05 MAY 2021

Fitch Rates Orbia's Sustainability-Linked Senior Notes 'BBB'

Fitch Ratings - Rio de Janeiro - 05 May 2021: Fitch Ratings has assigned a 'BBB' rating to the proposed senior unsecured sustainability-linked notes due 2026 and 2031 to be issued by Orbia Advance Corporation, S.A.B. de C.V.. Proceeds from the senior notes will be used for the payment in full or a portion of its 8.12% peso denominated notes due 2022, and 4.875% of its USD notes due 2022, as well as for general corporate purposes. Fitch currently rates Orbia's Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) 'BBB'/Stable.

The sustainability-linked securities framework establishes a goal of reducing Sulfur Oxide (SOx) Emissions by 60% by 2025 on the 2031 notes, and by 44% by 2023 on the 2026 notes, as compared to the 2018 baseline year. These targets are subject to certain exclusions related to acquisitions. If Orbia fails to meet the targets and conditions there could be an interest step up of 25 basis points.

Key Rating Drivers

Strong Business Position: Orbia has a strong business position in polyvinyl chloride (PVC) pipes throughout Latin America and Europe, as well as in fluorspar globally, and in the data communication and precision agriculture segments. The company is a large producer of PVC resins and pipes and is one of the world's largest producers of fluorspar, hydrofluoric acid, high-density polyethylene (HDPE) water and fiber optic cables (for building and infrastructure, and irrigation systems).

Orbia's strong market positions coupled with vast vertical integration, which extends from the salt mine and ethylene cracker in its vinyls division, and from the fluorspar mine in Fluor to the final consumer, provide it with increased business flexibility and expanded cross-selling opportunities. These features support long-term revenue and cash flow expansion and provide the company with relatively high operating margins within the petrochemical industry.

Diversification Strategy: Orbia's ratings reflect its product and geographic diversification, with an increasing share of specialty products. The company's presence in different sectors and regions have helped it maintain relatively stable EBITDA margins of between 19%-20% during the past four years. Orbia's revenues were spread relatively evenly among Europe (35%), North America (30%) and South America (23%) during 1Q21.

Mexico's domestic market represented only around 10% of the company's revenues, reducing its exposure to ongoing political volatility in the country. Orbia still has a large exposure to volatile industries such as infrastructure and construction, which corresponded to more than 60% of its revenues. The strategy of focusing on added-value products helps to partially offset the pure commodity cycle.

Favorable Industry Dynamics: Orbia should benefit from the current favorable outlook for the Polymer Solutions segment and for Building & Infrastructure (mostly in U.S.). Steady volume growth should sustain revenue expansion while the recent quarter of improvements on cost base and working capital needs will benefit operating margins and cash flow generation. Fitch's consolidated EBITDA margins should range around 20% in the next two years.

Limited Pressure on FCF: Orbia has a track record of solid FCF generation throughout petrochemical cycles. Under Fitch's base case scenario, Orbia's EBITDA and cash flow from operations (CFFO) for 2021 are expected to be approximately USD1.4 billion and USD0.6 billion, respectively, while FCF should be neutral. This scenario includes a recovery in capex level that were reduced during 2020 and the company's shareholder friendly dividends policies. For the year, Fitch considers dividends outflows of around USD354 million (including minority interests). For 2022 and 2023, FCF is expected to recover to around USD164 million and USD236 million, respectively.

Leverage to Remain Adequate: In absence of a major strategic investment and/or acquisition, Orbia's ongoing improvements in operating cash flow generation should bring its leverage ratios in line with the rating headroom. Fitch projects Orbia's adjusted net leverage to reach 2.6x during 2021, 2.4x in 2022 and 2.32x in 2023. As of Dec. 31, 2020, Orbia's adjusted net leverage was 2.8x. Fitch's leverage calculation includes USD525 million of LOC, as well as other standard adjustments, such as the payment of dividend distributions to minority shareholders.

Derivation Summary

Orbia is well positioned relative to peers such as Alpek, S.A.B. de C.V. (BBB-/Stable) and Braskem S.A. (BB+/Stable) in terms of the degree of product and geographic diversification. Backward integration of Orbia's PVC and fluorite businesses is another factor that distinguishes Orbia from companies in the chemicals sector.

Integration reduces the volatility of cash flows as prices of final products tend to be more stable. Orbia's product portfolio has some specialized characteristics, resulting in some margin uplift from pure commodity chemical producers. Orbia's ratings are tempered by the company's still-important exposure to volatile industries such as infrastructure and construction, as well as by its high leverage relative to peers. Orbia has shown more solid and constant free cash generation compared with Alpek and Braskem.

Westlake (BBB/Negative), the third-largest global chlor-alkali and PVC producer, has added scale to its PVC resin and vinyl-based building products through an acquisition. Although Orbia's PVC production is smaller in scale compared with Westlake's, it benefits from the backward integration and diversification of its PVC and fluorite businesses, which have a relatively higher component of finished products.

Key Assumptions

Fitch's Key Assumptions Within the Rating Case for the Issuer:

--Revenue growth 9% and 3% in 2021 and 2022, reflecting the stronger performance of Vestolit and Wavin business;

--EBITDA margin moving around 20%;

--Capex around USD385 million in 2021 and 2022;

--Dividends around USD200 million in 2021 and in 2022;

--Strong liquidity position and successful liability management strategy with no exposure to refinancing risks.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Capital spending discipline that generates consistent positive FCF margins above 4% and net adjusted debt/operating EBITDA consistently below 1.5x could eventually benefit the ratings in the long term.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Net adjusted leverage remaining above 2.5x in the long term;

--A change in fluorspar dynamics globally or in regulation as well as a global recession, which affects the company's profitability, cash flow and leverage levels, including expectations of EBITDA margins consistently below 15% and meaningful erosion of FCF.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Liquidity and Debt Structure

Strong Liquidity: Orbia's solid liquidity and manageable refinancing risk profile remain as key credit considerations. As of March 31 2021, the company had USD713 million of cash and marketable securities and USD4.1 billion of total debt, of which USD1.1 billion was due in the short term. Fitch's short-term debt includes USD0.5 billion of Letter of credit (LOC). Orbia has a strong access to local and international credit market and financial flexibility is further enhanced by a USD1 billion of undrawn revolving credit facility due to June 2024.

Fitch expects that Orbia will remain disciplined with its liquidity position and will maintain its proactive approach in liability management to avoid exposure to refinancing risks. Currently, the company has some debt maturity concentration in the next 18 months, with USD634 million in due in the short term (including USD146 million of local notes) and USD772 million due in 2022 (USD750 million of unsecured notes due 2022). Remaining debt balance has longer maturity, with unsecured notes due 2027 (USD500 million), 2044 (USD750 million) and 2048 (USD500 million). As of March 31, 2021, about 83% of total debt was denominated in U.S. dollars.

Date of Relevant Committee

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.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Orbia Advance Corporation, S.A.B. de C.V.			

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• senior unsecured	LT	BBB	New Rating		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	◇	◆
STABLE	○	

Applicable Criteria

Corporate Rating Criteria (pub.21 Dec 2020) (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), v7.9.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

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