Operator:

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's 4Q19 earnings conference call. Today with us, we have Pedro Freitas. Vice-President of Finance, Procurement and Corporate Affairs; and Rosana Avolio, Head of Investor Relations.

We would like to inform that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Braskem remarks are completed, there will be a question and answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

We have simultaneous webcast that may be accessed through Braskem's IR website at www.braskem-ri.com.br, and the MZIQ platform, where the slide presentation is available for download. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website.

We remind you that the questions, which will be answered during the Q&A session, may be posted in advance on the website.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of Securities Litigations Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of the Braskem management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to the future events and therefore, depend on the circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Braskem and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Rosana Avolio, Head of Investor Relations. Mrs. Avolio, you may begin your conference.

Rosana Avolio:

Good afternoon. We would like to thank you for joining Braskem earnings results conference. Today we will present 4Q and 2019 results. So please, let us move to slide number three. In this slide, we will present the Company's strategic pillars and its achievements.

Regarding competitiveness and productivity, the Company presented a total injury rate 58% lower than the industry average. Also, the Company has continued the modernization project in the electric system of our plant in Sao Paulo, and the electric infrastructure upgrade project of our plant in the United States.

Regarding feedstock and supplies diversification, the main achievements were the important increase in the consumption of imported naphtha and the startup of the fast track project in our petrochemical complex in Mexico.

Regarding people, the Company has implemented its new career philosophy, and Braskem was also acknowledged as an A List company by CDP Water and Climate index.

Regarding financial strategy, in 2019, Braskem kept the focus on capital allocation discipline, with a reduction of 21% in operating and strategic investments. And also, the Company did a liability management exercise, prepaying most of its debts until 2023.

Moving to the next slide, on slide four, we present the main highlights of Brazil's operations. In 2019, the Brazilian market demand grew 2% in comparison with 2018, and 4% when comparing to the 4Q19, and also with the 4Q18. This improvement in the Brazilian market is mainly due to agribusiness business and food sectors, and the gradual recovering of construction sector.

In the year, the utilization rate of the crackers was 85% below 2018 due to the lower supply of feedstock at the crackers in Bahia, the shutdown of chlor-alkali plant in Alagoas state, and the scheduled shutdown of one of the production lines in Bahia as well.

The international petrochemical spreads dropped, especially the polyethylene spreads, which presented a 36% drop, mainly because of the new capacity starting in United States combined with a weaker global demand. Considering this petrochemical scenario, Brazil's EBITDA in 2019 was 57% lower than 2018.

Moving to slide five, we will comment about the Alagoas situation. In the 4Q, the Company has continued to operate the imported business model to keep its PVC production running and to import soda in order to supply the Brazilian market.

Also, in the 4Q, Braskem reaffirmed its commitment with the safety of the communities affected by the geologic event through the following actions: definitive closing of salt extraction activity in Maceio, by signing an agreement with Alagoas state prosecutors creating a program, and by signing an agreement with the Labor Prosecution Office for implementing a program to recover business and promote education for residents and workers.

Moving to slide six, we will talk about United States and Europe operations highlights. In the United States, the 4Q demand was 5.4% lower when compared with the previous quarter due to seasonality, and a 10.3% drop when compared to the previous year due to the weaker auto industry performance and to the lower growth of the global economy. In Europe, the demand also showed a drop of 3.8% compared to the last quarter, and a growth of 0.7% compared to last year.

The spreads remain in sustainable levels in United States, and in Europe the spreads remain compressed because of the local economy and auto industry slowdown. Given that, the United States and Europe's EBITDA was 48% lower than 2018.

Moving to next slide, we will talk about Mexico operations. The demand in Mexico market showed a drop of 9% in this quarter due to seasonality of the period, combined with the weakness of the Mexican economy.

The Mexico operations were impacted by higher ethane supply and, as a consequence, the utilization rate increased. This effect combined to the commercial strategy of prioritizing sales in more profitable regions offset partially the lower polyethylene spreads in the region.

Moving to the next slide, we will talk about the Company's free cash flow generation. In 2019, Braskem posted a consolidated EBITDA of R$7.8 billion. Of this EBITDA, R$1.9 billion were related to nonrecurring events of PIS/COFINS tax revenues, totalizing a recurring EBITDA of approximately R$6 billion.

