

Bulletin:

Braskem S.A. Ratings Not Affected By The Leniency Agreement

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SAO PAULO (S&P Global Ratings) Dec. 15, 2016--S&P Global Ratings said today that its ratings on Brazil-based petrochemical company Braskem S.A. (Braskem: BBB-/Negative/--) are not affected by the R\$3.1 billion (\$957 million) fine stemming from the leniency agreement that the company signed as part of the "Lava-Jato" corruption investigation.

We view the payment structure (R\$1.6 billion upfront and the remaining R\$1.5 billion in six annual installments starting in 2018) of this litigation as manageable for Braskem given its sizable cash position, full availability under its committed credit lines, and significant cash flow generation. Also, we don't believe that Braskem's adjusted credit metrics, which include this liability and exclude the Mexican project finance, will deteriorate materially, with net debt to EBITDA not exceeding 2.0x-2.5x in the next two years. Braskem has maintained operating efficiency even under rising risks stemming from the corruption allegations as a result of healthy level of global petrochemical spreads, the weaker Brazilian currency, and the positive results from international operations and exports. Even though we expect a mild recovery for the domestic petrochemical market and weaker petrochemicals spreads given new global supply additions, we expect Braskem to continue to benefit from a more diversified assets base and lower investments needs, which could boost its free operating cash flow.

In rating Braskem, we apply our group rating methodology to analyze the

company as part of its larger group. Braskem's majority owner is the infrastructure conglomerate Odebrecht S.A. (not rated) with a 38.3% stake in total capital and 50.1% of voting shares. We treat both companies as separate entities. This stems from our belief that Braskem's financial performance and funding prospects are independent from those of Odebrecht. Also, both companies have separate balance books, invoices, and no cross guarantees to each other's debt or liabilities. More importantly, we view Petroleo Brasileiro S.A.'s (Petrobras; B+/Negative/--) minority stake in Braskem (a 36.1% stake on total capital and 47% of voting shares) as a key factor in preventing the company from transferring cash flows to its parent in order to bolster the latter's currently weaker credit quality. The existing shareholder agreement between Petrobras and Braskem requires consensual decisions related to leverage, capital structure, dividend payouts, or bankruptcy filing. As a result, we analyze Braskem as an insulated subsidiary, which enables it to have a higher rating than that of its parent.

The negative outlook on Braskem mirrors that on Brazil sovereign (global scale: BB/Negative/B; national scale: brAA-/Negative/--), given the maximum rating differentiation of two notches. A more aggressive financial policy or relevant changes in the shareholders' structure/agreement could also impact ratings on Braskem, especially if a weaker counterparty were to fully control the company without significant minority shareholders with active economic interest. In addition, we will continue to monitor Braskem's operating performance and leverage boundaries. A downgrade could occur if the company's credit metrics weaken, with net debt to EBITDA of more than 3.0x-3.5x and funds from operations to net debt below 25% on a sustained basis (deconsolidating the EXXI project finance).

Only a rating committee may determine a rating action and this report does not constitute a rating action.

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