FitchRatings

Fitch Rtgs: Braskem's Judicial Agreement Reduces Uncertainties; Measures to Boost FCF Still Required

Fitch Ratings-Chicago-09 January 2020: Braskem's announcement of cash outflows of around BRL2.7 billion (USD670 million) for relocations and decommissioning costs related to its Alagoas salt mine is slightly above Fitch Ratings' negative rating sensitivity, which considered potential fines of up to USD500 million. This announcement is consistent with Fitch's decision to assign Braskem's 'BBB-' rating a Negative Outlook on Nov. 26, 2019, due to an expectation of materialization of significant remediation expenses, fines and/or other legal liabilities related to the company's salt mine operations in Alagoas. The timeline of the disbursements is not clear, but Fitch expects it will be spread over a one to three year period.

In an effort to avoid a negative rating action, Braskem will have to bolster its cash flow and balance sheet through measures such as new cost-cutting initiatives, tax credits monetization, reductions in capex and dividends, and/or asset sales during the next 12 to 24 months in order bring net leverage to around 2.5x by 2021. Fitch's base case, excluding the operations in Mexico, projects net debt/EBITDA ratios for Braskem of 3.8x and 3.4x during 2020-2021. The base case considers a challenging scenario for petrochemical spreads during this two year period.

On Jan. 6, 2020, Braskem announced that the federal judge of the 3rd Court of Alagoas State ratified an agreement executed by the company that calls for the relocation and indemnification of residents of the areas at risk located in the districts of Mutange, Bom Parto, Pinheiro and Bebedouro of Maceio, Alagoas (approximately 17,000 people). Braskem is expected to provision BRL1.7 billion for financial compensation and relocation expenses and BRL1 billion to close certain salt wells. The agreement was signed with the Alagoas State Public Defender's Office (DPE), the Federal Prosecution Office (MPF), the Alagoas State Prosecution Office (MPE) and the Federal Public Defender's Office (DPU).

The agreement will result in the release of BRL3.7 billion of cash that was previously frozen, of which BRL1.7 billion will be used specifically for funding the financial compensation and relocation program. Braskem will also substitute BRL6.4 billion of surety bonds with two new surety bonds of around BRL3 billion, to guarantee the Public-Interest Civil Action filed by the DPE and by the MPE and the Public-Interest Civil Action filed by the MPF.

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