



RATING ACTION COMMENTARY

Fitch Upgrades Numerous Brazilian Corporates Following Sovereign Upgrade

Fri 28 Jul, 2023 - 5:04 PM ET

Fitch Ratings - São Paulo - 28 Jul 2023: Fitch Ratings has upgraded the international long-term ratings of numerous Brazilian corporates to 'BB+' from 'BB' following the upgrade of Brazil's Sovereign Rating to 'BB' from 'BB-' and Sovereign Country Ceiling to 'BB+' from 'BB'. The Rating Outlook is Stable following the Stable Outlook of the Sovereign's ratings.

A full list of rating actions follows at the end of this press release.

KEY RATING DRIVERS

Sovereign Rating Upgrade: The upgrade to 'BB+' from 'BB' for these issuers results from their exposure to Brazil's Country Ceiling or their direct linkage to the country's sovereign ratings. The Brazilian Sovereign's upgrade better-than-expected macroeconomic and fiscal performance amid successive shocks in recent years, proactive policies and reforms that have supported this, and Fitch's expectation that the new government will work toward further improvements.

Despite lingering political tensions since its 2018 downgrade, Brazil has achieved progress on important reforms to address economic and fiscal challenges. The fiscal position is deteriorating in 2023 after a prior improvement, but Fitch expects new fiscal rules and tax measures to anchor a gradual consolidation. Fitch still projects debt/GDP to rise, but at a slower pace and from a much better starting point than previously forecast.

Resilient Growth: Economic momentum continues in 2023 after a healthy post-pandemic rebound, supported by a bumper agricultural harvest. Consumption has cooled on tight monetary policy, but it remains supported by a strong labor market, fiscal spending, and continued credit growth. Fitch projects real GDP growth of 2.3% in 2023, up from 0.7% previously, a moderation to 1.3% in 2024 as agricultural output normalizes, and

convergence to a trend pace of 2.0% thereafter. The authorities project higher medium-term growth of 2.6%; while it is not yet clear if they can advance an economic agenda potent enough to achieve this, this could offer some upside.

Prudent Monetary Policy: Inflation fell to 3.2% yoy in June 2023 from 11.9% a year earlier, as a result of lower food and energy costs and tight monetary policy. The central bank (BCB) has maintained prudent and proactive monetary policy during the recent inflation shock, and has kept its Selic rate at a restrictive 13.75% since August 2022 amid fiscal uncertainties, stickiness in core inflation and some upward drift in inflation expectations. These factors are receding, and Fitch expects rate cuts to begin by August. Lula's explicit criticism of the BCB has not resulted in attempts to introduce major changes to the inflation-targeting framework, and inflation expectations are improving after some prior jitters.

DERIVATION SUMMARY

Please refer to last RCP for each company's Derivation Summary.

KEY ASSUMPTIONS

Please refer to last RCP for each company's Key Assumptions.

RATING SENSITIVITIES

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

--The Outlook for these issuers could become positive or be upgraded as result of a revision to Brazil's Sovereign ratings to Positive or upgraded.

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

--A downgrade of Brazil's ratings that results in a downward revision to the Country Ceiling and/or Outlook.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and

worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Please refer to last RCP for each company's Liquidity and Debt Structure.

ISSUER PROFILE

Please refer to last RCP for each company's issuer profiles.

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.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Petroleo Brasileiro S.A. (Petrobras) has an ESG Relevance Score of '4' for Governance Structure due to its nature as a majority government-owned entity and the inherent governance risk that arises with a dominant state shareholder which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Petroleo Brasileiro S.A. (Petrobras) has an ESG Relevance Score of '4' for GHG Emissions & Air Quality due to the growing importance of the continued development and execution of the company's energy-transition strategy. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Petroleo Brasileiro S.A. (Petrobras) has an ESG Relevance Score of '4' for Human Rights, Community Relations, Access & Affordability due to due to the potential impact of social pressures on pricing policy in the future, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Rede D'Or Sao Luiz S.A. has an ESG Relevance Score of '4' for Labor Relations & Practices due to labor/tax litigation. The company registers their employees (mostly physicians) as service providers, not as Rede D'Or's employees. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Energisa Sergipe - Distribuidora de Energia S/A	LT IDR	BB+ Rating Outlook Stable	BB Rating Outlook Stable
	Upgrade		
	LC LT IDR	BB+ Rating Outlook Stable	BB+ Rating Outlook Stable
	Affirmed		
	Natl LT	AAA(bra) Rating Outlook Stable	AAA(bra) Rating Outlook Stable
	Affirmed		
senior unsecured	Natl LT	AAA(bra) Affirmed	AAA(bra)
Transmissora Alianca de Energia Eletrica S.A.	LT IDR	BB+ Rating Outlook Stable	BB Rating Outlook Stable
	Upgrade		
	LC LT IDR	BBB- Rating Outlook Negative	BBB- Rating Outlook Negative
	Affirmed		

	Natl LT	AAA(bra) Rating Outlook Stable	AAA(bra) Rating Outlook Stable
	Affirmed		
senior unsecured	Natl LT	AAA(bra) Affirmed	AAA(bra)
Ache Laboratorios Farmaceuticos S.A.	LT IDR	BB+ Rating Outlook Stable	BB Rating Outlook Stable
	Upgrade		
	LC LT IDR	BBB Rating Outlook Stable	BBB Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Marcelo Pappiani, CFA

Associate Director

Primary Rating Analyst

+55 11 4504 2603

marcelo.pappiani@fitchratings.com

Fitch Ratings Brasil Ltda.

