

Research Update:

Brava Energia S.A. 'B+' Rating Affirmed; Outlook Remains Positive On Expected Higher Production And Leverage Reduction

April 4, 2025

Rating Action Overview

- We expect Brava Energia S.A. to continue increasing production in the next few months with the additional wells' connections to the new FPSO in Atlanta and resumed operations at Papa-Terra, while it maintains relatively stable onshore operations.
- After setbacks in past quarters, operations are now normalized, and we expect Brava to reach daily production near 85,000 boe/day in the next few months. Rising production will support higher cash generation and lower leverage in the upcoming quarters.
- We therefore affirmed the 'B+' global scale issuer credit rating on Brava and the 'brAA-' national scale rating. We also affirmed all issue-level ratings. The outlook remains positive.
- The positive outlook reflects our expectation of an upgrade once we are confident on Brava's leverage reduction. For an upgrade, we would see average S&P adjusted debt to EBITDA trending below 2.5x and FFO to debt above 30%.

Rating Action Rationale

Brava Energia S.A. had production hurdles during 2024, but the issues seem addressed, and we expect production to rise throughout 2025. The company encountered several operational issues in the fourth quarter of 2024, importantly due to delays in receiving regulatory permits for the start-up of the new FPSO Atlanta, and a prolonged maintenance stoppage at Papa-Terra field due to works to improve the integrity of the oil treatment systems and gas production facilities. Such improvements should reduce diesel consumption, due to the increased use of the field's natural gas. This should contribute to lower lifting costs this year. The company already resumed operations in that field, which registered daily production of 15,000 boe in February 2025.

Brava delivered Atlanta's long-awaited first oil by Dec. 31, 2024, with the connection of two wells to the new FPSO. The field registered 16,800 boe/day in January and 19,900 boe/day in February

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2025 (80% working interest). We expect it to expand to more than 32,000 boe/day in the next few months with an additional four wells, which have proved production, and have connections scheduled for the first half of 2025. In addition, after relevant revitalization work in Potiguar field and the gradual increase in steam injection capacity, we expect the Potiguar complex to sustain production at 24,500 barrels of oil equivalent a day in 2025-2026.

We expect gradual leverage improvement over the next quarters. We currently forecast S&P adjusted debt to EBITDA of about 3.0x in 2025 and in 2026, versus our previous expectations of 1.5x-2.5x, and funds from operations (FFO) to debt between 20%-25%, versus 55%, considering the lower production levels and Brent price at \$70 per barrel. Although we now expect it will take longer for the company to reduce leverage, we think Brava will focus on improving efficiency and consequently internal cash generation. We assume that the company will use excess cash generation to pay down debt, reducing gross debt by about R\$1 billion this year.

We also expect Brava to work on liability management alternatives to reduce cost of debt, and potentially monetize Yinson's receivables of \$400 million, using proceeds to paydown debt. The company ended 2024 with gross debt of R\$15.7 billion (ex-total return swap of R\$3.3 billion) and a cash position of R\$5.6 billion.

Capex will be directed to increase production levels and for drilling campaigns at offshore fields in the next two years. On a proforma basis (3R+Enauta), Brava deployed high capex of approximately US\$950 million in 2024, mostly directed to the new FPSO, drilling campaigns, and subsea works in Atlanta field, the relevant maintenance works in Papa-Terra, workover and wells reactivation. For the next few years, we expect Brava to be more efficient in capex allocation and to continue focusing on offshore, which has higher average capital returns. On the onshore business, the company should continue working on revitalizing fields and on a steam injection platform to optimize production levels and reduce the length of reserves natural decline.

The company recently approved an integrated drilling campaign at Atlanta and Papa-Terra, which besides drilling considers a tieback of two wells each at Atlanta and Papa-terra. It is scheduled to begin in the fourth quarter this year and should start contributing to higher production by the second half 2026. Capex associated to the main contracts for the campaign, which are already signed, is estimated at US\$200 million during 2025-2027, more importantly, 72% in 2026.

Outlook

The positive outlook indicates our view that Brava will increase production levels and cash flows, as it proceeds with drilling campaigns at Papa-Terra and Atlanta, besides continue working on revitalization of onshore fields to sustain relatively stable production levels. With that, we expect S&P adjusted gross debt to EBITDA at around 3.0x and FFO to debt between 20%-25% in the next two years.

