MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns Ba2 Corporate Family Rating to Dexco S.A., stable outlook

17 Feb 2025

New York, February 17, 2025 -- Moody's Ratings (Moody's) has today assigned a Ba2 corporate family rating (CFR) to Dexco S.A. The outlook is stable.

RATINGS RATIONALE

Dexco's Ba2 rating reflects good product diversification, which spans different stages of home construction and improvements, and a portfolio mix that caters to all income brackets, providing exposure to various market dynamics within the building materials segment. The company has a leading market position in the Brazilian wood panels market, supported by a large and highly productive forestry base, and is a leading manufacturer of metals and sanitary ware in South America through its Deca division. Dexco also holds a strong local market presence in ceramic tiles. The rating is further supported by Dexco's financial flexibility, resulting from effective liquidity management mandated by its financial policy and demonstrated access to domestic capital markets and local and international banks, independent of its controlling group, Itausa S.A. (Itausa). Additionally, Dexco's extensive forestry operations provide extra liquidity cushion through potential forestry transactions.

The rating is constrained by Dexco's relatively small scale compared to its global peers and the geographic concentration of its operations in Brazil, despite the company's well-distributed production plants and forests within the country's largest consumer areas. Approximately 85% of Dexco's revenues are generated in Brazil, with the remainder coming from the external market, mainly through its operations in Colombia. Dexco's products primarily serve the construction materials and furniture manufacturing industries, which exposes its operating performance largely to local macroeconomic conditions and domestic consumption trends. As of the last twelve months ending September 2024, Dexco generated $1.6 billion (BRL 8.1 billion) in net revenues and Moody's adjusted EBITDA of $486 million (BRL 2.5 billion).

The Ba2 rating also factors in the execution risks associated with Dexco's plan to expand its market share in the Deca and ceramic tiles segments, as well as leveraging the investments made over the last four years to enhance efficiency and profitability in these segments. Free cash flow (FCF) generation has been negative since 2021 due to the challenging operating environment and the BRL 1.8 billion investment plan executed between 2021 and 2024. This investment cycle, initially set to conclude in 2025, positions the company well to grow and leverage efficiency gains to enhance the contribution of metals and ceramics segments to EBITDA and cash flow generation, even in the challenging macroeconomic environment expected in 2025. We expect total capital expenditures (capex) to have closed 2024 at around BRL 1.2 billion, after peaking at BRL 1.6 billion in 2023. Capex is expected to continue decreasing in 2025, which should contribute to a significant improvement in free cash flow (FCF).

Dividend distributions are projected to remain at Dexco´s statutory minimum mandatory level of 30% of net income for at least the next three years while the company focuses on capturing market share, improving profitability, and reducing leverage.

Dexco's total gross debt (including leases) rose from BRL 4.3 billion in 2021 to BRL 7.7 billion in 2023 due to the peak of the investment plan and the industry downturn. We expect gross debt to close 2024 at around BRL 6.7 billion and leverage to stay in the range of 3.0x-3.5x over the next 12-18 months, supported by EBITDA growth. As of September 2024, Dexco's debt was mostly denominated in BRL, with foreign currency obligations hedged with swaps. The company's debt primarily consists of CRAs (Agrobusiness Receivables Certificates) and export financing lines. Local floating interest rate loans represent around 94% of the total, exposing the company's cash flow to adverse movements in local rates. Although liquidity is adequate to address sizable amortizations in 2025, rising local interest rates will pressure liquidity and FCF generation. As of September 2024, Dexco had a cash position of BRL2.2 billion and a 1-year BRL 750 million fully available committed facility expiring in September 2025.

The stable rating outlook incorporates our expectation that Dexco will continue to improve its operational performance to enhance EBITDA diversification and cash flow generation while maintaining adequate liquidity and leverage over the rating horizon.

GOVERNANCE CONSIDERATIONS

Governance considerations are relevant for the company's credit quality as well. Dexco is controlled by Itausa S.A., Brazil's largest holding company, which owns 40.8% of the shares. The Seibel Block holds an additional 20.4% of the shares and 37.3% are free float. The company has been publicly listed since 1951 and is currently traded on the Novo Mercado segment of B3 (São Paulo's Stock Exchange), the segment with the highest level of corporate governance. Dexco benefits from Itausa's expertise and guidance through its representation on the Board of Directors. Dexco's Board consists of nine members, including three independent members and six representatives of the controlling families (Setubal, Villela, and Seibel).

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Dexco rating could be upgraded if the company is able to gain scale, sustain its market position in the wood panels segment and show consolidation of its market position in Deca and ceramics tiles segments. Additionally, a positive rating action would require a more balanced contribution from different segments, driven by improved operating performance in the metals and ceramic tiles segments. Quantitatively, an upgrade would require our adjusted gross debt/EBITDA below 3.0x, Retained Cash Flow (RCF)/Net Debt above 25%, and a sustainably high EBIT margin above 15%.

The rating could be downgraded if operating performance deteriorates, straining the company's liquidity profile and credit metrics. Quantitatively, a downgrade would result from Moody's-adjusted debt/EBITDA above 4.0x, RCF/Net Debt below 15% and EBIT margin below 10%.

Headquartered in São Paulo, Dexco is the leading producer of wood panels in Brazil and Colombia, with a combined annual production capacity of 3.4 million mÂ³. The company is also one of South America's the leaders in the production of sanitary wear, mainly kitchen and bathroom metal fixtures and ceramics, with a combined capacity of 27 million parts per year (20 million in the metals segment, 7 million in the ceramics segment) and tiles with total capacity of 42 million mÂ² per year. Additionally, the company owns 49% of LD Celulose S.A. (LDC, Ba3 stable), a dissolving pulp producer, through a Joint Venture with Lenzing AG and has 140 thousand hectares of planted forests. In the 12 months ended September 2024, Dexco generated BRL8.1 billion in revenue ($1.6 billion, excluding LD Celulose) and BRL2.5 billion in Moody's adjusted EBITDA, excluding its non-consolidated subsidiary, LDC..

The principal methodology used in this rating was Paper and Forest Products published in August 2024 and available at https://ratings.moodys.com/rmc-documents/426539. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

This rating is solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and UK and is(are) endorsed for use in the EU and UK in accordance with the EU and UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Cintia Hodge
Asst Vice President - Analyst

Marcos Schmidt
Associate Managing Director

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

---

all indirectly wholly-owned credit rating agency subsidiaries of MCO. None of the Moody’s Non-NRSRO CRAs is a Nationally Recognized Statistical Rating Organization.

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for India only: Moody’s credit ratings, Assessments, other opinions and Materials are not intended to be and shall not be relied upon or used by any users located in India in relation to securities listed or proposed to be listed on Indian stock exchanges.

Additional terms with respect to Second Party Opinions and Net Zero Assessments (as defined in Moody’s Ratings Rating Symbols and Definitions): Please note that neither a Second Party Opinion (“SPO”) nor a Net Zero Assessment (“NZA”) is a “credit rating”. The issuance of SPOs and NZAs is not a regulated activity in many jurisdictions, including Singapore. JAPAN: In Japan, development and provision of SPOs and NZAs fall under the category of “Ancillary Businesses”, not “Credit Rating Business”, and are not subject to the regulations applicable to “Credit Rating Business” under the Financial Instruments and Exchange Act of Japan and its relevant regulation. PRC: Any SPO: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, “PRC” refers to the mainland of the People’s Republic of China, excluding Hong Kong, Macau and Taiwan.