The variation in working capital was positive by R$2.4 billion as a result of inventories optimization and extension of the payment terms of imported naphtha.

The total operational investment was R$1.7 billion; R$2.2 billion were related to interest paid; R$412 million regarding income tax payments; and R$903 million related to strategic investments of the Company, mainly the new polypropylene facility in U.S. Adding up all these numbers, Braskem had a positive free cash flow before debt of R$3.1 billion in 2019.

Let us move to slide nine, where we show the corporate debt profile of Braskem. At the end of 2019, the Company presented a cash position of US$2.3 billion. Additionally, the company has a revolving credit facility of US$1 billion that can be withdraw until 2023. In 2020, Braskem maintained its liability management strategy. We issued R$500 million of promissory notes and US$2.2 billion of new bond issuance.

Moving to next slide, we show the main highlights of the year. With regard to the EBITDA and net income indicators, we see a drop impacted mainly by the downcycle of polyethylene, but, on the other side, the Company presented positive cash flow even in this scenario and presented a net debt in line with previous year and under control, with no relevant maturities in the short term as a result of the liability management that the Company did last year. In this context, Braskem remains as an investment grade company by Standard & Poor's and by Fitch.

Moving to Slide 11, we will talk about the Company's commitment regarding the transition to a circular economy. Aligned with our commitment with the circular economy, we have had progress among all plastic goods production chain.

In the beginning of the chain, regarding product design, we have sold 161,000 tons of renewable resins under I'm green brand, and also engaged partnerships with clients to develop even more sustainable packages.

In our production, 70% of OSC program were implemented. This program seeks to eliminate pallets that could be wasted to the environment from our production and logistic process. We have also achieved 26% of water reuse in our plants.

We have been working on initiatives that promote awareness of plastics consumption impact to the environment, and then more than 150,000 people were impacted by them. And we would like to highlight the Edukatu's Educational Program, our partnership with Akatu Institute, and also the partnership with Philadelphia Eagles to engage people with the circular economy in Philadelphia state.

Regarding the plastic chain support, 2,000 tons of post-consumer plastic were delivered to recycling collections, benefiting 37 cooperatives under the Ser+ program.

We are also founder members at Alliance to End Plastic Waste initiative, which seeks to encourage projects that will reduce the plastic waste over the world, and we have been focused in promoting projects in Latin America.

And finally, 1,700 tons of recycled contact resins were sold globally, and we have advanced also in partnership with two institutions to develop technology on the chemical recycling.

Moving to next slide, regarding the climate changes, we have a strong and consistently recognized background in actions to mitigate and adapt our operations to climate change risks.

Our inventory of CO2 equivalent emission has been subject to external verification since 2010, and we have set the relative emission per ton of product as the main metric to pursue operating targets.

In 2015, we had started to develop an 'updation' plan to be implemented among our operations in order to prevent the Company from potential threats regarding climate changes. It has mapped (13:23) high risk, and our target is to reduce them to zero until 2023.

In 2014 and 2018, we have set CO2 intensity emission targets for 2020 and 2030 following our aspiration to be recognized as the top performer company in the sector regarding carbon efficiency.

In 2019, we have concluded our 2018 emission inventory, achieving a reduction of 21% in CO2 relative emissions for our plants related to 2008 baseline.

In 2019, we have obtained leadership position in CDP Climate and Water, and we were also recognized by the UN Global Compact as a leader company in sustainable development.

We have also worked initiatives focused on reducing our CO2 emissions. We have obtained our first carbon credit certificates, result of substituting our vehicle fleets fuel to ethanol amongst 2018 and 2017 in Sao Paulo. And also, we have closed a long-term agreement with Voltalia to purchase solar energy. Finally, we have obtained progress in our adaptation program reducing high risk to 54 in 2019.

Moving to Slide 13, we will comment about our priorities for this year. In productivity and competitiveness, Braskem will focus on the renewal of naphtha and maintaining propane contracts with Petrobras, and also on the startup of the chlor-alkali plant in Alagoas. In feedstock and supply diversification, we will advance on the studies for the complementary ethane import solution in Mexico.

As for geographic diversification, the focus will be on the startup of the new PP plant in the United States in the end of 1H. And about people, governance and reputation, we concluded the monitoring program under the global agreement that we signed in 2016, and now we seek for the insurance of the certificate of compliance by the authorities involved.

