrastructure and plastics packaging industries, and a majority of its assets with access to feedstocks that have a sustainable feedstock advantage. The profile also incorporates management's commitment to 2.0-2.5x adjusted net leverage.

Dow's Prime-2 rating is supported by its excellent liquidity due to its large cash balance ($1.5 billion at March 31, 2025), marketable securities ($340 million), available credit facilities ($8.4 billion) and available accounts receivable facilities ($1.3 billion), as well as $2.4 billion divesture proceeds in Q2 2025. Short-term debt maturity amounted to $638 million at the end of March 2025. The company has sufficient liquidity to cover expected negative free cash flow (after the assumed payment of about $2 billion in annual dividends). Dow has a $5.0 billion committed revolving credit facility maturing in June 2030, and $3.4 billion of committed bilateral credit facilities with maturities ranging from September 2025 through May 2028. Dow had full availability under its revolver and bilateral credit facilities. In addition, Dow has a $900 million North American accounts receivable facility, and a Euro 500 million European securitization facility due in November 2025. At March 31, 2025, approximately $100 million of sold receivables were outstanding. Dow had zero commercial paper outstanding on March 31, 2025, but remains an active issuer in the market.

The negative outlook reflects a slow recovery in demand for chemicals from construction activities and industrial production, weaker than expected earnings and the resulting negative free cash flow and elevated debt leverage for the next 12-18 months.