

15 Jun 2022

New York, June 15, 2022 – Moody's Investors Service ("Moody's") has upgraded FS Agrisolutions Industria de Biocombustiveis (FS)'s Corporate Family Rating to Ba3 from B1. At the same time, Moody's upgraded the Senior Secured notes issued by FS Luxembourg S.a r.l. unconditionally and irrevocably guaranteed by FS to Ba3 from B1. The outlook for the ratings is stable.

Ratings upgraded:

FS Agrisolutions Industria de Biocombustiveis

- Corporate Family Rating: to Ba3 from B1

FS Luxembourg S.a r.l.

- Gtd senior secured notes: to Ba3 from B1

Outlook is stable for all ratings.

RATINGS RATIONALE

FS's upgrade to Ba3 incorporates the quick deleverage the company has presented since the rating was first assigned and Moody's expectation that FS will maintain an adequate gross leverage and liquidity through commodity cycles and while it undertakes the construction of its 3rd mill. The new mill will take FS ethanol production capacity to 2.0 billion liters starting in the 2023-24 harvest from 1.4 billion liters in 2021-22. Moody's believes the new investment will benefit FS competitive position and scale in the Brazilian corn ethanol market by increasing its already leading scale in Mato Grosso. FS will become one of the four largest ethanol producers in Brazil, behind BP Bunge (2.4 billion liters), Atvos Agroindustrial Investimentos S.A. (3.2 billion liters), and Raizen Energia S.A. (Baa3 stable)(6.0 billion liters), all three sugarcane ethanol producers.

FS rating incorporates its scale among 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, the company has a strong execution track record having expanded quickly to the 1.4 billion liters production capacity presently from just 265 million liters in 2017, with its inaugural mill.

FS' rating is constrained by its high exposure to the dynamics of the ethanol and corn markets and the consequent susceptibility to sharp price volatility, event risks, weather imbalances and global trade flows. The exposure to corn price as an input is partially offset by its animal nutrition business, since the price of the distillers grains is directly correlated to those of corn and soymeal. The company's concentration in single-line commodity, production in two plants and in a single region exacerbates commodity risks.

FS liquidity is adequate even when considering about BRL2 billion in investments to be made in a new mill during 2022 and 2023. As of March 2022, cash balance of BRL2.1 billion, compared to BRL976 million in short term debt maturities – mostly working capital lines. Total debt amounts to BRL5.8 billion, including BRL3.3 billion in bonds. This debt balance is net of its Credit Linked Notes (ex-CLN), the company has BRL2.9 billion in CPR-f (financial rural producer certificates) which is referenced in assets deposited abroad: BRL2.9 billion in a Total Return Swap (TRS). In March 2022, gross leverage at 2.17x (ex-CLN) with an EBITDA generation of BRL2.7 billion. In 2022-2023 Moody's expects revenues to advance over 8.6% on higher ethanol prices, but costs will raise about 18% pushed by higher corn prices, with that EBITDA will be BRL2.1 billion and gross leverage 2.9x. Although the cash balance will likely fluctuate during the harvest, for working capital reasons, Moody's expects the cash and restricted cash balance to cover all short-term maturities at the end of each harvest.

The stable rating outlook incorporates Moody's expectation that FS will maintain a sustained EBITDA generation with gross leverage below 4.0x even as it advances in the construction of its third mill. The outlook also considers prudent shareholder distributions which should not jeopardize liquidity and leverage.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ratings are constrained by the concentration and single line commodity exposure of the business (corn ethanol and relating co-products). An upgraded would require further 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 consistently below 3.0x, Retained Cash Flow/Debt to remain above 20% and EBITDA/Interest Expense to be sustained above 5.0x.

A downgrade could result from a consistent increase in leverage or a deterioration of liquidity profile. Large shareholder distributions or the deployment of large investments that compromise short-term credit metrics and liquidity could trigger a downgrade. Quantitatively this would be the case if Debt /EBITDA is sustained above 4.0x, Retained Cash Flow/Debt remains below 10% or EBITDA/Interest Expense remains below 2.5x.

The principal methodology used in these ratings was Chemical Industry published in March 2019 and available at <https://ratings.moodys.com/api/rmc-documents/60461>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

FS is headquartered in Lucas do Rio Verde, state of Mato Grosso (MT), Brazil. The company produces mostly ethanol from corn feedstock. The company also commercializes co-products generated in the production process, including distillers grains, 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 71.2% stake and Brazilian agricultural holding company, Tapajós S.A. with a 23.7% stake. The remaining 5.0% stake is owned by the management. In the 2021-22 harvest, FS generated net revenue of BRL6.6 billion (\$1.25 billion, converted using the average rate for the period), with Moody's-adjusted EBITDA margin of 40.6%.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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