

**Rating Action: Moody's changes Ultrapar outlook to negative; affirms Ba1 ratings**

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05 May 2020

New York, May 05, 2020 -- Moody's Investors Service, ("Moody's") has today affirmed Ultrapar Participações S.A. ("Ultrapar")'s Ba1 ratings, including its Corporate Family Rating and the rating of backed senior unsecured notes issued by Ultrapar International S.A, guaranteed by Ultrapar and by Ipiranga Produtos de Petróleo S.A.. The outlook changed to negative from stable.

Ratings affirmed:

Issuer: Ultrapar Participações S.A.

- Corporate Family Rating, Affirmed Ba1

Outlook changed to negative from stable

Issuer: Ultrapar International S.A.

- \$750 million senior unsecured notes due 2026, Affirmed Ba1

- \$500 million senior unsecured notes due 2029, Affirmed Ba1

Outlook changed to negative from stable

**RATINGS RATIONALE**

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The fuel distribution sector in Brazil has been significantly affected by corona virus related shut-downs and changes in daily habits leading to a sharp reduction in fuel demand. More specifically, the lower sales volumes will lead to lower operating profit and a drop in EBITDA, therefore increasing gross leverage in 2020 from an already high level of 4.7x in 2018 and 2019. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

The change in outlook to negative was prompted by our expectation that leverage will remain high with lower EBITDA generation and lower operating profit margins leading to pressured metrics in the next 12 months to 18 months.

Ultrapar's Ba1 ratings reflect the company's solid business model, stable cash flow and leading positions in different segments in Brazil: fuel and liquefied petroleum gas distribution, specialty chemicals, and storage of liquid bulk. Liquidity is adequate. In December 2019, Ultrapar had BRL 5.7 billion in cash, BRL 1.1 billion in short-term debt and a debt profile with an average maturity of five years. Early in March, because of coronavirus uncertainties, Ultrapar raised an additional BRL1.5 billion in bank lines to reinforce its cash balance and reduced programmed capex by 30% to BRL 1.2 billion in 2020 to preserve liquidity.

Ultrapar ratings are primarily constrained by the current high leverage, reduced operating margin, dependence on a few key suppliers for raw materials and the cyclical nature of its chemical business leading to high EBITDA volatility for the segment. In 2019, gross leverage was 4.7x, the same level as in 2018, and Moody's Adjusted EBITDA declined to BRL3.4 billion, 17.6% lower than the 5 years average of BRL4.1 billion. Operating profit margin reached 2.0% last year compared to an average of 3.5% in the last five years. As such, Ultrapar enters the volatility period we expected in the next few months with operating margins and EBITDA levels below what we anticipate for the company in a normalized level. In the next couple of years, we expect operating margins to approach 3.0% and EBITDA to reach BRL3.8 billion in 2021 and BRL4.4 billion in 2022.

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

The ratings are unlikely to be upgraded in the short term. Positive rating pressure will not arise until the coronavirus outbreak is brought under control and fuel demand is normalized. Ultrapar would need to show an improvement in operating margins, reduction in gross leverage, and the maintenance of a strong liquidity profile.

Negative actions on Brazil's sovereign rating could trigger a downgrade of Ultrapar's ratings. Quantitatively, a downgrade could happen with a deterioration in the group's liquidity position, the maintenance of: gross leverage, as measured by debt/EBITDA, above 4.0x without prospects of deleveraging; interest coverage, as measured by EBIT/interest expense, below 2.5x and; operating margins below 3.0%.

The principal methodology used in these ratings was Retail Industry published in May 2018 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1120379](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1120379). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

Ultrapar Participações S.A. ("Ultrapar"), headquartered in São Paulo, Brazil, is engaged in fuel (Ipiranga) and liquefied petroleum gas (Ultragas) distribution, specialty chemicals production (Oxiten), storage for liquid bulk (Ultracargo) and retail drugstore (Extrafarma). In 2019, Ultrapar reported consolidated net revenues of BRL 89.3 billion (about \$22.6 billion). Ipiranga is the group's largest business segment, representing 84% of consolidated net revenues and 86% of EBITDA in the same period.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1133569](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1133569).

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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