Downside scenario

We could revise the outlook to stable in the next 12-18 months if production is significantly lower than our base-case because of further delays in projects development or operational issues arise in main fields, or if oil prices stay below our current expectation for a prolonged period; either could result in lower EBITDA generation and consequently higher leverage. In this scenario, we would see debt to EBITDA of about 3.0x and FFO to debt below 30% for a prolonged period.

Furthermore, we could downgrade Brava if the company demonstrates a more aggressive acquisition or growth strategy, significantly increasing leverage and reducing free operating cash flow.

Upside scenario

We could upgrade the rating in the next 12-18 months once we are confident that Brava is improving leverage with average debt to EBITDA trending below 2.5x and FFO to debt above 30%. In our view, this would result from production levels approaching 100,000 boe/day in 2026, higher in 2027 and improving margins.

Company Description

Brava Energia is a Brazilian oil and natural gas producer focused on revitalizing mature oil fields. The current portfolio consists of 12 assets located in the states of Rio Grande do Norte, Ceara, Bahia, Espirito Santo, and Rio de Janeiro.

Brava has solid 2P reserves (proved and probable reserves) of 530 million boe, and of that total, 379 million boe are 1P (proved) reserves. Of the 2P reserves, 45% is onshore and 55% is offshore, and 89% of it is oil.

- Cluster Potiguar comprises the Macau, Areia Branca, Fazenda Belem, and Potiguar fields, as well as 35% of the Pescada field (which is operated by Petrobras)
- Cluster Reconcavo: Rio Ventura and Reconcavo
- Offshore: Peroa and Papa-Terra
- Atlanta (80% stake); Manati (45% stake, operated by Petrobras); Oliva (80% stake); and Parque das Conchas (23% stake, operated by Shell)

Brava's shares are traded on the Brazilian stock market, and the company has no controlling shareholder.

Our Base-Case Scenario

Assumptions

- Average foreign exchange rate of R\$5.90 per \$1 in 2025 and R\$5.85 per \$1 in 2026.
- Brazil's average interest rate of 14.6% in 2025, and 13.1% in 2026.
- Brent oil price of US\$70 for the remainder of 2025, and in 2026.
- Average daily oil production of roughly 83,500 boe in 2025, 85,200 boe in 2026, and daily gas production of roughly 11,400 boe in 2025, and 13,000 boe in 2026.
- Fixed discounts on the Brent price of US\$2.00-US\$12.00, depending on the oil quality of each field.
- Lifting costs of approximately US\$19/boe in 2025-2026, down from US\$22/boe in 2024 mainly because of operational improvements and higher production levels.
- EBITDA margin in the exploration and production segment around 50% in 2025-2026.

- Downstream revenue around US\$ 1 billion in 2025-2026, considering existing capacity and prices closer to Brent and positive crack spreads (we expect Brava to sell oil derivatives, kerosene, and diesel).
- Midstream and downstream EBITDA margin of 7.0% in 2025-2026, versus 3% in 2024, due to operational improvements in the facility.
- We exclude intercompany transactions (Macau, Areia Branca, and Potiguar oil is sold to the refinery) from consolidated revenue and costs relating to the sale of oil and other services.
- Annual capex of approximately US\$ 500 million in 2025, mostly for offshore assets Papa-Terra and Atlanta, and onshore importantly Potiguar, with the new gasification structure to improve production levels, US\$ 760 million in 2026 for drilling campaigns offshore.
- Dividend payments of 25% of the previous year's net income.
- Gross debt reduction of about R\$1 billion in 2025.

