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Research Update:

Ambipar Outlook Revised To Positive On Deleveraging; New Bond Rated Preliminary 'BB-'; Existing Ratings Affirmed

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Rating Action Overview

- We now expect Ambipar Participacoes e Empreendimentos S.A. (Ambipar) will deleverage faster than our previous forecast thanks to a drop in investments and acquisitions and a focus on optimizing its existing asset base, which should strengthen cash flow.
- We expect the company to use the proceeds from the proposed issuance of the $500 million bond due in the intermediate term and a $200 million tender offer for the existing 9.875% green bond due 2031 to repay debt, improving its debt maturity profile.
- As a result, on Jan. 22, 2025, S&P Global Ratings revised the outlook on Ambipar to positive from stable. We also assigned a 'BB-' preliminary issue rating and a recovery rating of '3' to Ambipar Lux S.a.r.l.'s proposed bond. At the same time, we affirmed our 'BB-' long-term issuer credit rating on Ambipar, as well as the 'BB-' issue rating on Ambipar Lux's existing bond due 2031.
- The positive outlook reflects our view that we could upgrade Ambipar in the next 12-24 months if it maintains debt to EBITDA of up to 3.0x, funds from operations (FFO) to debt of more than 20%, and positive free operating cash flow (FOCF) to debt thanks to increasing cash flow and a prudent approach to leverage.

Rating Action Rationale

The positive outlook reflects our expectation of improvement in the company's cash flow due to a reduction in investments and acquisitions, and the continuing optimization of its asset base. In 2024, Ambipar enhanced its operating efficiency through the unification of service centers, reduced costs, and tax payments, streamlining the corporate structure, and broadening its service offerings. These factors have bolstered cash generation and margins in the past few quarters. Furthermore, Ambipar has halted acquisitions and large investments and is shifting to an asset-light strategy, as seen in the recent demobilization of assets, selling its used fleet--mainly yellow-line assets and heavy-duty vehicles--and shifting to a leased fleet.

As a result, the main credit metrics improved, as seen in adjusted debt to EBITDA and FFO debt at 4.0x and 7.0%, respectively, for 12 months ended September 2024, versus 4.5x and 3.8% for the same period in 2023. Given our base-case scenario of a 10%-13% revenue growth for 2025 and 2026 thanks to the expanding operations of Ambipar's both divisions, we anticipate adjusted debt to EBITDA to improve to 3.0x by the end of 2025 and to about 2.5x in 2026. We expect lower capital expenditure (capex) and acquisitions than in prior years, given Ambipar's focus on its existing assets. Investments will be mainly for expanding the existing facilities, equipment, and maintenance, leading to our expectation of positive FOCF to debt.

The proposed $500 million bond and the $200 million tender offer will improve the debt profile. The company expects to issue a 10-year $500 million senior unsecured bond. It also plans to proceed with the tender offer of its existing 2031 bond, capped at $200 million and with a premium--the bond ask price is currently about $99.75, for which the company will add a 1.5% premium, resulting in a tender price of $100.75, a 0.75% premium above par levels. The tender offer depends on the new issuance. Therefore, if the latter won't occur, the tender will be cancelled, and its liquidation will only occur after the new bond takes place. The new bond will have the same structure as that of the 2031 bond in terms of the issuer, guarantors, covenants, indenture, etc. Ambipar will use the proceeds to roll over about $200 million in debt from 2031 to a longer maturity, and to repay short- to medium-term debt. As a result, the company will reduce the maturity concentration in 2031, extend its debt maturities, decrease its cost of capital, and diversify its funding sources.

Outlook

The positive outlook reflects our view that we could upgrade Ambipar in the next 12-24 months if it maintains adjusted debt to EBITDA of up to 3.0x, FFO to debt of more than 20%, and positive FOCF to debt, because of increasing cash flow and a prudent approach to leverage.

Downside scenario

We could revise the outlook to stable or lower the ratings on Ambipar if its credit metrics worsen, with adjusted debt to EBITDA consistently above 4.5x, FFO to debt below 12%, and negative FOCF to debt. In our view, cash flow could erode if the company struggles to further increase the operating efficiency of its assets. Weaker credit metrics could also result from much higher-than-expected investments or a large debt-financed acquisition without the offsetting cash flow.

