

RATING ACTION COMMENTARY

Fitch Affirms Petrobras' IDRs at 'BB-'; Outlook Stable

Tue 31 Jan, 2023 - 10:22 a. m. ET

Utilizamos cookies para ofrecer nuestros servicios en línea, para comprender cómo se utilizan y con fines publicitarios. Los detalles de las cookies que utilizamos y las instrucciones sobre cómo desactivarlas se establecen en nuestra [Política de cookies]. Si acepta nuestro uso de cookies, haga clic en Aceptar. [Aceptar].

OPCIONES

ACEPTAR

DECLINAR



dominant market share in the supply of liquid fuels in Brazil coupled with its large hydrocarbon production footprint in the country, exposes the company to government intervention through pricing policies and investment strategies.

KEY RATING DRIVERS

Sovereign Linkage: Petrobras' ratings are linked to Brazil's sovereign ratings as a result of the influence the government may have over the company's strategies and investments. This is despite material improvements in the company's capital structure and efforts to isolate itself from government intervention. By law, the federal government must hold at least a majority of Petrobras' voting stock, and currently owns 50.3% of Petrobras' voting rights, directly and indirectly. The government has a 36.8% overall economic stake.

Strong SCP: Petrobras' SCP of 'bbb' reflects the company's operational scale, proved reserves, and leverage profile, all of which are comparable to investment grade international oil companies. Fitch forecasts Petrobras' production will reach 2.9mmbod by 2025 compared to 2.7mmbod in 2022, and will maintain its 1P reserve life of nearly 10 years. Gross leverage, as measured by gross financial debt to EBITDA, is estimated to be 0.5x in 2022, assuming USD31.0 billion in debt, compared to 0.8x in 2021, with USD35.7 billion in debt. Fitch expects the company's leverage to average 1.1x through 2025 when applying Fitch's price deck.

Strong Cash Flow Generation: Fitch expects Petrobras to continue reporting positive FCF over the rating horizon while investing enough to replenish reserves, which will further support its SCP. Petrobras is the lowest cost producer in the region. In 2021, Fitch estimated its half-cycle cost was USD17.3bbl and its Full-Cycle cost of production was USD32.6bbl. Its low cost of production, led to strong cash flow generation in 2022, where Fitch estimates the company will generate USD66.5 billion in EBITDA and USD46.7 billion in FFO. The company's cash flow comfortably covers its capex, as laid out in its current strategic plan, prior to President Lula's inauguration.

Over the rated horizon, EBITDA margins are expected to narrow from a high of 57.3% in 2022 to a normalized 30%, as prices decline, and FFO margins will follow suit at 41% in 2022 and return to 23.5% in 2025.

Vulnerability to Political Interference: Political interference at Petrobras is expected to increase during President Lula's administration. Changes at the executive level, as well as at the board, are expected to have an impact on the company's strategic plan and pricing policy over the rated horizon. Petrobras is a materially stronger company than it was in President Lula's previous administration, but the company's cash flow over the rated horizon, when applying Fitch's price deck, cannot absorb a material increase from its announced USD78 billion in five-year strategic capex plan, without assuming additional debt or a material change in its dividends policy, which is assumed to average 60% of CFFO - Capex for each year.

The company has announced that 95% of 2023 and 90% of 2024 capex has been procured, so any additional changes to the capex plan over this period will need board approval. Nevertheless, Fitch believes it is likely the company, under its new management, will embark on increasing its capex with a focus on energy transition and potentially building refineries, both of which will materially increase its capex budget. Further, Fitch is no longer assuming further divestments of assets, outside of those already announced and in the process of closing.

