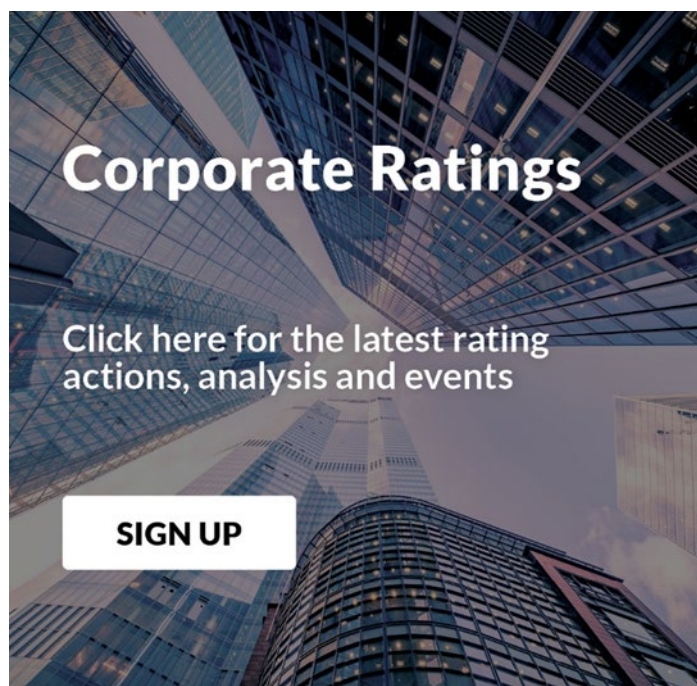


What Investors Want to Know: Takeover Bids for Braskem S.A.

Acquisition Offers Mount as Controlling Owner Faces Recovery Deadline



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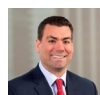
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Odebrecht's State of Affairs

In 2015, Odebrecht S.A., now known as Novonor, was implicated in Brazil's Operation Car Wash corruption probe, which ultimately led it to file for bankruptcy four years later. More recently, market reports emerged suggesting that it may need to sell its controlling share in Braskem S.A. (BBB-/Stable) in order to face debt obligations with local banks. Several prior takeover offers were made, including a binding one by LyondellBasell in 2019, and a non-binding offer by Apollo Global Management, Inc., among others last year. None seem to have reached a consensus between Novonor and its creditors.

Offers to Acquire Braskem Pick Up Steam

Fitch Ratings believes that with the clock to finalize its recovery plan ticking, Novonor must accelerate this sale. Knowing that, potential buyers interested in Braskem made offers in the past three months hoping to capitalize on the situation. Apollo and Abu Dhabi National Oil Company (ADNOC) were the first suitors, followed a month later by Unipar Carbocloro S.A. (AA+[bra]/Stable) and J&F Investimentos S.A. Lastly, Ineos, according to Brazilian newspaper *O Globo*, is reportedly looking closely at a bid but has not yet made an offer.

Petrobras Yet to Decide the Fate of its Stake

In response to an acquisition proposal, Petroleo Brasileiro S.A. (Petrobras; BB/Stable), as the second-largest shareholder in Braskem, and according to a shareholder agreement between Novonor and Petrobras, could either exert its right of first refusal or its tag-along rights. The first would give it the ability to acquire Braskem's shares in the same condition as the Notice of Sale Intention and without changes or addendum to the agreement or appoint a third party to do so. The latter would compel whoever wins the bid to acquire its stake as well. Given the state's substantial ownership in Petrobras, President Luiz Inácio Lula da Silva is said to have the final say on this matter.

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Who Controls Braskem, and Why Is it for Sale?

Braskem is currently owned by Novonor, with 50.1% of voting shares (38.3% of capital), and Petrobras, with 47% of voting shares (36.1% of capital). The remainder is free float.

After Novonor accrued significant fines and faced reputational damage due to the investigation into corruption involving senior executives and the governments of several Latin American countries, the company filed for bankruptcy in 2019. According to different news reports, five local banks — Itau Unibanco S.A.; Banco Bradesco S.A.; Banco Santander, S.A.; Banco do Brasil S.A.; and Banco Nacional de Desenvolvimento Economico e Social (BNDES) — currently hold approximately BRL15 billion of debt owed by Novonor, which pledged its shares in Braskem as guarantee.

