21 DEC 2021

Fitch Upgrades Braskem's IDR to 'BBB-'; Outlook Stable

Fitch Ratings - Rio de Janeiro - 21 Dec 2021: Fitch Ratings has upgraded the Long-Term Foreign and Local Currency Issuer Default Ratings (LT FC/LC IDRs) of Braskem S.A. (Braskem) to 'BBB-' from 'BB+' and revised its Rating Outlook to Stable from Positive. Fitch has also affirmed Braskem's National Scale rating at 'AAA(bra)' with a Stable Outlook.

The upgrade reflects the material improvement Braskem made to its capital structure by paying down USD1.7 billion of debt with excess cash flow generated during the top of the petrochemical cycle. The company's credit ratios should remain at or below 2.5x in the medium to long term despite an expected deterioration in spreads. Fitch forecasts Braskem's net debt/EBITDA ratio to be between 1.9x and 2.4x during 2022-2023, excluding operations in Mexico, and 2.1x and 2.5x including it. Contingencies related to the geological event in Alagoas and its associated cash out flows remain sizeable but manageable.

Key Rating Drivers

Favorable Backdrop: Weather-related production disruptions, logistic constraints, strong demand for resins and a weak Brazilian real have resulted in strong petrochemical spreads for Braskem during the past five quarters. Fitch's base case incorporates an expectation that spreads will deteriorate during 2022-2023 but remain above mid-cycle levels; supply constraints due to logistics issues and robust demand should help to offset new capacity coming on-line. This scenario has boosted Braskem's operating cash flow generation with recurring EBITDA reaching a record high of BRL28.5 billion (USD5.3 billion) during the last 12 months ended on Sept. 30, 2021 (USD 4.8 billion, excluding Braskem Idesa).

Strong CFFO Despite Weakening Spreads: Fitch projects that Braskem's consolidated recurring EBITDA and cash flow from operation (CFFO) will be BRL16 billion and BRL11 billion, respectively, during 2022. Free cash flow should not be material due to ongoing working capital needs and relatively higher capex, and around BRL4.6 billion of disbursement related to Alagoas. Fitch projects EBITDA and CFFO will fall during 2023 to BRL12 billion and BRL10 billion. Free cash flow should be around BRL3.7 billion in 2023 after BRL1 billion of dividends, considering the minimum requirement of 25% of net income. During 2021, Braskem paid around BRL6 billion in dividends.

Alagoas Liability: Braskem has around BRL7.1 billion in provisions related to the geological event in the state of Alagoas. Disbursements related to these provisions are expected to total BRL3 billion in 2021, BRL4.6 billion in 2022 and BRL1.6 billion until 2025. The largest of these provisions relates to relocation and compensation expenses (BRL4.8 billion) and the closing and monitoring of salt mines (BRL1.5 billion). Fitch considers that any additional contingencies, should they occur, would not be above BRL2 billion (USD350 million) to be disbursed within a long-term horizon (over 10 to 15 years). Any material deviation on these amounts could be a rating concern.

Improving Credit Metrics: Fitch estimates consolidated net leverage will reach 1.2x in 2021, or 0.9x when excluding the operations in Mexico. These ratios should weaken to 2.1x and 1.9x, respectively, during 2022 due to a decline in petrochemical spreads and be around 2.5x and 2.4x in 2023. Fitch expects Braskem to remain committed to a strong credit profile and to maintain its conservative dividend policy that sets payouts to not breach its leverage target ratio of 2.5x.

Solid Business Diversification: Braskem's ratings are underpinned by its strong geographic and feedstock diversification and its leading market positions in polyethylene (PE) and polypropylene (PP). The company's operations in the U.S., Germany and Mexico represented around 34% of its consolidated EBITDA over the past five years, while its Brazilian operation (plus exports) accounts for the balance. Braskem's feedstock is mainly balanced between naptha (38%), propylene (34%) and ethane (22%) considering its joint venture in Mexico, Braskem Idesa SAPI (B+/Rating Watch Positive/ Under Criteria Observation). The company's strategy of diversifying its feedstock matrix has reduced its exposure to one feedstock while decreasing its production cost and improving its long-term competitiveness.

Rating Above Country Ceiling: Braskem's ratings are not constrained by Brazil's 'BB' Country Ceiling in accordance with Fitch's Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria. Braskem has strong operating cash flow generation from assets abroad in the U.S., Germany and Mexico (around 34% of its EBITDA over time). Other considerations include cash generated abroad by exports, cash held abroad and track record of having undrawn standby credit lines.

Exposure to PEMEX: Fitch's base case does not incorporate any material cash in-flow from its Mexican operation, where Braskem Idesa has a long-term raw-material supply agreement with Petroleos Mexicanos (PEMEX, BB-/Stable). The signature of an amendment to the ethane supply agreement with PEMEX is expected to reduce Braskem Idesa's business risks. The amendment contract terms reduce uncertainties regarding business sustainability and profitability levels, which should remain strong throughout the petrochemical cycle.

The Mexican subsidiary will be challenged to increase its volume of imported ethane. Fitch did not incorporate any financial support from Braskem to the subsidiary. With the recent renegotiations of Braskem Idesa's project finance debt with bonds, the formal obligation of USD208 million of contingent equity and the USD150 million of debt payment guarantee has been extinguished.

Change in Control: Fitch rates Braskem on a standalone basis, and a change in control event would not automatically lead to a rating action. Braskem is owned by Novonor Group (Formerly called Odebrecht), which owns 38.3% of its total capital and 50.1% of its voting capital, and Petroleo Brasileiro S.A. (Petrobras; BB-/Negative), which owns 36.1% of its total capital and 47.0% of its voting capital. Recently the shareholders have indicated their interest to sell its preferred shares and migrate the company to Novo Mercado, Bovespa's highest corporate governance level.

