

# MOODY'S

## RATINGS

### **Rating Action: Moody's assigns Baa3 rating to Orbia's proposed senior unsecured notes; the outlook is stable**

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06 May 2021

New York, May 06, 2021 -- Moody's Investors Service (Moody's) assigned today Baa3 ratings to Orbia Advance Corporation, S.A.B. de C.V.'s (Orbia) proposed senior unsecured notes. Orbia's existing Baa3 ratings remain unchanged. The outlook is stable.

Orbia will issue senior unsecured notes in two tranches with tenors of 5 and 10 years, respectively. The proceeds of the issuance of the notes will be used to refinance existing debt and will not affect the company's debt protection metrics.

#### Assignments:

..Issuer: Orbia Advance Corporation, S.A.B. de C.V.

...Senior Unsecured Regular Bond/Debenture, Assigned Baa3

#### RATINGS RATIONALE

"Orbia's Baa3 ratings reflects its adequate credit metrics and market position, ample liquidity and comfortable long-term debt-maturity profile." said Alonso Sánchez, a Vice President-Senior Analyst at Moody's. "The rating also incorporates the company's adequate profit margin for the rating category benefited from its vertical integration into ethylene and fluorspar that reduced costs substantially; and the benefits from its growth — organic and through acquisitions — in high-margin value-added businesses." added Sánchez. Also considered in the rating is Orbia's historical M&A activity which increases execution risk. This risk is mitigated by the company's current strategy to grow organically and good track record of integrating acquisitions while capturing synergies and reducing leverage.

Orbia's operation has recovered over the last nine months from the negative effects of the Covid-19 outbreak. In the first quarter 2021, Orbia's revenues increased by 18%

mainly driven by higher sales in its polymer solutions, irrigation, and in its building & infrastructure businesses. In addition to increased sales, higher PVC margins and a better product mix benefited Orbia's EBITDA. Going forward, Moody's expects Orbia's EBITDA margin to improve to around 21% in 2022. Orbia's credit metrics will not be affected by the proposed transaction. Moody's expects Orbia's adjusted debt/EBITDA of 3.2x as of March 31, 2021 to remain unchanged following the issuance of the proposed notes as the proceeds from the notes will be used to refinance existing debt. Moody's estimates Orbia's adj. debt/EBITDA will decline to around 2.6x by year-end 2021 and below 2.5x by year-end 2022 from higher EBITDA and debt reduction.

Orbia has adequate liquidity. As of March 31, 2021, the company reported cash on hand of \$713 million that could cover 1.1x its short-term debt. Orbia's liquidity is further supported by its positive free cash flow (defined as cash from operations minus dividends minus capital expenditures) generation and a \$1 billion committed revolving credit facility that is fully available. Pro-forma for the transaction, Orbia will have a comfortable long-term debt maturity profile with no major amortizations until 2026. Moody's expects Orbia's free cash flow to remain positive in 2021-22 with average annual dividends (including minority interest) and capital expenditures around \$360 million and \$380 million, respectively.

The stable outlook reflects our expectation that Orbia's credit metrics will normalize toward historical levels during 2021 as the negative effects from the Covid-19 cease. The outlook also incorporates our expectation that the company will maintain adequate liquidity for the rating category.

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

Orbia's rating could be upgraded if the company maintains strong liquidity and improves its profitability such that its adjusted EBITDA margin is close to 20%. To be considered for an upgrade, Orbia's adjusted debt/EBITDA should be below 2.5x and its adjusted EBITDA/interest expense above 11x.

Orbia's rating could be downgraded following a contraction in the company's profitability such that its EBITDA margin falls below 15%. An increase in its adjusted debt/EBITDA above 3x on a sustained basis with no clear plan to de-lever, for example because of a debt-financed acquisition; a deterioration in its liquidity; or the execution of a non-accretive acquisition could also lead to a downgrade.

Orbia Advance Corporation, S.A.B. de C.V. manufactures leading-edge irrigation systems, infrastructure to create physical pathways for fiber and other network technologies, products of PVC, polyethylene and polypropylene pipes and fittings, and polypropylene water conduction products, value-added chemicals and propellants that serve a wide array of customer applications including automotive, infrastructure, health and medicine, heating, ventilation and air conditioning climate control, and the food cold chain, and PVC general and specialty resins and zero halogen specialty

compounds with applications in pipes, cables, flooring, auto parts, household appliances, clothing, packaging and medical devices. Orbia reported revenues of \$6,707 million over the twelve months ended March 31, 2021.

The principal methodology used in these ratings was Chemical Industry published in March 2019 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1152388](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1152388). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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