We believe that these banks might exert pressure on Novonor's management to accelerate a sale to pay off debt. However, Braskem's current market value is approximately BRL20 billion, and given the size of Novonor's stake, the three offers on the table would be insufficient to cover the liability, in our view.

In the past several months, three new non-binding offers were proposed that have progressed a step further and are currently being assessed by the parties involved. Apollo and ADNOC reportedly offered to pay BRL47/share, in a deal structure that includes BRL20/share in cash, another BRL20/share in perpetual bonds and the remaining BRL7/share in the form of a warrant. Unipar offered to pay BRL36.50/share in cash, either by issuing bonds or equity at the company level or through a separate vehicle. The offer was valued at BRL10 billion and would leave Novonor with 4% of voting shares. J&F made the last bid, offering BRL10 billion for the entire stake.

What Is Braskem's Business Profile?

Braskem produces and sells chemicals, petrochemicals, fuels, steam, water, compressed air and industrial gases. The company has plants in Brazil, the U.S., Germany and Mexico that produce thermoplastic resins, such as polyethylene (PE), polypropylene (PP) and polyvinyl chloride (PVC). Its feedstock is mainly balanced between propylene (38%), naphtha (36%) and ethane (21%).

With approximately 60%–65% market share in Brazil, the company benefits from its strong geographic and feedstock diversification and its leading market positions in PE and PP. Fitch estimates about 40% of its EBITDA is derived from the U.S., Germany and Mexico, sufficient to cover its interest burden in hard currencies, permitting it a rating above Brazil's 'BB' Country Ceiling.

How does Fitch Expect a Prospective Takeover to Affect Braskem's Ratings?

Depending on who acquires Braskem, its ratings could be affected either positively or negatively, contingent on factors such as capital access and control, legal ties, operating synergies and strategic incentives. In our view, either of four companies could take control: ADNOC, Unipar, J&F or Petrobras.

An acquisition by ADNOC and Apollo would be neutral for Braskem, provided that Fitch neither expects ADNOC to guarantee

Braskem's debt nor sees strong strategic and operating incentives that could support the business. Abu Dhabi's sovereign rating is 'AA', with a Stable Outlook, above Braskem's rating, and Apollo is a financial sponsor, which does not exert any influence on Fitch's parent and subsidiary linkage assessment.

Unipar is smaller than Braskem, but combined, they would have BRL85 billion in revenue and BRL8.5 billion in EBITDA, per our projections for 2023. Short-term leverage would exceed 5.5x according to our metrics, given that Unipar would have to raise BRL10 billion for the acquisition. Fitch understands that management is studying different structures, for example a special purpose vehicle, such that covenants on its debt are not breached, although we would still see it on a consolidated basis. Nevertheless, such high leverage is not consistent with an investment-grade company; it would be necessary to await the formal conclusion of the deal to further analyze its impact on the rating.

Fitch sees a possibility that Unipar could split Braskem's assets with Petrobras. In our view, it would make sense that Unipar controls the foreign operations while Petrobras keeps the local assets. Additionally, the PVC concentration resulting from the merger could cause antitrust authorities to intervene in the transaction, and finding a buyer for that segment might not be easy.

In 2008, together with Petrobras, Unipar formed Quattor Participações, the second-largest petrochemical company in South America. Unipar exercised control over the entity, with 60% of the voting capital. Quattor was then sold to Braskem in 2010 for BRL647.3 million.

J&F is Brazil's largest private nonfinancial economic group. It is the owner of JBS S.A. (BBB–/Stable), its main subsidiary and the largest beef and poultry producer globally, as well as the second-largest pork producer in terms of capacity. Fitch would view J&F as a financial sponsor, without strong ties to influence Braskem's ratings negatively.

Should Petrobras exercise its right of first refusal and further obtain control, Braskem's ratings could come under pressure once Fitch can view it as a state-owned entity, like its new parent. Despite Petrobras 'bbb' Standalone Credit Profile, the 'BB+' cap on Brazil's sovereign rating would ultimately apply to Braskem as well.

Both Petrobras and Unipar have already begun due diligence measures.

What Events Could Trigger a Change of Control Clause?

According to the offering memorandum for Braskem's notes, excluding the hybrid bonds, no later than 90 days following a change of control that results in a rating decline, the company would have to offer to purchase all outstanding notes at a price of 101% of the par amount. A change of control means a person or group other than Novonor, Petrobras and its subsidiaries or affiliates becomes the beneficial owner, directly or indirectly, of more than 50% of total voting power. A rating decline means Braskem would have to be downgraded below investment grade by at least two agencies within 90 days of the announcement.

