

MOODY'S

RATINGS

Rating Action: Moody's Ratings downgrades Oceanica's rating to B3; outlook changed to negative

06 May 2025

New York, May 06, 2025 -- Moody's Ratings (Moody's) has today downgraded Oceanica Engenharia e Consultoria S.A. (Oceanica)'s Corporate Family Rating (CFR) to B3 from B2 and the rating of the \$375 million Backed Senior Secured Notes due 2029 issued by Oceanica LUX and fully and unconditionally guaranteed by Oceanica Engenharia e Consultoria S.A. to B3 from B2. The outlook for the ratings was changed to negative from stable.

RATINGS RATIONALE

The downgrade of Oceanica's rating to B3 reflects the weaker than anticipated results the company posted in 2024 and the resulting weakened credit metrics and liquidity. Oceanica's Moody's-adjusted leverage has increased from 4.4x in 2023 to 10.2x in 2024 (excluding FX and the credit linked debentures) because of delays in the ramp up of new contracts and significant investments, but we expect the ratio to decline to 3.5x-4x from 2025 onwards due to the new existing service contracts, which already started to operate during Q4'24 and Q1'25. Still, credit metrics and liquidity will fall short of our initial expectations, since a more depreciated foreign exchange rate and higher interest rates will weight on debt service, and the company's issuance in October 2024 was smaller than initially expected. Accordingly, Oceanica needs to raise additional debt to refinance upcoming maturities in 2025-26 and to restore its cash position. Recent increase in market volatility might also lead to higher funding costs and tougher access to the capital market for refinancing, increasing the credit risk for Oceanica and making its financial profile more commensurate with a lower rating.

Oceanica's B3 rating is supported by its scale and leading market position in the Brazilian offshore services industry, long-term relationship with its main customer Petroleo Brasileiro S.A. - PETROBRAS (Petrobras, Ba1 positive), and firm backlog of contracts that provides cash flow visibility through 2027. The company had a fleet of 17 vessels and 55 remotely operated vehicles (ROV) at the end of December 2024 with an average vessel fleet age of 17 years and a firm backlog of BRL9.8 billion, and benefits from contractual protections and from the specialized, mission-critical nature of its service that provides track record of operating profitably through commodity price cycles. The company is benefitting from increasing demand in its offshore energy business in Brazil while pursuing growth in other business segments in the offshore industry. The rating is also supported by the company's improving credit metrics and liquidity related to the ramp up of its service contracts.

The rating is constrained by Oceanica's small size and concentrated operations compared to those of its peers, its exposure to re-contracting and repricing risks despite the track record of no contract cancellation with Petrobras, its growth strategy and the capital intensity of its business. The largely encumbered asset base and high funding cost also limits the rating, as well as the lack of track record of prudent capital allocation through investment cycles. The company's weakened credit metrics and liquidity after the transition and mobilization of several assets in 2024 also constrains the rating.

Oceanica's total debt will continue to increase as the company pursues its growth strategy on the Brazilian offshore market, although any fleet expansion would be tied to the signing of new contracts. As new contracts ramp up, Oceanica will generate annual cash flow from operations of

BRL350 million, which will be sufficient to cover CAPEX requirements in a capped amount of BRL350 million as per its notes indentures.

LIQUIDITY

Oceanica has weak liquidity, with around BRL204 million in cash and BRL463 million in debt maturing until the end of 2026, compared to our previous expectations of BRL900 million in cash and only one debt instrument maturing in 2029. We expect the company's cash flow from operations to amount to around BRL300-400 million per year from 2025 onwards, which is sufficient to cover maintenance investment requirements in its fleet, however the company will continue to rely on external funding to fund fleet growth. The company's notes due 2029 have incurrence covenants setting a maximum net leverage of 4.5x in 2024, gradually declining to 2.5x from 2026 onwards, and limit dividend payments to 50% of net income and capex to BRL350 million per year. We expect the company to maintain a disciplined approach to capital allocation, including dividend distributions, as it starts to increase its cash from operations. We also expect Oceanica to pursue additional liability management initiatives to address upcoming debt maturities and increase its cash position.

STRUCTURAL CONSIDERATIONS

Oceanica's \$375 million secured notes are rated B3, at the same level as the company's B3 CFR, reflecting the instrument's collateral package, which includes a first-priority security interest on specific equipment, receivables, collateral account, vessels, DSRA and escrow account. The senior notes represent 87% of Oceanica's debt. The notes contain a pledge of the lower of: i) 70% of company's receivables or ii) 2x the outstanding principal amount, tested quarterly, and will have leverage-based cash flow sweeps.

RATING OUTLOOK

The negative rating outlook reflects Oceanica's high liquidity risks and the ongoing ramp up of credit metrics and liquidity related to existing contracts and additional liability management initiatives.

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

Given the negative rating outlook, an upgrade is unlikely in the short term. Longer term, Oceanica's rating could be upgraded if the company is able to execute its existing backlog and build an operational and financial track record, while continuing to secure contract's renewal and growth, and significantly increase its scale. Quantitatively, the rating could be upgraded if the company's maintains debt-to-EBITDA remains below 3.5x, improves its free cash flow generation, increases interest coverage (EBITDA/interest) to above 2.5x and maintains at least adequate liquidity.

The failure to successfully complete additional liability management initiatives and reinforce its cash balance and reduce liquidity risks would trigger a downgrade of the rating. Oceanica's rating could also be downgraded if the company's liquidity deteriorates or if leverage (measured by debt-to-EBITDA) is sustained above 4.5x. Change in financial policy, such as using significant amounts of debt for growth or dividend payments, could also lead to a downgrade.

COMPANY PROFILE

Headquartered in Rio de Janeiro, Brazil and founded in 1978, Oceanica is a leading provider of prevention, contingency and engineering services to the offshore oil and gas industry in Brazil. The company operates a fleet of 55 ROVs and 17 support vessels with an average fleet age of 17 years. The company generates the totality of its revenue in Brazil and mostly through contracts with Petrobras, and related to prevention services (70% of revenues), followed by engineering (20%) and contingency services (10%). In 2024, the company reported revenue of BRL1.1 billion with a Moody's-adjusted EBITDA margin of 24.7%.

The principal methodology used in these ratings was Oilfield Services published in January 2023 and available at <https://ratings.moodys.com/rmc-documents/397981>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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