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Fitch Revises Samarco's Outlook to Positive; Affirms IDR at 'B-'

Fitch Ratings - New York - 12 Feb 2025: Fitch Ratings has revised Samarco Mineracao S.A. em Recuperação Judicial's (Samarco) Rating Outlook to Positive from Stable, while affirming its Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'B-' and Long-Term National Scale rating at 'BB(bra)'. Fitch has also affirmed the rating of Samarco's senior unsecured notes due 2031 at 'B-' with a Recovery Rating of 'RR4'.

The Positive Outlook reflects Fitch's expectation that Samarco's operational profile will improve as the Germano dam decommissioning progresses and the Fundao settlement is resolved, reducing environmental uncertainties and litigation risks. These developments, along with the pending exit from judicial recovery by August 2025, should strengthen Samarco's position within the 'B' rating category.

Samarco's ratings reflect high leverage, limited financial flexibility, and operational ramp-up risks post-restructuring. The 2015 Mariana dam incident's financial impact is capped at USD1 billion and is incorporated into the ratings.

Key Rating Drivers

Operational Recovery Progress: Samarco's plans to resume capacity continue, with phase 2 expected to increase pellet production to 15.2 million tons by the end of 2025, reducing cash costs by USD5.5/ton. The early startup of pelletizing plant 3 early was completed in August 2024, and the startup of the filtering and beneficiation plants in late 2024 enabled a three-month acceleration. Phase 3, aiming to reach 26.4 million tons by 2028, is still under engineering studies, with licenses anticipated in early 2025.

Dam Decommissioning Progress: The Germano dam decommissioning schedule is expected to be advanced to 2026 from 2029, reducing geotechnical stability risks. This acceleration is made possible by progress in using sandy tailings and the construction of the sterile and tailings disposal project, with 84% of the decommissioning completed by 3Q24. The Germano pit ceased operations in 2023. Research and development studies on dry stacking, aimed at processing ultrafine tailings and extending the mine's life by four years, are expected to conclude tests in 2025.

FundaoFinal Settlement: The signing of binding terms for Samarco's Fundao tailings dam collapse reparations reduces uncertainties about remedial cash commitments. Total reparations amount to BRL 170 billion (USD32 billion), with BRL 38 billion (USD7.9 billion) already disbursed. BRL 100 billion (USD18 billion) are payment obligations over 20 years for compensatory programs under public policies, and BRL 32 billion (USD5.8 billion) are Samarco's performance obligations, including indemnification, resettlement, and environmental recovery, gradually transferred from the Renova Foundation.

Cost and Business Profile: Samarco aims to re-establish itself as a low-cost, long-lived, significant pellet producer. Upon reaching full capacity by 2028, Samarco is projected to become the second or third largest pellet exporter globally, alongside Vale and LKAB, according to metals consultancy CRU. CRU places Samarco in the first quartile of iron ore seaborne business costs, supported by integrated operations and low-cost slurry pipelines for iron ore transportation. Operations resumed in December 2020 after a five-year suspension and are currently at 30% of pre-Fundao dam failure capacity.

Scant FCF Generation: Samarco's EBITDA is projected to reach approximately USD1.2 billion in 2025, marking a 40% increase from 2024 levels as phase 2 progresses. These projections assume an average iron ore price of about USD90 per ton and a pellet premium of USD46 per ton in 2025. The forecast also considers minimal working capital requirements and an increase in capital expenditures to USD470 million from USD400 million in 2024, maintaining capex intensity (as a percentage of revenue) above 24%. Free cash flow (FCF) is expected to be negative in 2025 and 2026.

Gradual Deleveraging: Average gross debt between 2025 and 2026 is projected to be USD5.2 billion, consisting of the Judicial Reorganization's resulting senior debt of USD4.2 billion and additional payment-in-kind (PIK) accumulation. The period of intense investment and substantial remediation outflows constrains cash accumulation. As a result, gross and net leverage ratios are expected to average 4.3x and 4.2x, respectively, in 2025-2026. Upon resuming full capacity post-2028, leverage metrics are anticipated to trend below 3.0x, potentially triggering the use of excess cash sweep mechanisms.

Derivation Summary

Samarco's (B-/Stable) pellet production business profile is similar to that of CAP SA (BB+/Stable) and Vale SA (BBB/Positive).

Chile-based CAP has a production capacity of approximately 4 million tons of iron ore pellets, supplemented by sales of 12.5 million tons of high-grade iron ore pellet and sinter feed. While positioned in the less favorable third quartile of cost, CAP benefits from a long reserve life and enhanced financial flexibility.

Vale, the global leader in low-cost iron ore production and one of the top three global mining companies, derives about 90% of its EBITDA from iron ore and pellets. The company also has significant contributions from copper, nickel, and other minerals. Vale faces a more challenging operating environment in Brazil (BB/Stable) due to increased scrutiny of mining companies' governance practices following the Mariana and Brumadinho dam disasters.

