MOODY'S
RATINGS

# Rating Action: Moody's affirms B1 Hidrovias do Brasil ratings; stable outlook

29 Jan 2024

New York, January 29, 2024 -- Moody's Investors Service (Moody's) has affirmed Hidrovias do Brasil S.A.(HBSA)'s B1 corporate family rating and the B1 backed senior unsecured ratings of the notes issued by Hidrovias International Finance S.a.r.l. due 2025 and 2031 and fully and unconditionally guaranteed by HBSA and its fully-owned subsidiaries, except for the bauxite operations subsidiaries (guarantor group). The outlook for the ratings is stable.

RATINGS RATIONALE

Since 2022 HBSA has been focused in deleveraging its balance sheet with gross leverage reducing to 4.8x in September 2023 from 8.7x in 2021. Moody's expects the trend to continue with gross leverage reaching 4.2x year-end 2024 and below 4.0x in 2025. But, in the short-term trailing leverage will peak at 5.6x in Q1 2024 mainly because of a weak EBITDA in the Q4 2023. The lower than usual river draft in the North Corridor has limited the transport of volumes by HBSA. With the lower utilization of the assets HBSA also decided to anticipate maintenance costs initially planned for the Q1 24. Moody's estimates these events will lead to single digit EBITDA margin in Q4 2023 and a full year EBITDA of BRL808 million, margin of 40.7%, driving leverage up to 5.4x year-end 2023.

HBSA's B1 ratings are supported by a solid business model with about 80% of its revenues ensured by 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 for agricultural production, with Brazilian grain production continuing to grow gradually in the coming 10 years, and waterborne transportation in Brazil and Paraguay, and the strategic location of HBSA's operations also support its ratings.

The ratings are constrained by the company's still high gross leverage, short operating track record and small size compared with that of its peers rated by Moody's. The high degree of product and geographic concentration also constrains

HBSA's 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 causing reduced volumes or higher cost. HBSA also has a high degree of client concentration, although the clients' good credit quality and history of contract compliance mitigate related risks. Finally, despite recent efforts to reduce its currency mismatch, seventy six of HBSA's debt is indexed to the US dollar (down from 90% in July 2022), leaving the company's gross leverage ratios exposed to currency volatility risk.

## LIQUIDITY

HBSA has an adequate liquidity profile, with BRL797 million in cash at the end of September 2023, well above its minimum requirements of around BRL300 million, and only around BRL80 million in principal debt maturities in 2024. Their next bond maturity is in January 2025, Moody's expects HBSA to continue engaging in liability management to maintain its liquidity and refinance its Notes before the maturity date. The current outstanding amount of the 2025 Notes is of $171 million, of which $25 million has been already been acquired by HBSA.

## RATING OUTLOOK

The stable outlook incorporates Moody's expectations that HBSA's credit metrics will remain adequate with operations performing in line with the terms and conditions established by the existing take-or-pay agreements, and that the company will prudently manage its dividend distribution and future investments to preserve its good liquidity profile.

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

An upgrade of HBSA's ratings could occur if the company is able to reduce leverage sustainably, while maintaining its current business model and profitability levels and generating stable cash flows on a sustained basis. Quantitatively, a rating upgrade would require the maintenance of adjusted leverage (measured as debt/EBITDA) sustainably below 4.0x and interest coverage (measured by adjusted FFO+ interest/interest) above 3.5x.The maintenance of a strong liquidity profile would also be necessary for an upgrade.

The ratings could be downgraded if HBSA's operating performance remains weak, such that leverage remains high and liquidity deteriorates without prospects for improvement. A deterioration in the company's business profile because of the loss of any existing take-or-pay agreement without a financial compensation or further debt-financed expansion into the spot market would also put negative pressure on the ratings. Quantitatively, a downgrade could occur if leverage remains sustainably above 5.0x and interest coverage below 2.0x. A deterioration in the company's liquidity profile, stemming from large shareholder distribution or more aggressive financial policies, would also result in a downgrade of the ratings.

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. In the 12 months that ended September 2023, the company generated BRL2.0 billion ($398 million) in revenue, with an adjusted EBITDA margin of 45.1%, 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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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.

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