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Announcement: Moody's: FS' B1 ratings and stable outlook unaffected by notes add-on

11 Jan 2021

New York, January 11, 2021 -- Moody's Investors Service, ("Moody's") comments that FS Agrisolutions Indústria de Biocombustíveis ("FS")'s corporate family rating (CFR), senior secured rating and stable outlook remain unchanged following the company's announcement that it has reopened its 10.0% senior notes due 2025. This transaction will add-on $50 million to the original $550 million notes issued in December 2020 by FS Luxembourg S.a r.l unconditionally and irrevocably guaranteed by FS. The notes will have the same terms and conditions as the initial notes.

The transaction will have no material effect on FS leverage, as net proceeds will be used mainly for liability management and general corporate purposes, while the add-on will further improve its debt maturity profile.

FS B1 rating incorporates its scale among the six largest ethanol producers in Brazil, being the largest on corn feedstock. FS is a low-cost producer with favorable access to corn feedstock and located in a region with a high demand for animal nutrition, co-product from the ethanol production process. The company is also low-carbon footprint producer benefiting from a sustained demand growth for biofuels. Additionally, with the ramp-up of new installed capacity in the current and next harvests we expect FS to generate a Moody's adjusted EBITDA between BRL900 million and BRL1.1 billion between March 2021 and March 2022, which will reduce leverage and increase free cash flow with lower capex levels.

Constraining the rating is FS's high exposure to ethanol and corn markets dynamics and the consequent susceptibility to sharp price volatility, event risks, weather imbalances, and global trade flows. The exposure to corn price volatility as an input is partially mitigated by its animal nutrition business, since the price of the dried distillers grains (DDG) is directly correlated to those of corn and soymeal, the two most widely used inputs for animal feed. Although both corn and ethanol prices are ultimately linked to US dollar and international oil prices, the company is also exposed to exchange rate volatility and timing mismatch on its proposed dollar denominated debt. The company indicated that it will mitigate 50% of the FX exposure over the principal amount of the bond via the use of currency derivatives. The ratings also incorporate the early maturity stage of the firm, with ramp-up still underway, and an over-leveraged capital structure from recent and ongoing investments to reach the target production capacity by harvest-end 2020-21, March 2021. Concentration of production in two plants and in a single region exacerbates commodity risks.

FS liquidity has improved after the $550 million senior secured notes issuance in December 2020, since maturities were pushed further to 2025-26 leaving FS with minimal debt maturities in the next 4 harvests. The notes are secured on a first priority basis by collateral including the real estate property and equipment of Lucas do Rio Verde and Sorriso units, which pro forma to the add-on will represent the large majority of FS total debt. We do expect FS to maintain a certain amount of short-term lines relating to working capital needs during the harvest. As of September 2020, the company had a cash and restricted cash positions of BRL499 million and BRL251 million, respectively. Cash balance will fluctuate during the harvest, but we expect the cash and restricted cash balance to cover all short-term maturities at the end of each harvest. During peak working capital periods, we expect inventory levels to increase and FS has a minimal cash target to cover at least the following three months of debt obligations, general, sales and administrative expenses. At the same time, working capital needs will fluctuate between BRL600 million to BRL900 million during the harvest, once FS is operating near full capacity.

The stable outlook incorporates our expectation that FS will be able to increase EBITDA consistently in the next 2 harvests bringing leverage down to around 4.0x in March 2021, 3.3x in March 2022, and production capacity of 1.1 billion liters in 2020-21 and 1.4 billion liters after that. The stable outlook also incorporates our expectation that the company will maintain an adequate leverage as it engages in new expansion projects.

Ratings are constrained by the concentration and single line commodity exposure of the business (corn ethanol and relating co-products). An upgraded would require an increased diversification of the business reducing geographic and commodity risk exposure coupled with a robust financial position with consistent positive free cash flow, adequate leverage and liquidity profile. Quantitatively this would require Debt /EBITDA to remain below 3.5x, Retained Cash Flow/Debt to remain above 15% and EBITDA/Interest Expense to be sustained above 2.5x.

A downgrade could result from an inability to reduce leverage or a deterioration of liquidity profile, including the deployment of large investments that compromise short-term credit metrics. Quantitatively this would be the case if Debt /EBITDA is sustained above 4.5x, Retained Cash Flow/Debt remains below 5% or EBITDA/Interest Expense remains below 1.5x.

Headquartered in Lucas do Rio Verde, state of Mato Grosso (MT), Brazil, FS is one of the six largest ethanol producers in Brazil. The company started operations in 2017 with 265 million liters of corn ethanol capacity and presently has a 1.1 billion liters capacity into its two plants in Lucas do Rio Verde (LRV) and Sorriso, both cities in MT. The company also commercializes co-products generated in the production process, including DDG, wetcake, corn oil for livestock feed, and electricity. FS is a limited liability company and was established as a joint-venture between US based Summit Agricultural Group with a 75% stake and Brazilian agricultural holding company, Tapajós S.A. In the last twelve months ended in September 2020, FS generated net revenue of BRL2.0 billion ($427 million, converted using the average rate for the period), with a Moody's adjusted EBITDA margin of 35.9%.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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