



RATING ACTION COMMENTARY

Fitch Rates Ambipar's IDRs 'BB-'; Outlook Stable

Fri 10 Nov, 2023 - 4:19 PM ET

Fitch Ratings - Rio de Janeiro - 10 Nov 2023: Fitch Ratings has assigned Ambipar Participações e Empreendimentos S.A. (Ambipar) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of 'BB-' with a Stable Rating Outlook. Fitch currently rates Ambipar and its subsidiaries', Emergência Participações S.A. (Emergência) and Environmental ESG Participações S.A. (Environmental), Long-Term National Scale Ratings 'AA-(bra)' with a Stable Outlook.

Ambipar's credit profile reflects its outstanding position in the environmental services industry, with strong growth potential, and the diversification of its revenues in countries that are more economically stable than Brazil. The company also benefits from its favorable track record of contract renewal and the reasonable protection of its adequate margins, due to contractual pass-through mechanisms of costs, which are mostly variable. Ambipar and its subsidiaries' ratings are limited by its consolidated high gross leverage, with important cash flow consumption by interests, as well as the lack of a longer performance track record of the company.

The Stable Outlook reflects Ambipar's ability to sustain robust liquidity and gradual indebtedness reduction in the medium term, under lower investments and absence of significant acquisitions, which should bring gross and net leverage to more moderate levels.

KEY RATING DRIVERS

Favorable Business Model: Ambipar's business model includes a set of service provisions in its two main operating segments: environment (mainly waste management and recovery) and response (mitigation of environmental damage from accidents). The environment segment (where the subsidiary Environmental operates) represents around 50% of the revenue and benefits from agreements with an average duration of five years and low contractual exposure to volume risk. The response segment (where the subsidiary Emergencia operates) corresponds to around 50% of the revenue and is supported by contracts lasting around three years, which are renewable.

Approximately 25% of this revenue is recurrent, and the remainder is related to the number of occurrences. The company's current strategy, focused on organic growth, reduces its exposure to acquisition execution risks.

Geographic Diversification: Ambipar's international activities are mainly concentrated in low-risk countries in Latin America, in addition to North America and Europe, which represent, respectively, around 15%, 25% and 5% of its revenues. The record of contract renewals, above 95%, reflects the absence of competition with similar geographic coverage and service provision, which gives the company a competitive advantage. The strategy is to work mainly with private clients and expand its operations based on complementary services, operating in an evolving industry, with low penetration and high competitiveness.

Moderate Profitability: The services provided by Ambipar have an EBITDA margin of 25% to 30% in Brazil and abroad. Approximately 70% of the cost and expense structure is variable and mostly accounts for personnel, which allows greater flexibility to adjust and protect margins in scenarios of weak business demand. Service provision contracts incorporate the pass through of payroll and other non-manageable costs variations.

High Interest Payments: Debt interests should continue to represent high cash commitments in the coming years. The base scenario considers increase in EBITDA to BRL1.4 billion in 2023 and BRL1.5 billion in 2024, supported by business expansion, with cash flow from operations (CFFO) reaching around BRL115 million and BRL415 million in the respective years, after interest payments. Estimated investments range from BRL450 million to BRL500 million in the two-year period, resulting in negative FCFs close to BRL376 million in 2023 and BRL51 million in the following year.

High Gross Leverage: Fitch expects Ambipar to move its gross debt/EBITDA ratio to more conservative levels. The expectation is that gross leverage will be 5.7x at the end of 2023, with a reduction to less than 4.5x in 2025, as the company expands its EBITDA generation and uses part of its cash to repay debt. Net financial leverage has been moderate, with Fitch's base case scenario considering a reduction to less than 3.0x in 2025.

It also accounted for the equity injection of BRL717 million concluded by the end of 2023 to strengthen its capital structure. Fitch does not anticipate any material gross debt reduction and also expects low to moderate reduction of around 0.5x on net leverage ratio due to the capitalization. The high volume of debt should result on interest coverage by EBITDA to remain low, at 1.2-1.5x, in 2023-2024, and above 2.0x from 2025 onwards.

