

MOODY'S

RATINGS

Rating Action: Moody's affirms Orbia's Baa3 rating, stable outlook

28 Apr 2023

New York, April 28, 2023 -- Moody's Investors Service ("Moody's") has affirmed today Orbia Advance Corporation, S.A.B. de C.V.'s (Orbia) Baa3 senior unsecured ratings. The outlook is stable.

Affirmations:

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

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

Outlook Actions:

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

....Outlook, Remains Stable

RATINGS RATIONALE

Orbia's Baa3 ratings reflects its adequate credit metrics and market position, ample liquidity, and comfortable long-term debt-maturity profile. The ratings also incorporate 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 in high-margin value-added businesses. Also considered in the rating is Orbia's historical M&A activity which increases execution risk. However, this risk is mitigated by the company's current strategy to grow organically and its good track record of integrating acquisitions while capturing synergies. Moody's expects that management will continue to use free cash flow in a disciplined manner, largely to pay debt and fund acquisitions and growth capex.

During 2022, Orbia's revenues increased by 9.8% mainly driven by higher sales in its polymer, connectivity and fluorinated solutions businesses, especially during the first half of the year, which partially offset a revenue decline in the precision agriculture

business. Despite the increase in revenue, higher input costs and lower than expected sales in the building and infrastructure and precision agriculture segments led to a 7.5% decline of EBITDA. Moody's expects Orbia's EBITDA margin to remain around 20% in 2023 and 2024 reflecting the expectation on industry conditions, which will improve until the second half of the year. Moody's also expects Orbia's adjusted debt/EBITDA of 2.8x as of December 2022, to decline to 2.6x by year-end 2024 from higher EBITDA and debt amortization.

Orbia has adequate liquidity limiting the potential credit impact from future acquisitions and the impact of a recession. As of December 31, 2022, the company reported cash on hand of \$1.5 billion that could cover 1.2x 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. Moody's expects Orbia's free cash flow to remain positive in 2023-24 with average annual dividends (including minority interest) and capital expenditures around \$600 million, on average, for the same period.

The stable outlook reflects Moody's expectation that Orbia's credit metrics will normalize toward historical levels during 2023 and 2024 as the market environment for commodities improve in the second half of 2023. The outlook also incorporates Moody's expectation that the company will maintain adequate liquidity and debt levels 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 its profitability measured as adjusted EBITDA margin remains above 20%. Additionally, Orbia's adjusted debt/EBITDA should be below 2.5x, its adjusted EBITDA/interest expense above 11x, and financial policy commitment consistent with a higher rating.

Orbia's rating could be downgraded following a contraction in the company's profitability in a normalized environment 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 \$9,648 million over the twelve months ended December 31, 2022.

The principal methodology used in these ratings was Chemicals published in June 2022 and available at <https://ratings.moodys.com/api/rmc-documents/389870>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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 on <https://ratings.moodys.com/rating-definitions>.

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