

MOODY'S

RATINGS

Rating Action: Moody's Ratings places Hidrovias do Brasil ratings under review for downgrade

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New York, January 09, 2025 -- Moody's Ratings (Moody's) placed under review for downgrade Hidrovias do Brasil S.A.(Hidrovias)'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 fully and unconditionally guaranteed by Hidrovias and its fully-owned subsidiaries, except for the bauxite operations subsidiaries (guarantor group). Previously, the outlook was stable.

The review was prompted by an increased liquidity risk after the cancelation of a up to BRL1.5 billion capital increase which was expected to close in December 2024. Despite the cancelation of the capital increase, reference shareholder Ultrapar Participações S.A., via its subsidiary Ultrapar Logística Ltda., has provided BRL 500 million as an advance for future capital increase to help Hidrovias fund upcoming bond maturity of \$150 million (BRL928 million) due in late January 2025. The company plans to approve a new capital increase during the first quarter of 2025. Additionally, Hidrovias announced the issuance of BRL400 million in debentures which it expects to raise during January, before the bond maturity, which will be fully redeemed with the execution of the capital increase.

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

The review will focus on the company's ability to meet its short-term debt obligations, including the bond due in late January 2025, and to successfully execute the planned capital increase, or further actions to sustain liquidity. The review will also observe initiatives to reduce the company's leverage and improve its capital structure, including the reduction of its debt balance of BRL4.6 billion as of September 2024.

The terms have not been disclosed, but a capital increase of BRL1.2 billion, equivalent to the floor of the cancelled capital increase, will improve financial flexibility of Hidrovias to put in place expansion investments in its North Corridor and support liquidity with an adequate cash balance consistent covering 12 to 18 months maturities. The capital increase could strengthen Ultrapar's position as a reference

shareholder if the company subscribes to possible leftovers, strengthening the perception of support by Ultrapar as it approaches a 50% stake in Hidrovias from 42% today. Even with the successful capital increase gross leverage will remain high, therefore the review will also focus on the visibility of initiatives regarding the deleveraging process which will accompany the capital increase.

Notwithstanding the ratings review, Hidrovias' ratings 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 Government of Brazil (Ba1 positive) and Government of Paraguay (Baa3 stable), 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 peers we rate. 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). In the 12 months that ended September 2024, the company generated BRL1.6 billion (\$317 million) in revenue, with an adjusted EBITDA margin of 27%, 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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