Despite these challenges, Vale's financial outlook remains strong, with expected EBITDA gross leverage below 1.0x and EBITDA net leverage below 0.6x over the medium term.

Key Assumptions

-- Total iron ore pellet, pellet feed and pellet screening sales volumes of around 14.1 million tons in

2025, 15.3 million tons in 2026 and 15.4 million tons in 2027;

-- Iron ore pellet premium average USD52 per ton between 2025 and 2027;

-- Benchmark 62% iron ore prices average USD90/ton in 2025, USD85/ton in 2026, USD75/ton in 2027;

-- Capex of USD469 million in 2025, USD451 million in 2026 and USD582 million in 2027;

-- No dividend distributions;

-- Foreign exchange BRL/USD rates of 5.80 in 2025, 5.80 in 2026, and 5.80 in 2027.

Recovery Analysis

The recovery analysis assumes Samarco would be reorganized as a going concern in bankruptcy rather than liquidated. Fitch assumed a 10% administrative claim. Samarco's going-concern EBITDA assumption is based on no further ramp-up of the phase 2. The going-concern EBITDA estimate reflects Fitch's view of a sustainable, post-reorganization EBITDA level upon which we base the enterprise valuation in a low iron ore price environment.

An enterprise valuation multiple of 5x EBITDA is applied to the going-concern EBITDA to calculate a post-reorganization enterprise value (EV). The choice of this multiple considered the following: the historical bankruptcy case study exit multiples for peer companies were 4.0x-6.0x.

Fitch applies a waterfall analysis to the post-default EV based on the relative claims of the debt in the capital structure. The debt waterfall assumptions consider the company's total debt. These assumptions result in a recovery rate for the unsecured debt within the 'RR2' range, but due to the soft cap of Brazil at 'RR4', Samarco's senior unsecured notes are rated at 'B-'/'RR4'.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

-- Significant delays in increasing production;

-- Indications of weaker shareholder commitment to meet remediation payments when Samarco's cash flow is insufficient;

-- Additional legal remediation charges stemming from unfavorable litigation outcomes, after the cap ends in 2030;

-- Any further delay of the judicial recovery process after the limited dated of August 2025;

-- Net debt/EBITDA above 6.0x on a sustained basis.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

-- Successful exit of the judicial recovery process in Brazil;

-- Operations reach at least 50% capacity during the ramp-up phase;

-- Significant progress in dam decommissioning;

-- Consistent net debt/EBITDA ratio moving below 4.0x.

Liquidity and Debt Structure

Samarco ended Sept. 30, 2024 with USD224 million of cash and marketable securities and no short-term debt.

As a result of the JR, total debt was restructured to USD7.7 billion from USD11.4 billion. USD3.7 billion of new notes due in 2031 were exchanged for the past non-performing indebtedness (due in 2022, 2023 and 2024) of USD4.9 billion in December 2023. The unsecured debt has PIK features that decrease significantly in 2026 and end by 2028. Moreover, USD260 million in 9% senior unsecured notes owed to shareholders was issued at the end of 2023.

In addition, some USD3.85 billion of indebtedness with shareholders was converted into a subordinated instrument with no cash or PIK interest obligation and a 2036 maturity. In addition, about USD27 million of out of court debt remains, along with USD40 million of BRL-denominated debentures.

Issuer Profile

Samarco Mineracao is a leading iron ore pellet producer based in Minas Gerais and Espirito Santo, Brazil. It resumed operations in 2020 after a tailings dam incident disrupted operations for five years and sent the company into bankruptcy protection.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

Samarco Mineracao S.A. em Recuperacao Judicial has an ESG Relevance Score of '4' for Employee Wellbeing due to the remaining work required to improve dam monitoring and upstream dams' de-characterization. Dry tailings piling will be used without the operation of dams, while heightening attention to the safety of geotechnical structures and to the de-characterization of the Germano mining dam will continue along with the capacity utilization resumption efforts under way. This has a negative impact on the credit profile, and is relevant to the rating[s] in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Samarco Mineracao S.A. em Recuperacao Judicial	LT IDR	B-	Affirmed		B-
	LC LT IDR	B-	Affirmed		B-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Natl LT	BB(bra) ⊕	Affirmed		BB(bra) ⊙
• senior unsecured	LT	B-	Affirmed	RR4	B-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◎	◆
STABLE	⊙	

Applicable Criteria

Corporate Rating Criteria (pub.06 Dec 2024) (including rating assumption sensitivity)

Metodologia de Ratings Corporativos (pub.06 Dec 2024)

Metodologia de Ratings em Escala Nacional (pub.22 Dec 2020)

National Scale Rating Criteria (pub.22 Dec 2020)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.06 Dec 2024)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Samarco Mineracao S.A. em Recuperacao Judicial	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

Endorsement policy