The Company will continue committed to address Alagoas issues together with all the authorities involved, ensuring the safety of the people and the safe return of our operations.

In 2020, we will keep investing in our commitment with the circular economy, focusing initiatives to engage the plastics good chain production, boosting our recycling contact resins volume and developing technologies regarding chemical recycling. At last, we will focus on the discipline in capital allocation, keeping a strong cash position during the current scenario.

So we conclude the presentation of the results. Thanks for the attention of everyone. So let us move to the question-and-answer session.

Operator:

Now I will turn the conference over to Pedro Freitas. Please Mr. Pedro, you may proceed.

Pedro Freitas:

Thank you. Thank you, Rosana, for the presentation. It is a pleasure to be talking to you again after the results of 2019, and I appreciate your time today to talk to us. I would like to start just by making a brief comment on COVID-19, and the way that Braskem is addressing the challenges around the virus.

Briefly, I am thinking about this challenge, and we are remaining around this challenge around three broad themes. The first one is our non-negotiable commitment to people safety, and that is driving a lot of our actions around our plants and our offices. I am going to dig a little bit deeper in each of the three, just so everybody gets the entire view.

Safety is the first concern. The second concern, the second focus is around our operations and cash flow, on the business side, our reaction and adjustments to the crisis. And then, the third one is how can we support our customers, our value chain, our suppliers, and also the broad society in general.

Going back to the first topic, around people safety, as I said, it is our non-negotiable value within Braskem, and what we are doing is a little bit different across different regions, but in broad themes, we are operating with minimum teams in our plants.

It is important to understand that Braskem, or the petrochemical industry as a whole, we as part of the industry are an essential part of the fight against the virus. Plastics are used in medical supplies, also in hygiene, in packaging for home delivery. So you see plastics and chemicals, you have hydrochloride for hygiene again. You have different plastics and chemicals being used across the world in the fight. So it is essential that Braskem keeps operating. That is the first point.

We need to keep operating, but with safety. We have reduced the size of the teams in the plants to just a bare minimum, the essential number of people. To give you an idea, in Brazil today, considering both Braskem team members and also contractors, we have reduced the number of people inside our plant by more than 60%.

So we are working on that. We are rescaling shifts in the U.S. We have a few plants where there are people in lockdown, or lock-in inside the plant. So you have entire shifts that are living in the plants, and then they rotate in the plants there. So different ways and different places on how to react to that.

Also, social distancing. In the cafeterias, we have increased the separation of people. On the buses for people that are coming and going to the plant as well, we increased the number of buses, keeping people separated within the buses. These are some ideas, some points around what we are doing.

In the offices, that is another interesting aspect, Braskem has been preparing for a couple of years now to work on a more digital platform. So once we decided that people would no longer go to the office, and I will give you the example of the headquarters in Sao Paulo, there are about a bit less than 1,000 people working there, day in, day out, and we decided that we would ask people that did not have a mandatory requirement to be in the office to work from home. Next day there were only 20 people in the office. So from 1,000 to 20 people in one day, and the Company has not stopped operating.

This is part of the digital transformation that Braskem is pursuing, and it has shown that it bears fruits. This was a very clear example, very fast to implement, to flip the switch there.

On the second bucket around the operations, again different impacts in different places, still very volatile. In Europe, we had a scheduled turnaround that was going to happen in one of the plants a couple of months from now, in May. Because of COVID that turnaround was postponed. But we were already building up inventory in that plant in anticipation of the turnaround.

So what we did now is we have stopped that plant for one week or 10 days, so that the inventory go back to normal levels, since the turnaround is not going to happen.

In the U.S., we are running pretty hard. The main product we are producing in the U.S. polypropylene. Polypropylene goes into medical disposables like syringes and other disposable hospital materials. So we are running hard on that.

We have adjusted our production footprint because the automotive industry is not pulling so much. But on the other hand, for hygiene, health and also packaging, the demand has grown. So we have adjusted. So for now, the U.S. has been running pretty well.

And then in Mexico, we have started the operation of the fast track bringing more ethane into Mexico. So actually, Mexico's production has increased on average over the first quarter. We do see more production in Mexico and we still see, again, demand for our products there.