Upside scenario

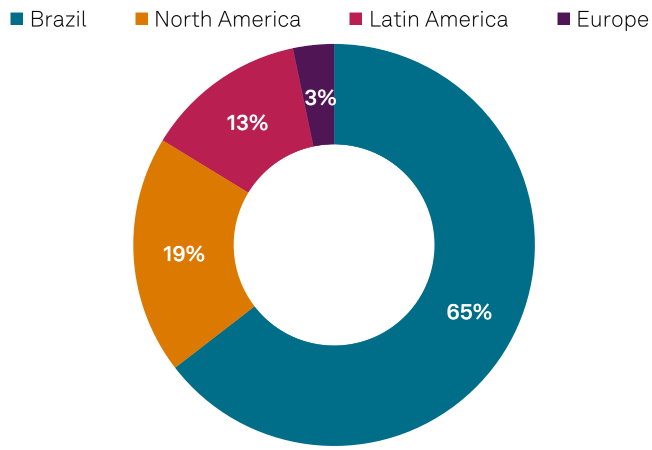
We could upgrade Ambipar to 'BB' if its credit metrics continue to improve, with adjusted debt to EBITDA below 3.0x, FFO to debt above 20%, and FOCF to debt above 3.5% in the next few years, while maintaining strong cash position. We would see such improvements if Ambipar continues delivering efficiency gains and increasing cash flow while maintaining a conservative capex and prudent debt strategy.

Company Description

Ambipar was founded in 1995 and is a leading Brazilian environmental services company with an increasing presence in international markets. Ambipar operates in Brazil (about 60% of consolidated EBITDA) and the rest of Latin America, the U.S., Canada, and the U.K. The company operates two businesses: Ambipar Emergency Response and Environmental ESG Participacoes S.A. Along with its subsidiary Ambipar Response, Ambipar is listed on the Brazilian Stock Exchange (B3) and NYSE. The company is 73% controlled by Mr. Tercio Borlenghi Jr., Ambipar's founder and sole controlling shareholder.

Ambipar's Revenue Distribution by Geography

9M24



Source: S&P Global Ratings.

Our Base-Case Scenario

Assumptions

- Brazil's inflation of 4.2% in 2025, 3.7% in 2026, and 3.5% in 2027 and afterward (see "Economic Outlook Emerging Markets Q1 2025: Trade Uncertainty Threatens Growth", Nov. 26, 2024) and U.S. inflation of 2.3% in 2025, 2.5% in 2026 and 2.3% in 2027 and afterward (see "Economic Outlook U.S. Q1 2025: Steady Growth, Significant Policy Uncertainty", Nov. 26, 2024).
- Average exchange rates of R$5.62 per $1 in 2025, R$5.65 in 2026, and R$5.60 in 2027.
- Brazil's GDP growth of 1.9% in 2025, 2.1% in 2026, and 2.2% in 2027. U.S. GDP growth of 2.0% in 2025 and 2026, and 1.7% in 2027.
- We expect the company's organic growth, with the opening of new bases (about five per year in Latin America, mainly by Ambipar Response), the development of the franchise, and cross-selling to drive volume growth. EBITDA margins above 30% starting in 2024.
- Around R$3 billion (about $500 million) of proceeds from the proposed bond to be used to reduce the existing debt. We apply a 20% haircut to cash to account for possible uses of cash that the company could pursue in the future.

- Our capex assumptions are based on the company's investment program for the coming two years, mostly for organic growth, developing the asset base, and cross-selling, with an average annual capex of R$500 million – R$600 million. We also add to Ambipar's debt obligations to be paid for the acquisitions made in 2023 and 2024. We don't expect acquisitions in the next few years.