Fitch has revised Petrobras' ESG Relevance Score for GHG Emissions & Air Quality to '4' from '3' due to

ISSUER CONTENT

Fitch Afirma Ratings 'BB-/AA(bra)' da Petrobras; Perspectiva Estável

[Brazilian Corporate Credit Indicators: Third-Quarter 2022 \(Economic Struggles Will Persist in 2023\)](#)

[O Que os Investidores Querem Saber: Petrobras \(Pontos de Pressão Após Eleição Presidencial\)](#)

[Investidores Preocupados com a Petrobras Após Eleição de Lula](#)

[Investors Concerned About Petrobras in the Wake of Lula's Election](#)

[What Investors Want to Know: Petrobras](#)

RECOMMENDED CONTENT

Fitch Afirma Rating 'AA+(bra)' da 2ª Emissão de Debêntures da TP Sul; Perspectiva Positiva

[AEP Transmission Company, LLC](#)

Fitch Afirma Ratings 'BB-/AA(bra)' da Petrobras; Perspectiva Estável

[Fitch Withdraws FloWorks' Ratings](#)

[Esso \(Thailand\) Public Company Limited](#)

[Electricity Generating Authority of Thailand](#)

[Fitch Rates CODELCO's Senior Notes 'A-'](#)

[Fitch Assigns 'B-' IDR to Martín Midstream Partners; Rates Second Lien Notes 'B+/RR3'](#)

[C... ..](#)

FITCH RATINGS ANALYSTS

Saverio Minervini

Senior Director

Primary Rating Analyst

+1 212 908 0364

saverio.minervini@fitchratings.com

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

Mauro Storino

Senior Director

Secondary Rating Analyst

+55 21 4503 2625

mauro.storino@fitchratings.com

Martha Rocha

Managing Director

Committee Chairperson

the growing importance of the continued development and execution of the company's energy-transition strategy. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Petrobras has an Environmental, Social and Governance (ESG) Relevance Score of '4' for Human Rights, Community Relations, Access and Affordability due to the potential impact of social pressures on pricing policy in the future, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The company's score for Governance Structure is '4', due to its nature as a majority government-owned entity and the inherent governance risk that arises with a dominant state shareholder, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

DERIVATION SUMMARY

Petrobras' linkage to the sovereign is similar in nature to its peers, namely Petroleos Mexicanos (PEMEX; BB-/Stable), **Ecopetrol** S.A. (BB+/Stable) and YPF S.A. (CCC-). It also compares with Empresa Nacional del Peru (ENAP; A-/Stable), and Petroleos del Peru - Petroperu (BB+/Negative Watch). All these companies have strong linkages to their respective sovereigns, given their strategic importance and the potentially significant social-political and financial implications a default could have for their countries.

Petrobras' SCP is commensurate with a 'bbb' rating, which is materially higher than PEMEX's 'ccc-', as a result of Petrobras' positive deleverage trajectory compared with PEMEX's increasing leverage.

Furthermore, Petrobras has reported and is expected to continue to report positive FCF and production growth, which Fitch expects to reach approximately 3.0 million boe/d in the next three to five years. In contrast, PEMEX's production has declined in recent years and requires material capex to sustain the production stabilization trend reported during since 2019.

These production trajectories further support the notching differential between the two companies' SCPs. Petrobras' SCP is in line with that of **Ecopetrol** at 'bbb' given both companies' strong credit metrics and deleveraging trajectories.

During the first nine months of 2022, Petrobras reported a Fitch defined FCF of USD37 billion supported by elevated global Brent prices. The company maintains its competitive blended (Post and Pre-Salt) global lifting costs at USD5.5boe from approximately USD9.6/boe in 2019 as a result of cost reductions, increasing share of pre-salt production, which has a lower lifting cost than legacy production as well as Brazilian real depreciation.

KEY ASSUMPTIONS

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

- Gross production to increase to approximately 3.3 million boe/d over the next four years;
- Eight production units come online during the next four years;
- Lifting cost average of \$5.5bbl over the next four years;
- Brent Crude trends toward USD53/bbl by 2025;
- Average FX rate trends toward BRL5.25/USD;
- Dividends payout are 60% of CFFO - Capex;
- No further proceeds of asset sales considered over the rated horizon, besides what has already been announced.

RATING SENSITIVITIES

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

- A positive rating action on the Brazilian sovereign could lead to a positive rating action on Petrobras.