Alameda Santos, nº 700 – 7º andar Edifício Trianon Corporate - Cerqueira César São Paulo, SP SP Cep 01.418-100

Wellington Senter

Director

Primary Rating Analyst

+55 21 4503 2606

wellington.senter@fitchratings.com

Fitch Ratings Brasil Ltda.

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

Natalia Brandao

Associate Director

Primary Rating Analyst

+55 21 4503 2631

natalia.brandao@fitchratings.com

Fitch Ratings Brasil Ltda.

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

Lucas Rios, CFA

Associate Director

Primary Rating Analyst

+55 11 4504 2205

lucas.rios@fitchratings.com

Fitch Ratings Brasil Ltda.

Alameda Santos, nº 700 – 7º andar Edifício Trianon Corporate - Cerqueira César São Paulo,
SP SP Cep 01.418-100

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

Gilberto Gonzalez, CFA

Director

Primary Rating Analyst

+1 312 606 2310

gilberto.gonzalez@fitchratings.com

Fitch Ratings, Inc.

One North Wacker Drive Chicago, IL 60606

Renato Mota, CFA, CFA

Director

Primary Rating Analyst

+55 21 4503 2629

renato.mota@fitchratings.com

Fitch Ratings Brasil Ltda.

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

Gisele Paolino

Director

Primary Rating Analyst

+55 21 4503 2624

gisele.paolino@fitchratings.com

Fitch Ratings Brasil Ltda.

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

Adriana Eraso

Director

Primary Rating Analyst

+1 646 582 4572

adriana.eraso@fitchratings.com

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

Debora Jalles

Director

Primary Rating Analyst

+55 21 4503 2621

debora.jalles@fitchratings.com

Fitch Ratings Brasil Ltda.

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

Julieta Seebach

Director

Primary Rating Analyst

+1 512 215 3743

julie.seebach@fitchratings.com

Fitch Ratings, Inc.

2600 Via Fortuna, Suite 330 Austin, TX 78746

Flavio Fujihira

Director

Secondary Rating Analyst

+55 11 3957 3694

flavio.fujihira@fitchratings.com

Lucas Rios, CFA

Associate Director

Secondary Rating Analyst

+55 11 4504 2205

lucas.rios@fitchratings.com

Alexandre Garcia

Director

Secondary Rating Analyst

+55 11 4504 2616

alexandre.garcia@fitchratings.com

Wellington Senter

Director

Secondary Rating Analyst

+55 21 4503 2606

wellington.senter@fitchratings.com

Mauro Storino

Senior Director

Secondary Rating Analyst

+55 21 4503 2625

mauro.storino@fitchratings.com

Debora Jalles

Director

Secondary Rating Analyst

+55 21 4503 2621

debora.jalles@fitchratings.com

Renato Mota, CFA, CFA

Director

Secondary Rating Analyst

+55 21 4503 2629

renato.mota@fitchratings.com

Tatiana Thomaz

Director

Secondary Rating Analyst

+55 21 4503 2605

tatiana.thomaz@fitchratings.com

Gustavo Mueller

Director

Secondary Rating Analyst

+55 21 4503 2632

gustavo.mueller@fitchratings.com

Martha Rocha

Managing Director

Committee Chairperson

+1 212 908 0591

martha.rocha@fitchratings.com

MEDIA CONTACTS

Eleis Brennan

New York

+1 646 582 3666

eleis.brennan@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Corporate Rating Criteria \(pub. 28 Oct 2022\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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Alupar Investimento S.A.	EU Endorsed, UK Endor:
BR Malls Participacoes S.A.	EU Endorsed, UK Endor:
CESP - Companhia Energetica de Sao Paulo	EU Endorsed, UK Endor:
Companhia de Gas de Sao Paulo - COMGAS	EU Endorsed, UK Endor:
Companhia de Saneamento Basico do Estado de Sao Paulo (SABESP)	EU Endorsed, UK Endor:
Energisa Minas Rio - Distribuidora de Energia S.A.	EU Endorsed, UK Endor:
Energisa Paraiba - Distribuidora de Energia S/A	EU Endorsed, UK Endor:
Energisa S.A.	EU Endorsed, UK Endor:
Energisa Sergipe - Distribuidora de Energia S/A	EU Endorsed, UK Endor:
Engie Brasil Energia S.A.	EU Endorsed, UK Endor:
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Localiza Rent a Car S.A.	EU Endorsed, UK Endor:
MRS Logistica S.A.	EU Endorsed, UK Endor:
Petrobras Global Finance BV (PGF)	EU Endorsed, UK Endor:
Petroleo Brasileiro S.A. (Petrobras)	EU Endorsed, UK Endor:
Rede D'Or Finance S.a. r.l.	EU Endorsed, UK Endor:
Rede D'Or Sao Luiz S.A.	EU Endorsed, UK Endor:
Rumo Luxembourg S.a.r.l	EU Endorsed, UK Endor:
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