And in Brazil the situation is a little bit more nuanced across different products and different parts of the value chain. Automotive and construction has slowed down a lot. PVC, for example, is a product where demand has fallen right now because of COVID. Most of PVC goes into construction. On the other hand, we had an uptick in demand for, again, health, hygiene, medical and packaging.

These things not necessarily offset each other directly, but we are adjusting our production. So some plants are running close to full capacity, some other plants are below that.

In all regions it is an ongoing exercise. Every week we review the production planning. Usually the production planning is reviewed every month, and we are now doing that every week, just to make sure that we are not producing more than need or building inventories that we should not build.

It is a careful exercise of market intelligence, demand planning and then production planning that is being reviewed weekly now because the situation is changing dramatically from week to week.

There are examples here in Brazil where last week one product had very low demand and now this week it is in high demand. So the value chains are still adjusting adapting to the new situation. This needs to be revised very frequently, and we are doing that.

Another aspect still on the operational side, which I also think is important, is our financial situation. As you know, and Rosana presented that, we did a large refinancing of our debt at the end of last year. That was in anticipation of the downturn of the petrochemical cycle, which we were already going into at end of last year, beginning of this year.

We did not do this, of course, because of the crisis, but it put us on a very comfortable financial situation looking forward to the next three to four years. Until 2023 at least, most of our debt has been refinanced.

So again looking at the cycle this was our reason, and it is now proving to be good for us because we do not face any significant cash constraints or crunch going forward.

And finally, on the third bucket, in terms of our support to clients and society as a whole, as I said, our products are very useful in fighting the crisis. For example, we just announced last Friday we are donating plastic resins to make up to 60 million face masks in Brazil. We have other initiatives going on in Mexico, in Europe and in the U.S., but that is one example.

We are also working with our clients in Brazil, especially the small and mid-size clients, supporting them with a very competitive credit line for the next couple of months. We are also looking at doing the same or similar programs in Europe and in the U.S., focused on small and mid-sized companies, helping support them through the crisis.

I will stop here and open for questions. But I just wanted to highlight what we are doing in the current environment.

Bruno Montanari, Morgan Stanley:

Good afternoon. Thanks for taking the question. I have a few questions. I will stick to two of them. We have seen quite a sharp increase in naphtha spreads since the beginning of the year as a result of the decline in oil price. Thinking about higher spreads and potentially lower demand, how should we think about the net benefit or net damage of this to the Company's cash flows in 2020, assuming that spread of course stay at current levels? From what you mentioned, it does not seem like demand has declined a lot. On the other side of the equation, spreads are much higher, more than double. So that would be my first question.

Second question, listening to your comment, Pedro, about lowering people inside your plant by 60%, does this mean you could operate a leaner Company after the crisis? Of course, not with the bare minimum, but if you can navigate such a period with that much less people, I was wondering how the future could look like once we get out of this very unfortunate situation.

And a quick third one, what would you say could be your overall utilization rate at the worst of the demand contraction, both in Brazil and the U.S. and Europe? Thank you very much.

Pedro Freitas:

Thank you, Bruno, for the questions. Starting with the first one, we did see an increase in naphtha spreads. If you look overall, there is a slowdown in demand, and again, a very uncertain scenario, even for the next week, what to say over the next month. So we could still see a further decrease in demand or stability, or even growth. We do not know. It is very hard to predict that right now.

It is very hard to answer your question on increased naphtha spreads versus demand. I think it will depend a lot on how long those two effects remain in place, because we were coming into a downturn in the cycle.

So assuming that the structural situation of the industry from a from a stable supply-demand perspective would be lower spreads in general, you can still go through a period where oil prices remain low and then the spreads would be good. But it is very hard to say when it comes back, and then whenever it comes back, how does it affect demand itself. The interplay there is very complex to predict.

I am afraid I do not have a very good answer for you. I would say that right now that interplay is likely positive, so better spreads against lower demand, but that can change, as I said, even next week. So, it is very hard to predict that over the course of the year.

Rosana Avolio:

If I can add just one comment on that, in our results, Bruno, because of inventory costs, we have the positive benefits starting in April. This is an important point.

Pedro Freitas:

Thank you, Rosana. That is indeed an important point. Our results cycle is different from the kind of the spot prices that we see today. So we do carry inventory costs over time, which take one or two months to hit our results. So in the 1Q we will still not see the benefit of the higher spreads that we see today.

