

Rating Action: Moody's Ratings changes direction of Hidrovias' ratings review to upgrade from downgrade

20 May 2025

New York, May 20, 2025 -- Moody's Ratings (Moody's) today changed the direction of its ratings review of Hidrovias do Brasil S.A. (Hidrovias) to review for upgrade from review for downgrade, including the B1 corporate family rating of Hidrovias and B1 backed senior unsecured ratings of the notes issued by Hidrovias International Finance S.a.r.l. due 2031, fully and unconditionally guaranteed by Hidrovias, and its fully-owned subsidiaries (guarantor group), except for the bauxite operations subsidiaries. The outlook remains Ratings Under Review (RUR).

The change in direction of Hidrovias' rating to review for upgrade from review for downgrade was prompted by the acquisition of control of Hidrovias by Ultrapar Participações S.A. (Ultrapar, Ba1 positive) in conjunction with the announcement, on May 9th, that Ultrapar will guarantee a proposed issuance of up to BRL2.2 billion in debentures by Hidrovias, which will comprise a majority of Hidrovias total debt (60%-70%, on a pro-forma basis considering total debt at the end of 1Q25). Proceeds of the issuance will reinforce liquidity and support the tender of Hidrovias notes due 2031 (\$442 million). Previously, Hidrovias' ratings were on review for downgrade following the announcement of the cancellation of a proposed capital increase of up to BRL1.5 billion that was expected to close in December 2024. On the 28th of February 2025, Hidrovias launched a new capital increase of up to BRL1.2 billion. The capital increase was fully subscribed and approved by Hidrovias' board of directors on May 8th. At the conclusion of the transaction, Ultrapar indicated that its subsidiary Ultrapar Logística Ltda had subscribed to a total of over 682 million shares, thus reaching a 50.15% stake, acquiring the control of Hidrovias.

Refinancing risk for Hidrovias reduced substantially with the capital increase which will eliminate a BRL500 million liability relating to Advance for Future Capital Increase provided by Ultrapar Logística, amortize BRL400 million debentures raised on January 2025, and reinforce the company's cash balance. During the initial review period, Hidrovias amortized a \$150 million bond due January 2025.

The review for upgrade will observe the execution of the proposed liability management and the percentage of Hidrovias' total debt which will be guaranteed by Ultrapar. Following the execution of the proposed issuance, we expect that 60% - 70% of Hidrovias total debt will be guaranteed by Ultrapar. The ratings could be upgraded by one or two notches with the conclusion of both the issuance of debentures, putting in place the guarantees, and the result of the tender of the outstanding notes. If Hidrovias capital structure does not become majoritarily guaranteed by Ultrapar, we could confirm the ratings at the current level at the end of the review process.

RATINGS RATIONALE / FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The B1 ratings incorporate the position of Ultrapar as the controlling shareholder and its evident commitment to Hidrovias. The rating also incorporates the successful execution of the capital increase, with Ultrapar's acquisition of control, and improving Hidrovias liquidity and financial flexibility to put in place expansion investments in its North Corridor.

Hidrovias' results have been negatively affected in 2024 by strong restrictions in the navigability in its South and North corridors. The sharp drop in EBITDA starting in Q4 2023 resulted in an

increase its Moody's adjusted gross leverage to 13.2x as of the last twelve months that ended on March 2025 (or 6.3x excluding non-cash effects of hedges). We expect Moody's adjusted gross leverage to reach 4.8x by December 2025 and 4.3x by December 2026, with an improvement in the company's EBITDA, including Moody's adjustments, to BRL826 million in 2025 from BRL202 million in 2024, and debt to remain at, or below, BRL4 billion compared to BRL5.1 billion in December 2024.

Hidrovias' ratings primarily reflect the company's solid business model, with about 80% of its revenue coming from long-term take-or-pay agreements with strong off-takers. The agreements contain minimum volume guarantees and cost pass-through clauses, which translate into predictable cash flow, high capacity utilization rates and high operating margins for the company. The positive outlook on agricultural production and waterborne transportation in Brazil and Paraguay, and the strategic location of Hidrovias' operations, also support its ratings.

The ratings are constrained by the company's high gross leverage, short operating track record and small size compared with that of its rated peers. The high degree of product and geographic concentration also constrains Hidrovias' ratings because it exposes the company to adverse weather conditions that could limit agricultural production and river navigability. As an inland operator, the company is exposed to climate-related risks such as low rainfall and river water levels, which hurt volumes and may increase costs. Hidrovias also has a high degree of client concentration, although the clients' good credit quality and history of contract compliance mitigate related risks.

Headquartered in Sao Paulo, Hidrovias do Brasil S.A. is South America's largest independent provider of integrated logistics focused on waterway transportation. The company's operations include shipping, transshipment, storage and port services for dry bulk cargo, including grains, iron ore, bauxite, fertilizers and pulp in the Paraná-Paraguay waterway and the Amazon river systems, as well as port operations in Barcarena (Pará) and Santos (São Paulo). As of the last twelve months that ended on March 2025, the company generated BRL1.4 billion (\$253 million) in revenue, with an adjusted EBITDA margin of 22.6%, mainly from shipping activities and other logistics services.

The principal methodology used in these ratings was Shipping published in June 2021 and available at <https://ratings.moodys.com/rmc-documents/72792>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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