Key metrics

Brava Energia S.A.--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. BRL)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	728	1,722	5,620	8,726	16,302	16,379	19,071	20,017
Gross profit	518	1,136	2,309	3,534	8,526	8,550	12,097	12,840
EBITDA (reported)	532	674	1,929	3,772	7,792	7,785	11,298	12,009
Plus/(less): Other	(157)	34	21	(733)	(733)	(733)	(733)	(733)
EBITDA	375	707	1,950	3,039	7,059	7,052	10,565	11,276
Less: Cash interest paid	(116)	(27)	(614)	(1,086)	(2,115)	(1,968)	(1,721)	(1,557)
Less: Cash taxes paid	(37)	(87)	(209)	(243)	(640)	(767)	(1,855)	(2,171)
Plus/(less): Other	--	--	--	--	212	197	172	156
Funds from operations (FFO)	223	594	1,126	1,709	4,516	4,514	7,161	7,703
EBIT	454	397	1,537	2,323	5,368	5,294	8,456	9,364
Interest expense	201	51	664	1,212	2,120	1,969	1,721	1,557
Cash flow from operations (CFO)	(53)	63	395	768	5,013	5,039	7,745	8,623
Capital expenditure (capex)	367	356	839	2,975	2,907	4,431	3,196	3,004
Free operating cash flow (FOCF)	(420)	(293)	(444)	(2,207)	2,107	607	4,549	5,619
Dividends	--	--	--	95	--	910	871	1,442
Share repurchases (reported)	--	--	--	167	--	--	--	--
Discretionary cash flow (DCF)	(420)	(293)	(444)	(2,469)	2,107	(302)	3,678	4,177
Debt (reported)	48	1,052	9,300	18,966	18,020	17,369	16,169	15,589
Plus: Lease liabilities debt	26	51	45	4,516	4,304	4,268	4,268	4,268
Plus: ARO debt adjustment		735	891	1,071	1,021	1,012	1,012	1,012
Plus/(less): Other	3,010	7,408	(481)	(2,779)	(3,146)	(3,921)	(4,582)	(4,582)
Debt	3,084	9,245	9,755	21,774	20,199	18,728	16,866	16,286
Equity	4,175	4,341	5,565	10,524	14,178	16,768	21,683	26,769
FOCF (adjusted for lease capex)	(445)	(322)	(458)	(6,558)	2,389	708	4,612	5,682

Brava Energia S.A.--Forecast summary

Interest expense (reported)	201	51	664	1,212	2,120	1,969	1,721	1,557
Capex (reported)	367	356	839	2,975	2,907	4,431	3,196	3,004
Cash and short-term investments (reported)	2,508	832	1,909	5,651	6,160	4,648	6,762	10,536
Adjusted ratios								
Debt/EBITDA (x)	8.2	13.1	5.0	7.2	2.9	2.7	1.6	1.4
FFO/debt (%)	7.2	6.4	11.5	7.9	22.4	24.1	42.5	47.3
FFO cash interest coverage (x)	2.9	23.1	2.8	2.6	3.1	3.3	5.2	5.9
EBITDA interest coverage (x)	1.9	14.0	2.9	2.5	3.3	3.6	6.1	7.2
CFO/debt (%)	(1.7)	0.7	4.0	3.5	24.8	26.9	45.9	52.9
FOCF/debt (%)	(13.6)	(3.2)	(4.6)	(10.1)	10.4	3.2	27.0	34.5
DCF/debt (%)	(13.6)	(3.2)	(4.6)	(11.3)	10.4	(1.6)	21.8	25.6
Lease capex-adjusted FOCF/debt (%)	(14.4)	(3.5)	(4.7)	(30.1)	11.8	3.8	27.3	34.9
Annual revenue growth (%)	256.3	136.7	226.3	55.3	86.8	0.5	16.4	5.0
Gross margin (%)	71.2	65.9	41.1	40.5	52.3	52.2	63.4	64.1
EBITDA margin (%)	51.6	41.1	34.7	34.8	43.3	43.1	55.4	56.3
Return on capital (%)	8.1	3.8	10.6	9.8	16.1	15.2	22.8	22.9
Return on total assets (%)	12.0	5.9	10.9	7.2	11.7	11.1	16.7	17.1
EBITDA/cash interest (x)	3.2	26.3	3.2	2.8	3.3	3.6	6.1	7.2
EBIT interest coverage (x)	2.3	7.9	2.3	1.9	2.5	2.7	4.9	6.0
Debt/debt and equity (%)	42.5	68.0	63.7	67.4	58.8	52.8	43.8	37.8
Debt fixed-charge coverage (x)	1.9	14.0	2.9	2.5	1.8	2.7	3.6	5.3
Debt/debt and undepreciated equity (%)	42.5	68.0	63.7	67.4	58.8	52.8	43.8	37.8

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R\$--Brazilian real.