On the operators and the point on can we operate leaner, we have a constant process of revising our operational footprint, and I do not believe that we can operate materially leaner; leaner than in the past.

To understand that it is important to see why we were able to reduce the 60%. Actually, we are only performing those maintenance activities that are immediately required for safety reasons or for critical operational reliability situations.

So, the day to day predictive maintenance, that is not happening right now. It is more kind of the critical aspects of maintenance that are being addressed. We are not doing the rest. There are improvement projects, small investments that are done in the plants, and we are not doing that.

One consequence of that is that we can operate with fewer people, but we are not capturing potential value opportunities for the long-term. So we are going to do those, but we are not doing them now. When the situation gets back to normal, then we will go back and implement those projects.

The other thing we are doing is, when you are running an operation, sometimes, for example, you would have five field operators. For a certain amount of time, you probably can operate with four. We have also looked at shift schedules. For now, some people are working more than the normal. So we have fewer people, but they are working more hours. All of that has also an impact on extra hours, on additional costs that the Company may incur to have fewer people in the plant.

So I would say the current situation is not sustainable. Maybe when we come back, some opportunities will be captured to operate leaner, but I do not think, again, they are very material.

And on the last question, overall utilization, I would say that we have many different ways of adjusting our utilization rate. We can choose to stop a plant, or we can reduce the overall level of utilization across all plants, or we can stop one line of the cracker. Different approaches for that.

So looking at overall utilization and how does that interplay with the future again, I will go back to my first answer. It is very hard to predict right now what the average of the year could be. If we do not stop any line completely and no plants are stopped completely, the theoretical number that I would work with is somewhere around 70%, 75%. That is kind of the minimum, but we can go below that on average if we stop a plant or a site, something like that.

Rosana Avolio:

And we could reduce a little bit more the 70%, 75%, but in a short period, not for a month. So we could adjust that one week or 10 days, but not for longer periods. If that happens, we will need to shut down one of the lines for (37:18 AUDIO FAILURE)

Luiz Carvalho, UBS:

Thanks. I also have two questions here. The first one is about the recent events and the impact on Mexico, and of course in PEMEX with the low oil price, but also your partner, Idesa, which is now at a very high leverage. If you could share a bit more color on the Mexico supply side, but also in terms of the financial situation of your partner in the project. What are the actions that Braskem might need to take in order to protect and continue to have the projects running under healthy circumstances?

And the second question is about the advantages that you already comment about, the difficulties to understand due to the forecast and so on, but something that has been our concern recently is about liquidity. Your EBITDA dropped from US$3.5 billion in 2018 to potentially 2020 more than 50%, and of course the leverage went up. So one, how are you addressing this topic with the credit rating agencies? But also, what kind of actions the management is taking to address the liquidity issues, extending the debt maturity, renegotiating? What are the main concerns from your end in this topic? Thank you.

Pedro Freitas:

Luiz, thank you for your questions. I will start with Mexico. On the supply side, PEMEX has been supplying roughly 70% to 75% of the contract volumes. That is going on. At times, it goes even up to 100%, and then at times it drops to below 70%, but on average that is the range that we have been seeing. That has been consistent. Even with the recent events there, we did not see any change in that profile.

And what we have done now, we have started the operation of the fast track. So the fast track is this project to import ethane into Mexico. We can serve up to 15%, 20% of our needs with this solution, which is not temporary, but it is not the permanent solution. It is kind of a semi-permanent solution where the ethane comes by ship from the U.S. Gulf Coast and then we have trucks bringing the ethane into the plant. The permanent solution would be to replace the trucks by a pipeline or something that would be more definitive there.

But it has been operating, it is ramping up very well. We have seen a more consistent increase in production, as I mentioned earlier, in Mexico. Even with the current oil price, I mean we have been receiving the ethane from PEMEX.

On the financial situation of Idesa, I am afraid you have to ask Idesa. I am not the right person to answer that. The project itself has good cash flow generation. And even with lower polyethylene prices, we do see that it still has a good profile from the project itself.

Braskem Idesa has been running well. It has been able to incorporate the new ethane very well into the production. So I would say that it is running as expected in the current environment.

Moving on to the liquidity and leverage point, I would say that, first, we had a very good, strong cash generation last year, a little bit north of R$3 billion. That is the first point that I think it is important. We ended up the year with roughly US$2.3 billion in cash, plus the US$1 billion in the revolving credit facility that we have available, right.