In Fitch's interpretation, if Petrobras becomes the new controlling shareholder, this clause would not be triggered. However, a change

in control by any other buyer, combined with a rating decline, could accelerate payment on approximately BRL28.7 billion of bonds as of 1Q23.

What Stands in the Way of a Deal?

Fitch sees several factors impeding finalization of a deal. Novonor's future relies on whether its creditors will accept a haircut on its debt, the change of control provisions of Braskem's bonds linked to a rating decline, settlement of the geological event in Alagoas resulting from damage linked to Braskem's salt mining operations, the deal's financing terms and Petrobras' perception of Braskem's strategic utility for its new petrochemical mandate.

Fitch believes that creditors hold the bargaining power, as they have the fiduciary lien of Braskem's shares. In 2020, Novonor signed a deal to restructure BRL50 billion in debt, including BRL34 billion with the six major banks in Brazil. At that time, it was reported that the company, as a way to convince creditors to accept the plan, pledged to sell Braskem, Atvos and Ocyan in three years, a span during which the banks could not execute the guarantees. Time is now up. Banks could continue waiting for a better offer to be made for Braskem or let the opportunity go, knowing that given the deadline attached to Novonor's recovery conditions, this might be their last chance to approve any offer. The haircut could be counterweighed by Novonor's future dividends or some other structure, in which case the banks would be better off.

Braskem's bond indentures, excluding the hybrid ones, state that the company must offer to purchase all outstanding notes at a price equal to 101% of par value should a rating decline below investment grade result from a change of control. In that event, the company could need to refinance in harsher conditions.

The uncertain consequences of the geological event in Alagoas could pose a threat to the deal. Although Braskem's balance sheet includes provisions, local authorities could claim the amount to be insufficient to cover its losses and the needs of the local population, such that sanctions could still arise.

Braskem had a provision of BRL6.1 billion as of 1Q23, or approximately USD1.32 billion, on its balance sheet related to the geological event in Alagoas. BRL4.1 billion (USD820 million) of this was considered current liabilities, and BRL2.0 billion (USD400 million) was noncurrent. This represents a decrease from BRL9.16 billion (USD1.7 billion) at the beginning of 2021 following disbursements of BRL2.9 billion (USD543 million) in 2021 and BRL2.0 billion (USD385 million) in 9M22. Fitch expects payments of USD750 million in 2023 and USD330 million in 2024 related to this liability. In Fitch's view, any other contingencies would not be above BRL2 billion (USD350 million), disbursed over the long term. In July, the company announced an additional BRL1.7 billion deal with local authorities, BRL700 million of which was already provisioned. Material deviations such as these amounts could be a rating concern.

The acquirer would need to access leveraged financing, perform due diligence, obtain antitrust authorities' approval and start absorbing Braskem's assets to gain synergies and operationalize the new structure in an economically viable way.

Finally, the way Petrobras decides to approach the situation could undermine the acquirer's willingness to proceed. The company's new president stated that he does not wish to consolidate

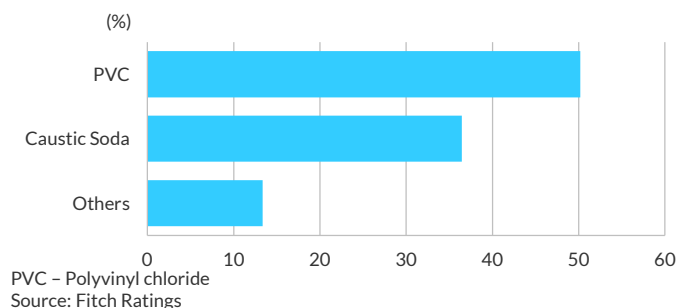
Braskem's debt on Petrobras' balance sheet. On the other hand, Brazil's President Lula views petrochemicals as strategic and made fostering the sector part of his political agenda.

What Strategic Value Would Braskem Add for Unipar or Petrobras?