Liquidity

We view Brava's liquidity as adequate and expect the company's sources over uses of cash to be about 2.0x over the next 12 months, from the company's relatively high cash position, solid cash generation, and smooth debt maturities. We expect Brava will maintain its good access to funding sources, and refinance costly debt.

Despite greater liquidity cushion than in recent years, we think Brava's still heavy capex for drilling and sustaining of operations to weigh on cash outflows.

Principal liquidity sources

- Cash position of R\$5.6 billion as of Dec. 31, 2024.
- Cash FFO of roughly R\$5.8 billion in 2025; and
- Receivables from Yinson of about \$40 million in 2025.

Principal liquidity uses

- Short-term debt of R\$963 million as of Dec. 31, 2024;
- Payments for acquisitions amounting to R\$915 million in 2025;
- Working capital needs of R\$775 million in 2025; and

- Capex of about R\$2.9 billion in 2025.

Covenants

Brava is subject to restrictive financial covenants of acceleration on its debentures and incurrence on syndicated loan, and senior notes. After receiving a waiver from creditors, we expect the company to comply with revised covenant thresholds (net debt to EBITDA below 4.0x in first quarter 2025, below 3.75x second quarter 2025 and below 3.5x in third quarter 2025) with a cushion of more than 40% on the covenants by the end of 2025 and 2026. Moreover, covenants will now be measured in U.S. dollars, reducing the risk on foreign exchange variation as seen at the end of 2024. The original covenants require:

- Net debt to EBITDA below 3.0x from 2025 onward; and
- Asset coverage above 1.5x, calculated considering net proved reserves over total gross debt.

Environmental, Social, And Governance

Environmental factors are a negative consideration in our credit analysis of Brava because of the downside risks for profitability and product demand amid the transition to renewable energy sources. Still, the company's focus on mature oil fields, with relatively lower production costs than exploratory players, makes it more resilient to such transition. Brava has some environmental projects related to renewable energy for its operations and the reduction of gas emissions, although they're in the early stages.

Issue Ratings--Recovery Analysis

Key analytical factors

Our simulated default scenario for Brava assumes a sustained period of low commodity prices, and high capex to support the company's growth strategy. This scenario is consistent with the conditions that surrounded previous defaults in this sector, which would create incentives for a debt restructuring even before the notes mature.

We based our valuation of Brava's reserves on a company-provided proved reserves report as of December 2023, using a price deck assumption of about US\$55 per barrel for crude oil and a discount rate of 15%. In our view, Brazil is a less creditor-friendly jurisdiction than other countries such as the U.S., where we use a 10% discount rate.

Simulated default assumptions

- Simulated default year: 2029
- Jurisdiction: Brazil

Simplified waterfall

- Net enterprise value after 5% administrative costs: \$3 billion

- Senior secured debt: \$1.1 billion (senior secured notes and debentures)
- Recovery expectation on the secured notes: 85%
- Senior unsecured debt: \$2.1 billion (debentures and other bank loans)
- Expected recovery of senior unsecured debt: 65%

All debt amounts include six months of prepetition interest.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	B+/POSITIVE/--
Local currency issuer credit rating	B+/POSITIVE/--
Business risk	5 - Weak
Country risk	4 - Moderately High Risk
Industry risk	4 - Moderately High Risk
Competitive position	5 - Weak
Financial risk	5 - Aggressive
Cash flow/leverage	5 - Aggressive
Anchor	b+
Diversification/portfolio effect	3 - Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	b+

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019

- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings list

Ratings Affirmed	
Brava Energia S.A.	
Issuer Credit Rating	B+/Positive/--
Brazil National Scale	brAA-/Positive/--
Ratings Affirmed; Recovery Ratings Unchanged	
Brava Energia S.A.	
Senior Secured	brAA
Recovery Rating	2(85%)
Senior Unsecured	brAA-
Recovery Rating	3(65%)
3R Lux S.a.r.l.	
Senior Secured	BB-
Recovery Rating	2(85%)

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