Since then the cash position has remained strong, within normal oscillations. We have decided to draw the revolving credit facility now in the beginning of April. We have done that as a precaution. We have seen many companies doing that.

And given the uncertainty of this scenario going forward, this is like an insurance policy. So we decided to get the funds into Braskem to be on the safer side. I want to emphasize it, this was a precautionary move, it is not because we are facing any cash constraints.

Our financial policy, which defines how much cash we need to carry, is very conservative. To give you an idea, it assumes that we have no access to any cash except from receivables from customers for a year, and we need to carry enough cash to be able to face all of our payments for a year, only getting money from clients as part of normal operations.

Again, the current situation is more volatile. That is why we decided to be more cautious and draw the RCF, but I would say the current situation right now is stable.

We have been doing some moves or some actions within Braskem to preserve liquidity. One of them, for example, is a reduction in the CAPEX forecasted for the year. We do not have a number yet, but based on the discussions that we have been having, I think that we are going to cut CAPEX this year by at least 10%.

We also have a positive impact from the FX devaluation, the Real devaluation. A lot of our CAPEX is in Reais, so that is going to be fewer USD going forward, with the devaluation of the Real. So that is also a positive effect that we see, be it on CAPEX, be it on our fixed costs. We were already working on that.

The monetization of the PIS/COFINS tax credit is going to continue this year. That will add another R$800 million this year to our cash flow. That is our expectation. So I would say that we are working hard on preserve cash, at the same time as we are also being cautious on how we handle this situation.

On the rating agencies, they do see the strong liquidity profile of the Company. That is their main concern right now. I would say most of the conversation has been around this particular topic. It is less on leverage, it is more on liquidity, and they seem to be comfortable with what we have in hand right now.

Leverage has gone up, as you can see over last year. And given the downturn in the cycle and potentially lower EBITDA this year, which is still very hard to predict, leverage could go up even a little bit higher.

But the rating agencies have been telling us and have written in their reports that they want to see Braskem deleverage in the 12 to 24-month range. So, that is the expectation they have.

We are actively working on initiatives that would lead us to that outcome. But now, with the COVID situation, I think some of those plans will be postponed. They were work-in-progress and now, the current financial market situation has at least postponed most of those actions, except for CAPEX and cost reduction. That is ongoing, but the rest, I think we need to wait for the situation to be a little bit clear.

Bruno Montanari:

Okay. Thank you, Pedro.

Hassan Ahmed, Alembic Global Advisors:

Good afternoon, Pedro. I just wanted to revisit some of the commentary made by one of the people who was asking the question and your response to it, just around the whole naphtha spread side of things. Obviously, as we take a look at what happened prior to the steep oil price decline, naphtha spreads were fairly negative. And then, all of a sudden, the oil price decline happens, and all of a sudden naphtha based ethylene margins blow out.

I would imagine that there is no one in the industry who believes that those levels of margins are sustainable. even if oil and naphtha remain at current levels, because clearly there is a lag between naphtha prices going down and coproduct credits, which is where the bulk of naphtha based ethylene economics come from, resetting, because obviously crude and naphtha move in tandem with each other, and coproduct propylene, butadiene and the like, take a while to reset.

With that said, question one is, are you in agreement with that view? And part and parcel with that question is that, if you are in agreement with that view and we go back to the old naphtha price regime, in that environment I would think that the naphtha based guys are still the marginal producers. So what then would happen, particularly in light of some of the sort of semi demand disruption we have seen with COVID and the like, what happens in your mind to curtailments? Do we see continued operating rate reductions in Asia, do we see some project cancellations? How do you sort of think about that, both in the near term and some of these phase two projects that have been announced?

Pedro Freitas:

Hassan, thank you for your question. These are very complex questions, especially in the uncertain situation. They are normally very difficult to answer, and in the current environment, I would say they are next to impossible. But I will give it a shot.

The ethylene cash cost, as you know, at some points over the past couple of weeks has been negative in Asia. Actually, the coproduct credit was larger than the whole cost of naphtha plus running the crackers, and then the players in Asia were left with negative cash costs for ethylene.

