

Bulletin:

Braskem's Leverage Should Remain In Line With Our Expectations Despite Weak Profitability In 4Q 2022

March 23, 2023

This report does not constitute a rating action.

SAO PAULO (S&P Global Ratings) March 23, 2023--S&P Global Ratings said today that Braskem S.A.'s (BBB-/Stable/--; brAAA/Stable/--) weak fourth-quarter results pressure its credit metrics, but leverage remains relatively controlled in terms of our expectations for the rating. The company's actions in the next few months to mitigate profitability and cash flow strain from weaker industry conditions will be key to maintain its credit quality.

Historically, Braskem and the petrochemical industry have had weaker results in the fourth quarter. On top of that, fourth-quarter 2022 saw weaker demand from China and the uncertain economic scenario in the U.S. and Europe. This, combined with new polyethylene (PE) and polypropylene (PP) capacity coming online, put significant pressures on spreads and reduced Braskem's utilization rates, mainly in Brazil. All these factors, coupled with noncash environmental provisions of R\$248 million, led to negative EBITDA in the fourth quarter.

Despite the weak profitability, the company still generated free operating cash flows and ended the year with S&P Global Ratings' adjusted debt to EBITDA at 3.1x (thanks to solid results in the first half of 2022), slightly weaker than our forecast of 2.5x-3.0x for 2022. For fiscal year 2023 (ending Dec. 31), we expect revenues and EBITDA to decline because the petrochemicals industry is in a cyclical trough. To face the challenging conditions and manage the weaker spreads, Braskem's management has already begun countercyclical measures such as cost reductions, capex cuts, and improvements in working capital. With that, we expect the company to maintain stable debt levels, leading to debt to EBITDA below 4.0x in 2023 and below 3.5x on a three-year average. This leverage ratio remains aligned with our rating on the company. Still, we could revise the outlook on Braskem to negative in the next few months if we see additional downside pressure on spreads or demand, and/or if the company isn't able to implement its countercyclical measures in an efficient way, leading EBITDA to fall to R\$7.0 billion-R\$7.5 billion (versus our current forecast of R\$8.0 billion-R\$8.5 billion). In this scenario, we would see debt to EBITDA rise above 4.0x in 2023, and more difficulties in reducing leverage in 2024, which would compare negatively with peers we rate at the same level.

Earlier this month, two legal actions were filed against Braskem related to the geological damage from its salt mining operations in Alagoas. These are still under judicial discussion, but we don't incorporate any new significant provisions related to the actions. Modest amounts could be added to settle some of the other pending discussions. The company provisioned about R\$13 billion related to the Alagoas event and has disbursed R\$6.9 billion from May 2019 up to year-end 2022. Braskem expects to disburse about R\$4.2 billion this year. On the other hand, the company reached an agreement with the insurance companies and will receive part of the \$300 million insurance claims this year, covering part of the cash outflows.

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