Key metrics

Ambipar Participacoes e Empreendimentos S.A.--Key metrics

	2023A	2024P	2025P	2026P	2027P
EBITDA	1,316	1,400-1,900	1,700-2,200	1,900-2,400	2,300-2,800
EBITDA margin (%)	27	29.0-30.0	31.0-32.0	32.0-33.0	33.5-34.5
Capex	583	450-550	450-550	500-600	550-650
Debt to EBITDA (x)	3.8	3.0 - 3.5	2.5 - 3.0	2.3 - 2.8	2.0 - 2.5
FFO to debt (%)	6.1	5-10	8-13	15-20	16-21
FOCF to debt (%)	-6.2	(1) - 4	3-8	10-15	15-20

All figures adjusted by S&P Global Ratings. A--Actual. P--Projected.

Liquidity

The company's liquidity is adequate, in our view. We expect sources over uses to be about 1.2x in the next 12 months. We expect Ambipar to adjust its capex, if needed, given that we expect the opening of new bases to represent most of the cash outflow for the next 12-24 months. The company has solid relationships with banks and proven access to domestic debt and equity markets. Following the proposed issuance, liquidity will remain adequate, as the company will use the proceeds to repay short- to medium-term debt.

Principal liquidity sources

- Consolidated short-term cash position and liquid investments of R$3.7 billion as of September 2024.
- Expected FFO of about R$975 million in the next 12 months.

Principal liquidity uses

- Short-term debt maturities of R$603 million.
- Working capital outflows of R$100 million – R$150 million in the next 12 months.
- Capex of about R$500 million in the next 12 months.
- We assume 100% dividend payout in the next 12 months.

Covenants

The company was compliant with its financial covenants as of September 2024. The bond's proceeds will extend the debt maturity profile while limiting debt incurrence, with a decreasing covenant of net leverage: 3.75x during the first year, 3.5x during the second, 3.25x during the third, and 3.0x afterward. This covenant will only be of incurrence, and we expect a cushion of 10%-15%.

Issue Ratings--Recovery Analysis

Key analytical factors

Capital Structure

We rate Ambipar's following debt instrument:

- $500 million senior unsecured bond due 2031.

Analytical Conclusions

We assigned a preliminary rating of 'BB-' and a recovery rating of '3' (60%) to the proposed senior unsecured bond. As of Sept. 30, 2024, the company's consolidated debt was R$8.9 billion. Debentures account for about 35% of total, followed by the green bond (50%), and the remainder consists of a mix of working capital and equipment financing (only debt secured by assets). In a hypothetical default scenario, after a reorganization of the company (as opposed to asset liquidation), it would maximize the recovery for creditors, so we contemplate an EBITDA-based going concern valuation. Our simulated default scenario encompasses a prolonged recession in Brazil, which would erode the company's working capital and cash flow, increasing the refinancing needs that wouldn't be met by banks or capital markets due to credit scarcity.

Simulated default assumptions

- Year of default: 2028
- Emergence EBITDA: R$1 billion
- EBITDA multiple: 6.0x

Simplified waterfall

- Net enterprise value after 5% administrative costs: R$6 billion
- Senior unsecured debt: R$9 billion
- Expected recovery of senior unsecured debt: '3' (60%)

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/Positive/--
Local currency issuer credit rating	BB-/Positive/--
Business risk	4 - Fair
Country risk	3 - Intermediate Risk
Industry risk	3 - Intermediate Risk
Competitive position	4 - Fair
Financial risk	5 - Aggressive
Cash flow/leverage	5 - Aggressive
Anchor	bb-
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	bb-

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: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 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; Outlook Action

Ratings list

	To	From
Ambipar Participacoes e Empreendimentos S.A.		
Issuer Credit Rating	BB-/Positive/--	BB-/Stable/--
Foreign Currency	BB-/Positive/--	BB-/Stable/--
Ratings Affirmed; New Recovery Rating		
Ambipar Lux S.a.r.l.		
Senior Unsecured	BB-	
Recovery Rating	3(60%)	
New Rating		
Ambipar Lux S.a.r.l.		
Senior Unsecured	3(60%)(prelim)	
Senior Unsecured	BB-(prelim)	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website atwww.spglobal.com/ratings.