I agree with you that there will be a reset. Either the oil price goes up and naphtha goes back up, because of some resolution of the Russia-Saudi Arabia oil dispute, or coproduct prices will come down and then we would be left with tighter spreads in the naphtha crackers, in the naphtha based industry in general.

What is the difference between those two situations? We were already forecasting tight spreads for the year. So setting aside a little bit the volume point, I am coming back to that later on, but setting that aside for a bit, just on the spread compression, we were already being very conservative in our approach to spreads.

Spreads, I would expect them to tighten again, but depending on the level of the oil prices, what industry players could get is, if the oil price remains lower, we could see a positive working capital impact on companies because they would be taking working capital out of the system. I think that the main impact that you could see is that, except for the volume impact.

And then we go to the volume impact. On volumes, there is demand destruction that you are seeing. I do not think a lot of that is sustainable. People are still going back to buying cars, building homes or buying refrigerators. There may be some behavior changes in the population going forward that could lead to slightly higher or lower demand growth, but I do not think that we would see sustainable demand destruction going forward.

The only aspect of demand destruction that could come is if the global economy remains weak for a long period, and then you would see families and consumers without disposable cash to buy.

People are talking about the U-shape or the V-shape or the L-shape of recovery. My base case today is still the U-shape. Then, we move to an L-shape, yes, but right now, I think at my view is the U-shape. So there is a drop, but then recovery in demand going forward.

That should lead to cancellation or postponement of projects. Will that happen? Right now, nobody has announced anything, but if the projects remain being built at the rate they are right now, nonstop, then of course you would see lower operating rates going forward.

The flip side of that is if the oil price remains low, chemicals and plastics will have a lower price, so they will be more competitive compared to alternative materials. So you could see some positive demand upswing there, if the situation remains in a low oil price.

So again, I do not have a firm scenario, but those are the elements that I would consider going forward.

Hassan Ahmed:

That is very fair. On the demand side of it, we are already beginning to see some sort of a thought process change where a lot of sort of regions, states, provinces that were talking about single use plastic bags and the like, at least for the time being, have sort of put that aside.

As a follow-up, Pedro, just on the polyethylene side of things, one of the burning topics obviously had been and continues to be the differences in supply and demand dynamics between the different grades of polyethylene out there. And historically, as we all know, pricing movements between the three different primary grades tended to happen in tandem. And now, with the sort of relative tightness on the low-density polyethylene side, which obviously you guys have a decent exposure to, relative to slackness on the high-density and the linear low side, for once it seems that low-density seems to be getting better pricing than linear low and high-density.

How are you guys thinking about that? Do you think that over the last month or two, I believe that prior to the market going nuts, Exxon came out with a price hike for low-density and was not really saying much about the high-density or the linear low. So do you think this is the start of a new trend, keeping in mind the deltas between the supply demand dynamics of all the grades?

Pedro Freitas:

I would say one comment. We have seen in the past, so if you go back, probably ten years, you are going to see that low-density has had a premium, a higher price than the other two grades of linear…

Hassan Ahmed:

No, but I am talking about pricing movements as in like a US$0.03 a pound price hike and all grades seem to have the same right month-over-month.

Pedro Freitas:

I do not have a very firm view on that. We can talk to the commercial team and get back to you, but I think the main consideration there is that most of the capacity that came online, especially in the U.S. over the past five years, is high-density and linear low. We have a lot new low-density. For example, in our project in Mexico, we do have about 20%, 25% of the capacity in low-density, and the rest is high-density.

So we do have some new low-density investment, but most of the investment was in high-density and linear low, and including some swing plants that can swing from linear low to high-density.

There is a more restricted supply of low-density globally and that shows in this price differential. In terms of the more specific pricing moves that have been happening over the past couple of months, I would need to get back to you.

Hassan Ahmed:

Perfect. Thank you so much, Pedro.

Christian Audi, Santander:

Thanks. I have two questions, one focused on leverage, the other on CAPEX. Pedro, you mentioned on the leverage, obviously, we had seen the pickup in your net debt to EBITDA. As you look into 2020, notwithstanding all this uncertainty, is there a range that you feel comfortable with to try to maintain that level during the year? And also, is there a range that the rating agencies are seeking, or they simply want to see you at this leverage as you mentioned before? And are you keeping an eye on any specific covenant that could be reached given the higher levels of net debt to EBITDA that you have reached?