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

- A negative rating action on Petrobras could result from a downgrade of the sovereign and/or the perception of a lower linkage between Petrobras and the government coupled with a material deterioration of Petrobras' SCP.
- An increase of gross leverage to 3.5x or above may result in a downgrade of the SCP.








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

+1 212 908 0591
martha.rocha@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

* Long Term/Short Term Issuer Default Rating displayed in orange denotes EU or UK Unsolicited and Non-Participatory Ratings

Where there was a review with no rating action (Review - No Action), please refer to the "Latest Rating Action Commentary" for an explanation of key rating drivers

*Premium content is displayed in Fitch Red

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 Financial Flexibility: Petrobras' liquidity is robust and provides an added comfort during periods of volatility in hydrocarbon prices. The company's liquidity is supported by approximately USD6.8 billion of cash and marketable securities as of Sept. 30, 2022, compared with current financial debt maturities of approximately USD3.3 billion. The majority of Petrobras' available liquidity is composed of readily available liquidity held abroad.

Petrobras continues to demonstrate a strong ability to access domestic and international capital markets. In 2022, the company issued the largest commercial notes program ever in Brazil issuing BRL3.0 billion of local notes. Petrobras has a manageable debt maturity profile, with 57% of its debt due after 2027.

ISSUER PROFILE

Petrobras is a government-related entity and one of the world's largest integrated oil and gas companies, operating primarily in Brazil where it is the dominant participant and the largest liquid fuels supplier.

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Ratings directly linked to that of the sovereign

ESG CONSIDERATIONS

Fitch has revised Petrobras' ESG Relevance Score for GHG Emissions & Air Quality to '4' from '3' due to the growing importance of the continued development and execution of the company's energy-transition strategy. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Petrobras has an Environmental, Social and Governance (ESG) Relevance Score of '4' for Human Rights, Community Relations, Access and Affordability due to the potential impact of social pressures on pricing policy in the future, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The company's score for Governance Structure is '4', due to its nature as a majority government-owned entity and the inherent governance risk that arises with a dominant state shareholder, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

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.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Petroleo Brasileiro S.A. (Petrobras)	LT IDR BB- ● Affirmed	BB- ●
	LC LT IDR BB- ● Affirmed	BB- ●
	Natl LT AA(bra) ● Affirmed	AA(bra) ●
senior unsecured	Natl LT AA(bra) Affirmed	AA(bra)
Petrobras Global Finance BV (PGF)		

Page 1 of 1 10 rows

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Corporate Rating Criteria \(pub. 28 Oct 2022\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.3 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Petrobras Global Finance BV (PGF)	EU Endorsed, UK Endorsed
Petroleo Brasileiro S.A. (Petrobras)	EU Endorsed, UK Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following

[READ MORE](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

[Energy and Natural Resources](#) [Corporate Finance: Middle Markets](#) [Corporate Finance](#)
[Corporate Finance: Leveraged Finance](#) [Latin America](#) [Brazil](#)



About

[About Us](#)
[Contact](#)
[Careers](#)
[Feedback](#)
[Media Relations](#)
[Education Hub](#)

Regulatory

[Regulatory Affairs](#)
[Criteria](#)
[Code of Conduct & Ethics](#)
[Privacy Policy](#)

Product

[Rating Actions](#)
[Coverage](#)
[Research & Analytics](#)
[Rating Products & Tools](#)
[Rating Performance](#)
[Newsletters](#)

Region

[Europe](#)
[North America](#)
[Africa](#)
[Asia](#)
[Latin America](#)
[Middle East](#)

Sectors

[Economics](#)
[Banks](#)
[Insurance](#)
[Sovereigns](#)
[Corporates](#)
[Structured Finance](#)
[Non-Bank Financial Institutions](#)
[Public Finance - International](#)
[Public Finance - United States](#)
[Infrastructure & Project Finance](#)

Fitch Group

[Fitch Group](#)
[Fitch Ratings](#)
[Fitch Solutions](#)
[Fitch Bohua](#)
[Fitch Learning](#)