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Fitch Places Hidrovias' Ratings on Rating Watch Negative

Fitch Ratings - Rio de Janeiro - 03 Jan 2025: Fitch Ratings has placed on 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)' of the company's National Long-Term Rating and its senior unsecured debentures rating. Fitch has also placed Hidrovias International Finance S.a.r.l.'s senior unsecured notes rated 'BB-' on RWN.

The RWN reflects Hidrovia's leveraged capital structure, incommensurate with the current rating, that will persist if it can't complete the initially planned BRL1.2 billion capital increase by April 2025, following an unsuccessful attempt in December 2024. The rating action considered the challenges it may encounter in improving its poor operational performance, which is crucial for its deleverage capacity.

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

Key Rating Drivers

Capital Increase is Crucial: The delay in executing the BRL1.2 billion capital increase by December 2024 has heightened Fitch's concerns regarding Hidrovia's capital structure. The company must secure BRL700 million in additional cash and convert into capital the BRL500 million already received through an Advance for Future Capital Increase (AFCI) to maintain its existing ratings.

Failure to achieve this capital increase could lead to a net adjusted debt/EBITDAR of 5.5x in 2025, following an anticipated 6.2x in 2024. Successfully completing the planned capital increase within this time frame, combined with operational performance improvements, could reduce net adjusted leverage to 3.6x by year end, in line with the current ratings.

Operating Performance Recovery: Fitch projects a gradual recovery in Hidrovias' volumes starting in 2025, following improved water levels in the North and South Corridors. Fitch anticipates EBITDAR and cash flow from operations (CFFO) to reach BRL617 million and BRL255 million, respectively, in 2025, driven by a consolidated volume increase of 6.3%, with 10% growth in the North Corridor and 5% in the South Corridor.

This is an improvement compared to the expected BRL504 million and BRL160 million, respectively, in

2024, which were impacted by a 21% volume decline. In 2026, Fitch forecasts EBITDAR and CFFO to further increase to BRL780 million and BRL352 million, respectively, assuming significantly better navigation conditions in the South Corridor, which could result in an 8% increase in total volumes.

Negative FCF: Hidrovias should generate negative free cash flow (FCF) of BRL770 million from 2024 until 2027, driven by capital expenditures (capex) totaling BRL1.9 billion in the period, including expansion in the North Corridor. Fitch projects that Hidrovias will be able to finance its expansion initiatives without compromising its capital structure. This expansion is targeted at strengthening Hidrovias' presence in Brazil's North Region's agricultural and fertilizer transportation markets.

Challenge to Increase Client Diversification: Hidrovias faces portfolio concentration risk, with main clients J&F Mineração, a former contract of Vale S.A. (BBB/Stable), COFCO Group and Alumina do Norte do Brasil S.A. contributing 48% to 62% of total EBITDA historically. Recent client and sector additions, such as service activities in Santos Port, only account for about 10% of EBITDAR. In 2023, EBITDAR was divided by corridor: North (50%), South (45%), Coastal (13%) and Santos (8%), with holding and others showing negative EBITDAR. EBITDA of 58% is generated in Brazil and 42% in Uruguay/Paraguay.

Ultrapar Affiliation is Positive: Fitch views Hidrovias' affiliation with the Ultrapar group as credit positive. The company's transition to being controlled by a corporation with a strong credit profile and a long-term strategy is beneficial compared to the former private equity investor. Ultrapar is one of the leading business groups in Brazil, actively engaged in energy and logistics infrastructure. The recent AFCI underscores the shareholder's commitment to the issuer's credit profile. This shareholder enhances Hidrovias' financial flexibility.

Derivation Summary

Hidrovias holds the weakest position in the 'BB' rating category compared to regional transportation and logistics peers, 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

- Volumes to decline 21.3% in 2024, reflecting declines of 17.6% in the North Corridor and 43.5% in the South Corridor;
- Volumes to recover by 6.3% in 2025;
- Average annual capex of around BRL468 million in 2024-2027;
- Issuance of new debt totaling BRL400 million during 2025.

RATING SENSITIVITIES

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

- Failure to conclude the capital increase up to April 2025;
- Significant delays in operational performance improvements as projected;
- Large debt-funded mergers and acquisitions (M&A) 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;
- 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.

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

The removal of the RWN and assignment of a Stable Rating Outlook depends on:

- A successful BRL1.2 billion capital increase by April 2025;
- The ability to recover its business performance as expected.

Liquidity and Debt Structure

Hidrovias has consistently maintained strong cash balances. The BRL500 million AFCl, together with the company's cash position and proven financial flexibility, should allow the payment of USD150 million (approximately BRL900 million) by Jan. 25, 2025. An additional BRL700 million cash inflow from a possible capital increase of BRL1.2 billion, if it occurs, would further bolster Hidrovias' cash position.

As of Sept. 30, 2024, Hidrovias' cash position was BRL758 million, with short-term debt at BRL1.2 billion. Total debt stood at BRL4.6 billion, comprising international bonds (62%) maturing in 2025 and 2031, local debentures (21%), debt with Banco Nacional de Desenvolvimento Econômico e Social (BNDES) (10%), and leasing obligations (6%).

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 40% 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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[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 On	BB-
Hidrovias do Brasil S.A.	LT IDR	BB-	Rating Watch On
	LC LT IDR	BB-	Rating Watch On
	Natl LT	AA-(bra)	Rating Watch On
• senior unsecured ^{Natl LT}	AA-(bra)	Rating Watch On	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 \(pub.22 Dec 2020\)](#)

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

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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