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Fitch Affirms Braskem's IDR at 'BB+'; Outlook Revised to Positive

Fitch Ratings - Rio de Janeiro - 12 May 2021: Fitch Ratings has affirmed the Long-Term Foreign and Local Currency Issuer Default Ratings (LT FC/LC IDRs) of Braskem S.A. (Braskem) at 'BB+'. At same time, Fitch has affirmed Braskem's National Scale rating at 'AAA(bra)/Stable'. The Rating Outlook for the IDRs has been Revised to Positive from Stable.

The Positive Outlook reflects Braskem's stronger than expected operating cash flow generation during the 2020-21 period, primarily as a result of tax credit monetization, strong sales volumes and record high petrochemical spreads. Braskem's commitment to effectively use this non-recurring cash flow generation to retire debt should drive a sustainable deleverage trend for the 2022-2023 period, which would be in line with the investment-grade rating level.

Key Rating Drivers

Favorable Backdrop: The combination of weather-related production disruptions, logistic constrains, strong demand for resins, and a weak Brazilian real have resulted in strong petrochemical spreads for Braskem during the second half of 2020 and record levels throughout the first half of 2021. The company's efforts to reduce fixed costs, capex and dividends levels due to expectation of weakness related to the pandemic, as well as the monetization of BRL1.8 billion in tax credits, have further bolstered Braskem's FCF generation.

Record Results: Braskem's consolidated recurring EBITDA, cash flow from operation (CFFO) and FCF is projected to be BRL19.8 billion, BRL12.3 billion and BRL4 billion, respectively, during 2021. These figures are projected to fall during 2022 to BRL13.1 billion of recurring EBITDA, BRL7.8 billion of CFFO and BRL1.2 billion of negative FCF, after BRL612 million of dividends, due to tightening petrochemical spreads.

Alagoas Liability: Braskem has around BRL8.5 billion in provision related to damage caused by its salt mines in the state of Alagoas. Disbursements related to these provisions are expected to total BRL4.1 billion in 2021 and BRL4.4 billion between 2022 and 2025. The largest of these provisions relate to relocation and compensation expenses (BRL4.8 billion) and the closing and monitoring of salt mines (BRL1.5 billion). Any material deviation on these amounts could be a rating concern.

Improving Credit Metrics: Fitch estimates consolidated net leverage will reach 1.7x in 2021; or 1.3x when excluding the operations in Mexico. These ratios should weaken to 2.5x and 2.3x, respectively, during 2022 due to a tightening of petrochemical spreads. Fitch expects Braskem to remain commitment to a strong credit profile and to take advantage of the stronger FCF during 2021 to reduce debt at least by USD1 billion. The company also has a conservative dividend policy that sets payouts within the net leverage ratios of 2.5x of the current year and the next two years.

Solid Business Diversification: Braskem's ratings are underpinned by its strong geographic and feedstock diversification, and its leading market positions in PE and 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 accounts for the balance. Braskem's feedstock is mainly balanced between naphtha 38%, 34% propylene and 22% ethane considering its joint venture in Mexico, Braskem Idesa SAPI (B+/Rating Watch Negative). 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 'Rating Non-Financial Corporates Above the Country Ceiling Rating Criteria'. Braskem has a 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 a memorandum of understanding (MoU) agreement may indicate that the discussions between PEMEX and Braskem Idesa are moving in the right direction. Nevertheless, the ongoing tension and disputes between the parties, as well as the complex structure of the project finance loan that requires approval from lenders for changes in the ethane supply agreement, remain as negative headwinds. Fitch did not incorporate the construction of a new import terminal for ethane into the analysis. Braskem only has as formal obligation USD208 million of contingent equity.

Change in Control: Fitch rates Braskem on a standalone basis and thus, 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. Novonor has offered its Braskem shares as collateral for some of its debt to a group of Brazilian banks. These shares are under the control of Novonor's creditors, given the default by Odebrecht on its financial obligations, which could trigger a change of control at Braskem.

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), yet 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 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

- Healthy volumes during 2021 and 2022;
- For 2021 and 2022, PE spreads around USD969 and USD620 and for PP at USD598 and USD530, respectively.
- Average capex of around USD730 million in 2021 and 2022;
- No dividends from Braskem Idesa in 2021-2022;
- No dividends payments during 2021 and 25% payout on net income from 2022 on.

RATING SENSITIVITIES

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

- No major additional contingent claims for Alagoas incident;
- Maintenance of net debt/EBITDA at 2.5x, excluding Braskem, on a sustainable basis through the cycle;
- Positive FCF generation across the cycle;
- Maintenance of a strong liquidity position with no exposure to refinancing risk.

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

- Net debt/EBITDA at 3.5x, excluding Braskem Idesa, on average through the cycle;
- 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.

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 BRL15.4 billion of readily available cash and marketable securities as of March 31, 2021, excluding Braskem Idesa (BRL1 billion). Braskem has a USD208 contingent equity commitment to Braskem Idesa's project finance structure that it could be required to make under certain circumstances. At March 31 2021, Braskem had BRL55.3 billion of total debt, including BRL13.1 billion of debt at Braskem Idesa. Braskem had BRL1.1 billion of short-term debt as of March 31, 2021, while Braskem Idesa had BRL8.3 billion, which mainly relates to its project finance debt that has been allocated in the short term as certain non-monetary obligation established in the contracts remained unfulfilled.

Braskem's strong cash position and its extended debt amortization profile lead to low refinancing risks in the medium term, excluding Braskem Idesa. Braskem's readily available cash, excluding the stand-by facility, is sufficient to cover debt amortization until mid-2025. Between 2021-2023 period, the company faces debt amortization on average of BRL1.9 billion per year, in 2024 it has a larger maturity of BRL5.9 billion. As of March 31, 2021, about 96% of the company's total debt was denominated in U.S. dollars.

Braskem 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 2023. Braskem is expected to take opportunity of the strong industry fundamentals to enhance its capital structure, aiming to reduce total debt level during 2021. Fitch's base case scenario considers that the company will pay down around USD1 billion of debt, of which USD700 million has been already done during 1Q21.

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 Issuer Default Rating (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 S.A. 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 rating[s] 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 rating[s] 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Braskem Netherlands Finance B.V.				
• senior unsecured	LT	BB+	Affirmed	BB+
• subordinated	LT	BB-	Affirmed	BB-
Braskem America Finance Company				

ENTITY/DEBT	RATING		RECOVERY	PRIOR
• senior unsecured	LT	BB+	Affirmed	BB+
Braskem S.A.	LT IDR	BB+ 	Affirmed	BB+ 
	LC LT IDR	BB+ 	Affirmed	BB+ 
	Natl LT	AAA(bra) 	Affirmed	AAA(bra) 
Braskem Finance Limited				
• senior unsecured	LT	BB+	Affirmed	BB+

RATINGS KEY OUTLOOK WATCH

POSITIVE



NEGATIVE



EVOLVING



STABLE



Applicable Criteria

[Corporate Hybrids Treatment and Notching Criteria \(pub.12 Nov 2020\)](#)

[Corporate Rating Criteria \(pub.21 Dec 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

[Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria \(pub.08 Jan 2021\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub.26 Aug 2020\)](#)

[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub.30 Apr 2021\)](#)

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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