

Q4 2009 Earnings Call

Company Participants

- Bernardo Gradin, CEO
- Carlos Fadigas, CFO
- Luciana Ferreira, IRO

Other Participants

- Aaron Holsberg, Analyst
- Alessandro Arland, Analyst
- Theas Alulo, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's Fourth Quarter '09 and 2009 Earnings Conference Call. Today with us, we have Bernardo Gradin, CEO, Carlos Fadigas, CFO. And Luciana Ferreira, IRO for Braskem.

We would like to inform you that this event is being recorded. And all participants will be in a listen-only mode during the Company's presentation. After Braskem remarks are completed, there will be a question and answer section.

At that time, further instructions will be given. (Operator Instructions) We have simultaneous webcast that may be accessed through Braskem's IR website, www.braskem.com.br/ir. The slide presentation may be downloaded from this website.

Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website. We remind you that questions, which will be answered during the Q&A session, may be posted in advance on the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the belief and assumptions of Braskem management and on information currently available to the Company.

They involve risks, uncertainties. And assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions. And other operating factors could also affect the future results of Braskem and could cause results

to differ materially from those expressed in such forward-looking statements. Now I'll turn the call over to Luciana Ferreira, Braskem's IRO. Ms. Ferreira, you may begin your conference.

Luciana Ferreira {BIO 15106436 <GO>}

Thank you. Good morning, ladies and gentlemen. Thank you for participating in yet another Braskem Quarterly Earnings Conference Call. Today, we'll be commenting on our results for the Fourth Quarter of 2009 and for the full year end 2009.

Before I begin, I'd like to remind you that with the merger of the Petroquímica Triunfo assets in May last year, this conference call is based on pro forma consolidated information that includes 100% of the results from this new asset for all periods stated.

In accordance with CVM Instruction 247, these figures also consider the proportional consolidation of the interest in Cetrel and does not consider the proportional consolidation of the interest in Refinaria Riograndense since we got an exemption from CVM.

Let's go to the next slide, slide number three, the first one, where we'll begin our comments. I'd like to start by commenting briefly on the current scenario in the global petrochemical industry. The scenario in the Fourth Quarter was marked by higher prices for raw materials, resins. And basic petrochemicals.

The main factors supporting this price increase were the seasonally strong demand in China and the recovery in more mature markets associated with the limited supply of products, with this last sector aggravated by the operational problems resulting from the severe winter in the northern hemisphere.

In addition, the short-term scenario has been affected by delays in the operational startups of new capacity and by scheduled maintenance shutdowns. On the other hand, it's important to keep in mind that other factors could reverse this positive situation and spark a new downward trend in price.

This includes, for instance, the new monetary policy announced by the Chinese government in restricting bank loans and preventing a bubble in the real estate sector, which could slow down the country's growth; the uncertainty regarding the sustainability of the improvement in European demand, given the economic problems in Greece, Spain. And Portugal; the high unemployment in the United States, which has continued to adversely affect the recovery in consumption; and the effect of startup of the new capacity projects that have been announced, especially in Asia and the Middle East.

In Brazil, the second half of the year consolidated the recovery in the domestic market for thermoplastic resins, which registered annual growth of around 1%, with the last -- the last half responsible for an 18% growth when compared to the first half of last year.

The initial weeks of 2010 have also provided positive signs and continued strength in demand, which is associated with the appreciation of the US dollar and the upward trend in international price, which should support the price adjustment in the region.

Following a seasonally weak period, Argentina, which is Latin America's second largest consumer market, has also shown signs of recovery in both price and demand. Moving to slide four, we have the highlights for 2009 and for the quarter.

2009 began as a challenging year with the petrochemical complex operating at half of their nominal capacity. The recovery in domestic demand and the gains in productivity resulting from the recent (inaudible) maintenance shutdowns (assured) production volumes 8% higher for ethylene and propylene, 16% higher for BTX, meaning Benzene, Toluene. And Xylene. And 10% higher for resins. In domestic thermoplastic resins market expanding, like I said, 1%, mainly led by a growth in polypropylene. The strong demand resulted in (weaker) seasonal effects than usual during the Fourth Quarter, which posted growth in line with the previous quarter.

2009 was also marked by a new level in the results of basic petrochemicals with increasing contributions to Braskem's EBITDA. The gradual increase in capacity utilization rates and the improved productivity (in) plants also reflect the investments made over the year to improve process.

And the capture of operating synergies between complexes resulting from the consolidation process are the factors contributing to the higher volumes in resins, where the higher supply of products and the efforts of the sales team to take advantage of opportunities in the market with an increase of over 20% in sales volume.