And then, on the CAPEX front, you mentioned the potential cut of 10% in CAPEX. Can you remind us what percentage of your CAPEX is USD versus Reais, because obviously, as you pointed out, you will be helped by the depreciating Real? And also, will this cut translates into your inability to ramp-up production should the economy come back sooner than expected? In other words, does this cut more not fundamentally important projects that will not impact your ability to ramp up your production quickly should the economy come back sooner than you think? Thanks.

Pedro Freitas:

Christian, thank you for the questions. So on net debt, the rating agencies, at the beginning of last year, a couple of them had a brief commentary on that, saying that in a cyclical industry like ours, on the lower end of the cycle as we are right now, they could see leverage going up to 3.5x or so.

That would be kind of understandable. They prefer that we would be below 2.5x net debt to EBITDA. As we have shown, we closed the year with 4.7x, so we are above even the 3.5x. That is a fact.

We do have another aspect that the rating agencies also look at, which is the debt profile, and the maturity profile of the debt. When they look at that, and when we look at that, we see that, up to 2024, we have a comfortable debt maturity profile.

That gives us time to kind of have a glide path within one to two years to go back to this range of 2.5x to 3.5x, depending on where we are in the cycle. So low end of the cycle could be 3.5x, high end of the cycle should be even below 2.5x, so that we have some space to go through the swings in results because of the cyclical nature of the industry.

As I said, we were working on some initiatives, some alternatives to address that. Right now, some of them are accelerating, like the CAPEX reduction. Some of them we are revisiting because of just the way the financial markets.

Some alternatives like, for example, we have some auxiliary assets, which are not core to the business. They are important assets that we could divest. That sort of thing is what we were discussing and looking at as alternatives.

So, again, we are above the range that we would like to be, but we do have this timeframe, the space that is given by the debt profile of the Company to go back to a more normal leverage number.

On covenants, just briefly, we do not have any financial covenants on our debt. So we have not reached those because they do not exist.

In terms of the ramping back up on the return, in the back end of the crisis, I would say that it will depend a lot on how and where demand goes back. But we keep producing all products. It is not like we have stopped production of any product.

So maybe we will hit some utilization rate that, if we were doing the investments that were planned, maybe you could reach 95% utilization rate. Maybe now, without those projects being implemented, we go back to 90%.

And these are just examples. These are not real numbers that we are working with, but just to give you the example. How much of that marginal production or sales volume that we are losing out by not having those investments made now? Potentially, and given all the spread scenario that I briefly discussed in answering Hassan, that marginal production is very low value anyway.

So we think that we are not missing out on any large value perspectives because of the way that we are handling the CAPEX. We hope we are not wrong.

Christian Audi:

Understood. And can you give us a sense of what percentage of your CAPEX is in USD versus Reais? Because if the depreciation of the Real Continues, obviously, you would not necessarily have to cut CAPEX anymore.

Pedro Freitas:

Of the maintenance CAPEX, about 80% is in Reais and 20% is in USD. Of the total CAPEX, remember that we have the Delta project, the new PP plant that – by the way, that project keeps going, and we still do anticipate that the new plant will come online still in the 1H20 –, with Delta and the other larger projects, about 60% is in Reais and 40% in USD for this year.

Christian Audi:

All right. Thank you very much.

Operator:

Now I will turn over to Mr. Pedro Freitas for closing remarks.

Pedro Freitas:

I would like to thank all of you for participating in our call today. It was a pleasure talking to you, and I hope that we can keep the dialog going in the coming months. It is going to be very volatile, very uncertain.

I would say that Braskem is prepared. We are getting ready for the downturn of the cycle. So now we find us in a good situation, with a longer debt profile, without any relevant maturities in the short term, a robust cash position. That gives us comfort.

And then, the other aspect, which is more strategic and more structural for Braskem, which also shows its value at this point, is the diversification that we have. Geographic diversification, product diversification.

Looking at all of that, it gives us more resiliency because sometimes when a region is not doing so well or a product is doing better, we can benefit from the value of mitigation that diversification brings.

So our strategy has been showing that it is being proven, and it is showing that it is a robust strategy moving forward.

Overall, I would like to thank you, and hope to keep with the dialog with you. And I hope everybody is safe and stay safe. Goodbye.

Operator:

Thank you. This concludes today's Braskem's earnings conference call. You may disconnect your lines at this time.