Derivation Summary

Braskem's leading position in the Americas in its core products, PE and PP, is a key credit strength, mitigating the commodity nature of its products, which are characterized by volatile raw material prices and price-driven competition. Braskem has a medium-size scale compared with global chemical peers, such as Dow Chemical Company (BBB+/Stable). It is well positioned relative to Latin America peers, such as Orbia Advance Corporation, S.A.B de C.V. (BBB/Stable) and Alpek, S.A.B. de C.V. (BBB-/Stable) in terms of scale, profitability and geographic diversification.

Around 34% of Braskem's EBITDA is generated outside of Brazil. Its thermoplastic resin operations in Brazil are integrated, which reduces cash flow volatility. The company's strong 60%-65% market share in Brazil is also a competitive advantage, as it allows Braskem to better withstand higher raw material prices and pass-through strategies.

Braskem's current leverage compares well with the long-term average ratio of 2.5x of Orbia and Alpek and is higher than the 2.0x leverage of Dow Chemical Company. All three Latin America players maintain strong cash position, long-term debt amortization profile and strong access to local and international debt market.

Key Assumptions

Fitch's Key Assumptions Within the Rating Case for the Issuer

-- Stable volumes during 2021-2023;

-- For 2022 and 2023, PE spreads around USD730 and USD620 and for PP at USD900 and USD730, respectively.

-- Average capex of around USD730 million in 2021-2023;

-- Around USD30 million of dividends from Braskem Idesa in 2021-2023;

-- BRL6 billion of dividends in 2021 and 25% payout on net income from 2022 on.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade

Although unlikely in the near term, a positive rating action could be considered if:

-- Net debt/EBITDA, excluding Braskem Idesa, is consistently below 1.5x;

-- Clarity increases regarding the sustainability of the ethane supply for Braskem's operations in Mexico;

-- Sustained consolidated net debt of less than USD5 billion.

Factors that could, individually or collectively, lead to negative rating action/downgrade

-- Net debt/EBITDA above 2.5x, on average through the cycle, excluding Braskem Idesa;

-- Higher than expected request of dividends by the shareholder;

-- A change in Braskem's management strategy that alters its adequate financial profile with a robust liquidity position and long-term debt schedule.

-- Major additional contingent claims for the Alagoas incident;

-- Major financial support for its subsidiary in Mexico.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Liquidity and Debt Structure

Robust Liquidity: Braskem adopts a conservative and proactive financial strategy to limit the risks associated with exposure to the cyclical and capital-intensive nature of its business. The company has a strong cash position, with BRL13.4 billion of readily available cash and marketable securities as of Sept. 30, 2021, excluding Braskem Idesa (BRL1.6 billion) and BRL1.2 billion of restricted funds related to Alagoas litigation.

At Sept. 30, 2021, Braskem had BRL44.8 billion of total debt, including BRL11.7 billion of debt at Braskem Idesa. Braskem had BRL1.3 billion of short-term debt as of Sept. 30, 2021, while Braskem Idesa had BRL7.2 billion, which mainly relates to its project finance debt that was allocated in the short term - later refinanced with a new bond issuance.

Braskem's strong cash position and its extended debt amortization profile lead to low refinancing risks in the medium term. Braskem's readily available cash, excluding the stand-by facility, is sufficient to cover debt amortization until mid-2027. The company has a record of strong access to local and international debt markets. The company's financial flexibility is enhanced by a USD1 billion unused stand-by credit facility due 2026.

During July 2020, Braskem issued USD600 million in hybrid bond. The securities qualified for 50% equity credit as they meet Fitch's criteria with regard to subordination, cross defaults, no material covenants, effective maturity of at least five years, ability to defer coupons for at least five years, and no look-back provisions. As a result of these features, the issuance rating is two notches below Braskem's IDR as they reflect the deep subordination and consequently, the higher loss severity and heightened risk of non-performance relative to senior obligations of the issuer and guarantor.

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.

ESG Considerations

Braskem has an ESG Relevance Score of '4' for Waste & Hazardous Materials Management; Ecological Impacts due to the geological event in Alagoas that affected its salt mining operations, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Braskem S.A. has an ESG Relevance Score of '4' for Governance Structure due to a past history of corruption scandals and shareholders' financial stress, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Braskem Netherlands Finance B.V.					
• senior unsecured	LT	BBB-	Upgrade		BB+
• subordinated	LT	BB	Upgrade		BB-
Braskem America Finance Company					
• senior unsecured	LT	BBB-	Upgrade		BB+
Braskem S.A.	LT IDR	BBB-	Upgrade		BB+
	LC LT IDR	BBB-	Upgrade		BB+
	Natl LT	AAA(bra)	Affirmed		AAA(bra)
Braskem Finance Limited					
• senior unsecured	LT	BBB-	Upgrade		BB+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◉	◆
STABLE	○	

Applicable Criteria

Corporate Hybrids Treatment and Notching Criteria (pub.12 Nov 2020)

Corporate Rating Criteria (pub.15 Oct 2021) (including rating assumption sensitivity)

National Scale Rating Criteria (pub.22 Dec 2020)

Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Braskem America Finance Company	EU Endorsed, UK Endorsed
Braskem Finance Limited	EU Endorsed, UK Endorsed
Braskem Netherlands Finance B.V.	EU Endorsed, UK Endorsed
Braskem S.A.	EU Endorsed, UK Endorsed

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