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Fitch Revises Hidrovias' Ratings to Watch Positive From Watch Negative

Fitch Ratings - Rio de Janeiro - 23 May 2025: Fitch Ratings has revised to Rating Watch Positive (RWP) from Rating Watch Negative (RWN) Hidrovias do Brasil S.A.'s (Hidrovias) 'BB-' Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs), the 'AA-(bra)' National Long-Term Rating, its debentures rating, and Hidrovias International Finance S.a.r.l.'s senior unsecured notes rated 'BB-'.

The RWP reflects Ultrapar Participações S.A.'s (Ultrapar) controlling ownership over Hidrovias, following a BRL1.2 billion capital increase, and the expected guarantee by Ultrapar to more than 50% of Hidrovias' pro forma debt, which potentially strengthens the legal ties between them. Evidence of tangible incentives for Ultrapar to support Hidrovias will lead to an upgrade in Hidrovias' ratings by at least one notch.

The current ratings incorporate Hidrovias' strong business position in Brazil's North Region waterway sector and the Parana-Paraguay river system, bolstered by take-or-pay contracts and financial flexibility. The ratings are constrained by hydrological risks, potential crop failures, and client concentration.

Key Rating Drivers

Support of the Parent: Hidrovias' credit profile benefits from the increased stake of Ultrapar, which now holds 50.15% following a capital increase of BRL1.2 billion. Ultrapar's tangible support is expected through its guarantee of the announced BRL2.2 billion in new debenture issuance, scheduled for early June, which will account for more than 50% of Hidrovias' pro forma debt as of March 2025.

Ultrapar Group is a prominent Brazilian conglomerate with diverse operations primarily focused on the energy, infrastructure, and chemical sectors. The group's business profile is supported by its significant market presence and operational expertise, particularly through its subsidiaries, which include Ipiranga, Ultragaz, Ultracargo and Hidrovias do Brasil. The group's financial profile is bolstered by its ability to leverage economies of scale and diversify its revenue streams across various sectors, maintaining conservative leverage and strong liquidity.

Improving Financial Profile: The capital increase added an additional BRL700 million to Hidrovias' cash, in addition to the BRL500 million capitalized AFAC provided by Ultrapar in December 2024, enhancing the issuer's capital structure. Pro forma for the transaction, Hidrovias' net debt/EBITDAR is 4.7x, a significant reduction from 5.8x as of March 2025. Beginning in 2025, a gradual recovery in Hidrovias' volumes, due to improved water levels in the North and South Corridors along with a stable tariff environment, is expected to boost the company's operating cash flow, resulting in a net leverage decrease to 4.3x in 2025 and 3.8x in 2026.

Peer Analysis

Hidrovias holds the weakest position in the 'BB' rating category compared to regional transportation and logistics peers, which are typically rated 'BB' to 'BBB'. Its rating is constrained by a medium-sized business

scale, hydrological risks and the weakest capital structure among Brazilian peers like MRS Logistica S.A. (MRS Logistica; Local Currency IDR BBB-/Stable), Rumo S.A. (Rumo; Local Currency IDR BB+/Stable) and VLI S.A. (VLI; AAA[bra]/Stable).

However, Hidrovias' competitive regional position and take-or-pay contracts help mitigate business volatility. Hidrovias' net adjusted leverage is expected to remain higher than other rated Brazilian peers in the transportation and logistics sector with more mature operations and higher ratings. Rumo, VLI and MRS Logistica should report net leverage below 2.5x in the next two years, while Hidrovias' ratings incorporate expectations of a higher net adjusted leverage.

Key Assumptions

--Issuance of BRL2.2 billion of debentures, guaranteed by Ultrapar;

--Full repayment of the third debentures issuance, maturing in 2026, and the BRL1.8 billion of notes, maturing in 2031.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Weak legal, strategic, and operational ties between Hidrovias and Ultrapar;

--Net adjusted debt to EBITDAR ratio consistently above 4.5x on a sustained basis;

--Deterioration of its liquidity position, with increasing short- to medium-term refinancing risks;

--Large debt-funded mergers and acquisitions transactions or entering into a new business in the logistics sector that adversely affects its capital structure on a sustained basis or increases business risk exposure.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Evidence of tangible legal, strategic, and operational ties between Hidrovias and Ultrapar.

Liquidity and Debt Structure

Hidrovias has consistently maintained strong cash balances. The conclusion of the BRL1.2 billion capital injection in May 2025 improves its financial flexibility and prepares the company to run its main investment plans in the North Corridor, and potentially improve its operating cash flow generation. Pro forma to the transaction, Hidrovias' cash on hand is around BRL1.0 billion.

As of March 31, 2025, Hidrovias' cash position was BRL397 million, with short-term debt at BRL392 million, after the amortization of BRL900 million of its notes in February. Total debt stood at BRL3.9 billion, mainly comprising international bonds (55%) maturing in 2031, local debentures (35%) and leasing obligations (7%).

Issuer Profile

Hidrovias is an integrated logistics provider focused on waterways logistics services. It has an end-to-end infrastructure, including transshipment, port terminals and a fleet of barges, pusher tugs and cabotage vessels. Ultrapar is the main shareholder with a 50.15% stake.

Summary of Financial Adjustments

--Lease expenses were adjusted back to operating expenses, reducing EBITDA;

--The leasing obligation reported in the balance sheet is considered as debt.

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.

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

Hidrovias do Brasil S.A. has an ESG Relevance Score of '4' for Exposure to Environmental Impacts due to the effective impact on the company operations due the hydrological risks, which has a negative impact on the credit profile and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Hidrovias International Finance S.a.r.l.				
• senior unsecured	LT	BB-	Rating Watch Revision	BB-
Hidrovias do Brasil S.A.	LT IDR	BB-	Rating Watch Revision	BB-
	LC LT IDR	BB-	Rating Watch Revision	BB-
	Natl LT	AA-(bra)	Rating Watch Revision	AA-(bra)
• senior unsecured	Natl LT	AA-(bra)	Rating Watch Revision	AA-(bra)

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Corporate Rating Criteria \(pub.06 Dec 2024\) \(including rating assumption sensitivity\)](#)
[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.06 Dec 2024)

Additional Disclosures

Solicitation Status

Endorsement Status

Hidrovias do Brasil S.A. EU Endorsed, UK Endorsed

Hidrovias International Finance S.a.r.l. EU Endorsed, UK Endorsed

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