FitchRatings

NON-RATING ACTION COMMENTARY

Risk of Mine Collapse Pressures Braskem's Ratings

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Fitch Ratings-Sao Paulo-01 December 2023: The imminent collapse of a salt mine located in the state of Alagoas could materially impact Braskem S.A.'s (BBB-/Negative) cash flows and pressure it's rating, according to Fitch Ratings. At the moment, the consequences of a possible incident are still uncertain.

Another geological event at the petrochemical's facilities could substantially increase new claims against the company action, and impair their ability to access capital markets as investors are more restricted and concerned about ESG matters.

In our view, the new BRL1.0 billion lawsuit held against the company is in early stages and needs to follow the appropriate legal process, which could take months. Fitch will monitor the situation and does not assume payment until the company is legally obliged to pay.

Fitch's current base case does not assume further disbursements beyond what was announced over the rated horizon. Our forecast considered a total payment of approximately BRL7.5 billion (USD1.5 billion) until 2025, broken into payments of BRL3.0 billion in 2023 and 2024, and BRL1.5 billion in 2025. FCF is expected to be negative in 2023 and 2024, at BRL-4.5 billion (USD-860 million) and BRL-3.5 billion (USD-685 million), respectively, mostly due to these settlements. In 2025 we expect FCF to become positive at approximately BRL 1.0 billion. As of September 2023, Braskem reported BRL18.5 billion (USD 3.4 billion) in cash and equivalents, sufficient to cover these liabilities as well as service its debt until 2027.

In August, Fitch revised Braskem's Rating Outlook to Negative on the likelihood that leverage remains higher for longer, around 12.0x at least until 2024, compared with 14.0x LTM and 5.2x in 2022. A potential negative rating action could stem, among other factors, from a sustained coverage ratio below 1.0x and sustained negative FCF at the bottom of the cycle that results in incurring additional debt. Those figures were 0.8x and BRL-5.2 billion LTM, respectively, compared with 3.2x and BRL 1.5 billion in 2022. Fitch believes that the company has the ability to adjust its investment plans to preserve FCF. This could happen either through capex reduction, working capital optimization, non-core asset sales or new partnerships to enhance productivity.

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