Consolidated Approach: The assessment of Ambipar and its two subsidiaries are on consolidated basis due to the high legal ties between them, such as relevant guarantees and cross-default clauses in the group's financial obligations, in accordance with Fitch's 'Parent and Subsidiary Linkage Rating Criteria'. Fitch also considers the strategic and operational incentives to be high for the holding company to support the two subsidiaries, if necessary. Both are relevant for the group's revenue and EBITDA, with broad growth potential and capturing synergies. Emergência and Environmental are managed in an integrated manner.

DERIVATION SUMMARY

Ambipar's credit profile is weaker than that of Aegea Saneamento e Participações S.A. (Aegea; BB/Stable). Both operate under long-term contracts, with relatively stable demand, although Aegea's business is more resilient. Aegea's EBITDA margins in the range of 50%-60% are higher than those of Ambipar (around 25%), although the geographic diversification of Ambipar's operations is superior and strengthens its business model.

Ambipar's rating incorporates the expectation of a gradual increase in its operating cash generation, while Aegea's considers the important challenge of relevant investments and efficiency improvements in important recently incorporated assets. Aegea's financial profile presents high leverage due to the expectation of the company's strong investment cycle and should remain close to Ambipar throughout the rating horizon. Aegea's demonstrated access to the debt market favors its financial flexibility.

Ambipar's credit profile evenly compares to FS Indústria de Biocombustíveis Ltda's (FS; BB-/Stable), which operates in the volatile Brazilian ethanol industry. FS and Ambipar's leverage profiles are similar and Fitch incorporates both companies to deleverage in the medium term. FS EBITDA margins at around 30% is above Ambipar's and its low cash cost business model partially mitigates its operations within riskier industry as compared to environmental services.

KEY ASSUMPTIONS

- Average EBITDA margins of 27% from 2023 to 2025;
- Average annual capex of around BRL480 million from 2023 to 2025;
- Dividends of 25% of net income.
- Absent of acquisitions.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Longer track record of Ambipar's growth of operations;
- Net Debt/EBITDA below 3.0x and Gross Debt/EBITDA below 4.0x, sustainably.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Net Debt/EBITDA above 4.0x and Gross Debt/EBITDA above 5.0x, sustainably;
- EBITDA interest coverage ratio below 1.5x, sustainably;
- Weakening of liquidity profile with refinancing risks increase;
- Deterioration of profitability with EBITDA margins below 22%.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: Fitch expects Ambipar to maintain robust liquidity in the coming years also supported by the recently concluded equity injection. By the end of June 2023, the group registered strong balance of cash and equivalents, of BRL3.2 billion, as compared to short-term debt of BRL1.0 billion, a coverage of 3.2x, and the expectation of negative FCF. The group presents extended debt repayment schedule and has demonstrated access to financing sources.

Ambipar's total consolidated debt, adjusted for acquisition obligations, was BRL7.8 billion by the end of June 2023, mainly comprised of debentures (65%) and working capital (around 20%). The parent company's debt was BRL3.2 billion (mainly of debentures), guaranteed by its subsidiaries.

ISSUER PROFILE

Ambipar provides environmental services in Brazil (around 60% of the consolidated EBITDA), and the rest of Latin America, the United States, Canada and the United Kingdom, in two large segments: response (by mitigating and preventing environmental damage from accidents) and environment (by managing and recovering industrial waste from private clients).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

| ENTITY / DEBT ↕ | RATING ↕ |
|--|--|
| Ambipar Participacoes e Empreendimentos S.A. | LT IDR BB- Rating Outlook Stable New Rating |
| | LC LT IDR BB- Rating Outlook Stable New Rating |

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Gustavo Mueller

Director

Primary Rating Analyst

+55 21 4503 2632

gustavo.mueller@fitchratings.com

Fitch Ratings Brasil Ltda.

Av. Barão de Tefé, 27 – Sala 601 Saúde Rio de Janeiro, RJ 20220-460

Marcelo Pappiani, CFA

Associate Director

Secondary Rating Analyst

+55 11 4504 2603

marcelo.pappiani@fitchratings.com

Ricardo De Carvalho

Managing Director

Committee Chairperson

+55 21 4503 2627

ricardo.carvalho@fitchratings.com

MEDIA CONTACTS**Elizabeth Fogerty**

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)[Corporate Rating Criteria \(pub. 03 Nov 2023\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)

[Endorsement Policy](#)**ENDORSEMENT STATUS**

Ambipar Participacoes e Empreendimentos S.A. -

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and

attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.