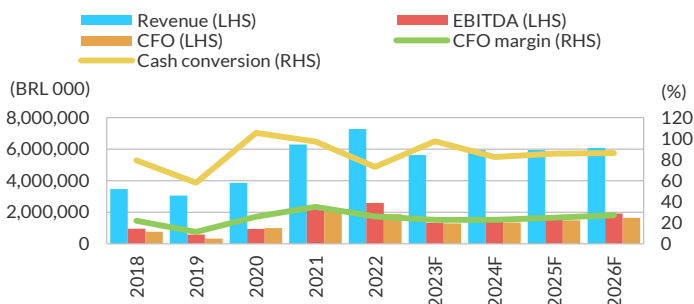
Unipar is one of the largest producers of PVC, caustic soda and chlorine in South America, where it also produces sodium hypochlorite, hydrochloric acid and dichloroethane, the basic raw materials used to produce PVC. Its products are used as inputs in the textile, pulp and paper, food, beverage, medicine, and construction industries, among others.

Unipar Carbocloro S.A.'s Product Mix

Per Fitch Ratings estimates, 2022

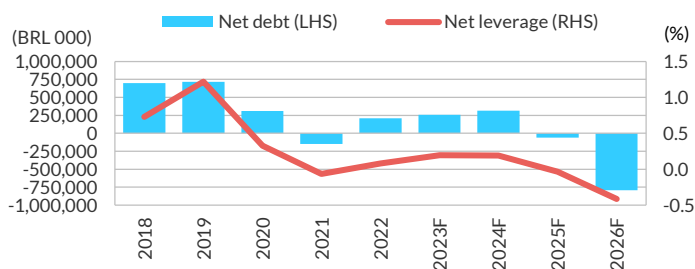


Unipar Carbocloro S.A.'s Operating Profile



The company has maintained low leverage, robust liquidity and positive cash flow from operations even in low periods of the chlorine-soda and PVC price cycles. After Unipar achieved very strong results in 2022, driven by abnormally high soda prices, Fitch expects performance to converge toward the average. PVC tends to correlate little with soda, which allows the company to benefit from diversification and reduces margin volatility.

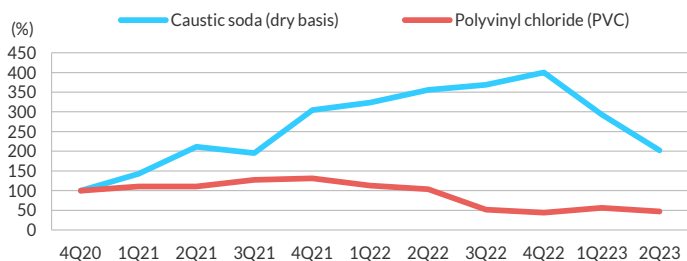
Unipar Carbocloro S.A.'s Leverage Profile



F - Forecast
Source: Fitch Ratings

International Price Evolution of Chemicals

Base January 2021 = USD100



Source: Fitch Ratings, IHS Markit

We forecast revenue of approximately BRL5.6 billion and EBITDA of BRL1.3 billion in 2023, compared with BRL7.2 billion and BRL2.5 billion in 2022, respectively. Leverage should continue below 0.5x.

Compared with Braskem, Unipar's operations have limited scale and low geographic, client and product diversification. It relies on local markets, and its competitive position in the global industry is minor. On the other hand, it has higher operating margins (30%, compared with Braskem's 17%, on average, in the last five years) and lower financial leverage (0.5x, versus 3.4x, on average, in the last five years). However, Braskem has proven stronger access to local and international debt markets, lower cost of capital and a significantly stronger asset base.

The bid for Braskem is strategic for the company, as it would unleash new markets, increase scale and diversification, and create synergies between the operations. Unipar has experience operating in this sector, and the fact that Unipar is a local company could make a difference in Petrobras' decision to exercise its rights or not.

If its offer were accepted, Unipar would have to raise capital to fund the BRL10 billion bid, as it has BRL1.4 billion of cash and approximately the same amount in debt, as of 1Q23. In Fitch's view, a leveraged buyout is a big step, and given current debt market conditions, we do not see much appetite for raising such a substantial amount, unless an equity partner decides to join the bid. Additionally, the change of control could cause Braskem's debt to be accelerated, and refinancing all of it might be difficult.

Petrobras' potential approach to its stake remains uncertain. Although it has stated that entering the petrochemical sector is a strategic goal for the company, its president does not wish to consolidate Braskem's debt on its balance sheet. Petrobras' status as one of Braskem's main suppliers could also factor into Petrobras' stance on the strategic benefits of controlling Braskem.

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