RATING ACTION COMMENTARY

Fitch Affirms Orbia's Ratings at 'BBB'

Mon 20 May, 2024 - 14:45 ET

Fitch Ratings - New York - 20 May 2024: Fitch Ratings has affirmed Orbia Advance Corporation, S.A.B de C.V.'s (Orbia) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BBB', as well as its U.S. dollar denominated unsecured notes at 'BBB', and National Scale Rating at 'AAA(mex)'. Fitch has also affirmed the Short-Term rating on Orbia's euro-CP program at 'F3'. The Rating Outlook on the IDRs and National Scale Rating is Stable.

Orbia's credit ratings are supported by its diversified product range and global presence, as well as a strong financial profile with ample liquidity. The company is focused on enhancing operational efficiency and maintaining strict financial oversight to save cash.

We expect Orbia's net leverage will hover around 3.0x in 2024 and 2025, due to increased capital spending, and then fall below 2.5x by 2026, in anticipation of a rebound from the industry's bottom cycle.

KEY RATING DRIVERS

Diversified Business Model: Orbia's ratings reflect its product and geographic diversification, with an increasing share of specialty products. The strategy of focusing on value-added products helps to offset the commodity nature of its business. As of FY 2023, Orbia's main markets by revenues were North America with 39%, followed by Europe (30%) and South America (16%), while Mexico's domestic market represented only around 11%. Orbia still has large exposure to volatile industries such as polymers and building and

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Strong Business Position: Orbia maintains a degree of vertical integration in its operations, managing resources from salt mines and fluorspar mines to production of final goods, potentially offering some business adaptability and opportunities for product cross-selling. The company has a strong presence in the PVC pipes sector across Latin America and Europe, participates in the global fluorspar market, and operates within data communication and precision agriculture.

Orbia also produces PVC resins, pipes, fluorspar, hydrofluoric acid, HDPE, and fiber optic cables, catering to building, infrastructure, and irrigation system needs.

Robust Liquidity: Even in current market conditions, the company's cash balance should remain above USD 1.0 billion, with liquidity ratio well over 2.0x throughout the rating horizon.

Fitch forecasts positive FCF of USD230 million for 2024, as the company continues to prioritize operational efficiency and tight financial control to preserve cash. We expect neutral FCF during the following years, due to planned expansions across its business portfolio that are in line with its growth strategies. In that scenario, we assume a cumulative capital expenditure of USD 2.4 billion and dividends outflows of around USD160 million between 2024-2027.

Leverage Profile: Orbia's net leverage should remain close to 3.0x in 2024 and 2025, as the company rolls out its expansion plans through the petrochemical downturn. Despite that, Fitch expects a decrease in net debt, highlighting its financial strength and justifying the investment grade rating.

In our base case scenario, we project EBITDA and CFO for 2024 of approximately USD1.3 billion and USD940 million, respectively. The company paid USD173 million of short-term debt during 1Q24, and Fitch estimates gross debt by FY2024 will be close to USD4.7 billion, down from USD5.3 billion in FY2023.

Industry Dynamics: Oversupply of PVC from China and the U.S. caused a reduction in prices and affected the company's main segment of Polymer Solutions. Revenues in 1Q24 declined 14.5% and EBITDA margins reduced to 13.1% from 19.1% in 1Q23. Persistently

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gen refrigerants, medical propellants, and precision agriculture.

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+/RWN) in terms of the degree of product and geographic diversification. Backward integration of Orbia's PVC and fluorite businesses, which extend from the salt mine and ethylene cracker in vinyls and form the fluorspar mine in fluor to the final consumer, also distinguish it from companies in the chemicals sector. Integration reduces the volatility of cash flows as prices of final products are often more stable.

Orbia's product portfolio has some specialized characteristics, resulting in some margin uplift from pure commodity chemical producers. Its ratings are tempered by material exposure to volatile industries such as infrastructure and construction, as well as by its high leverage relative to peers. Orbia has demonstrated more solid and constant free cash generation compared with Alpek and Braskem.

Westlake (BBB/Stable), 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 Our Rating Case for the Issuer

-Polymer Solutions sells 2.6 million tons in 2024, 2.7 million tons in 2025 and 2.8 million tons thereafter which implies spreads of USD145 per ton on average between 2024-2027;

-Fluor and Energy Matrials quantity sells about 900 thousand tons which implies spreads of USD430 per ton on average between 2024-2027;

-Gross margins of 25% for Building and Infrastructure, gross margins of 30% for Connectivity Solutions and gross margins of 30% for Precision Agriculture, in line with

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-Capex of USD550 million in 2024 and USD1.0 billion in 2025.

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;

--Further increases to scale, product diversification and reduction in cyclical cash flow risk.

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

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

--EBITDA margins consistently below 15% and meaningful erosion of FCF.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Orbia's liquidity and refinancing risk profile are adequate to support its investment and growth initiatives. The company had USD1.1 billion of cash and equivalents at March 31, 2024, and USD4.7 billion of total debt, of which USD657 million is short-term debt. Fitch's calculation for short-term debt includes a letter of credit with a USD374 million outstanding balance. Orbia has strong access to local and international credit markets and financial flexibility is further enhanced by a USD1.4 billion of undrawn revolving credit facility due in April 2029.

Fitch expects Orbia will remain disciplined with its liquidity position and will maintain its proactive approach to liability management to avoid exposure to refinancing risks. The majority of the company's debt has longer maturity, with USD600 million in unsecured notes due in 2026; USD500 million in 2027; USD500 million in 2031; USD400 million in 2042; USD750 million in 2044; and USD500 million in 2048.

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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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Orbia Advance Corporation, S.A.B. de C.V.	LT IDR	BBB Rating Outlook Stable Affirmed	BBB Rating Outlook Stable
	LC LT IDR	BBB Rating Outlook Stable Affirmed	BBB Rating Outlook Stable
	Natl LT	AAA(mex) Rating Outlook Stable Affirmed	AAA(mex) Rating Outlook Stable

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senior unsecured	ST	F3	Affirmed	F3
senior unsecured	Natl LT	AAA(mex)	Affirmed	AAA(mex)
senior unsecured	Natl ST	F1+(mex)	Affirmed	F1+(mex)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Metodología de Calificaciones en Escala Nacional (pub. 22 Dec 2020)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 3 November 2023 to 21 June 2024 (pub. 03 Nov 2023)

Metodología de Calificación de Finanzas Corporativas (pub. 22 Dec 2023)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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