In this context, EBITDA in 2009 was BRL2.5 billion, in line with 2008, although with an EBITDA margin increasing by 2.8percentage points to 16.2%. In February, Braskem and IDESA announced the signing of an ethane supply contract with the Mexican company, Pemex Gas, to supply an integrated petrochemical complex using gas as feedstock with the capacity to produce 1 million tons of ethylene and polyethylene, which will require investments of \$2.5 billion.

Braskem took important steps forward in its growth and international expansion process with the acquisition of Quattor and Sunoco Chemicals. With the transactions, Braskem (has met) its the strategic objective to become one of the five largest petrochemical companies in the world.

Slide number five considers the variation in EBITDA between the third and Fourth Quarters, in EBITDA declining by BRL224 million between the periods. EBITDA between these periods was benefited by a reversal in the downward trend in the international price for resins and basic petrochemicals that began in mid-November and resulted from the events explained on the first slide.

These generate a gain of BRL287 million (deposit in) the non-recurring interest (inaudible) of BRL73 million resulting from the reversal proportion of the provision for (ITI) tax liability,

which is related to the lower amount paid with Braskem's participation in the tax renegotiation program, which (inaudible) also made a positive contribution to EBITDA in the quarter.

The increase in the naphtha price in the Fourth Quarter generated higher raw material cost with an impact of BRL217 million. Also, under cost of goods sold, the higher prices for energy imposed in the period, such as for natural gas and fuel oil, had a negative EBITDA impact of BRL112 million.

The 7% appreciation in the average real-dollar exchange rate in the quarter generated a negative impact of BRL121 million, composed of a positive impact on costs of BRL203 million and a negative impact on revenue of BRL324 million. The reduction of 3% in total resin sales volume in the period as well as the lower total sales of basic petrochemicals had a negative EBITDA impact of BRL69 million.

Moving to slide six, you see the performance of Brazil's resins market and Braskem sales in 2009. Domestic demand for thermoplastic resins grew by 1% in 2009, reflecting, like I said, the recovery, which was intensified during the second half of the year.

It was (inaudible) to offset the weak demand of (inaudible) at the beginning of the year, a period that was severely impacted by the global economic slowdown and by the high inventory levels throughout the production chain. Despite the strong recovery in the second half of the year, Braskem's domestic polyethylene sales fell by 2% from 2008, while polypropylene sales increased by 9%. Meanwhile, domestic PVC sales fell by 8%, reflecting this global recovery in the construction sector. Moving to slide number seven, we see a summary of Braskem's financial statement. Net revenue in the Fourth Quarter was BRL4.3 billion, up 5% from the Third Quarter.

Despite the slight drop in sales volume and prices in the period (due) to the quarter seasonality, the higher oil resale in the quarter contributed with an additional BRL285 million. In 2009, net revenue declined by 18%, basically due to the lower international price for resins and basic petrochemicals.

EBITDA in the Fourth Quarter was down from the Third Quarter mainly due to the higher raw material cost. Into the Third Quarter, Braskem had captured only a portion of the increase in naphtha price that occurred in August, given the pricing period for the naphtha supplied by Petrobras.

The financial result in both the quarter and the year was influenced by foreign exchange impacts with a reversal of the net financial expense of BRL3.7 billion in 2008 to a net financial income of BRL572 million in 2009. In the year, there was within this number a negative impact of BRL547 million from the Company's participation in the receipts like I mentioned in the previous slide.

On slide number nine -- sorry, number eight -- we present Braskem's debt amortization schedule on December 31st. At the end of the period, Braskem's gross debt is at BRL9.8 billion, in line with the level registered on September 30th. Braskem continued to maintain

a high level of liquidity in the quarter, holding cash and cash equivalents of BRL3.1 billion, which assures the payment of all the (recent) maturing within the next 18 months.

As a result, net debt was at BRL6.6 billion, down 1% from the amount on September 30th, reflecting the depreciation in US dollar in the period. Braskem's net debt in dollar terms remains virtually unchanged at \$3.8 billion.

The continued depreciation in the dollar and the subsequent reduction in net debt in local currency combined with the EBITDA growth registered in 2009 led to a decrease in financial leverage as measured by the ratio of net debt to EBITDA from 2.74 times in the Third Quarter to 2.67 times in the Fourth Quarter. In dollar terms, this ratio declined by 7% from 3.21 times to 2.98 times.

The average debt term at the end of the Fourth Quarter was 9.5 years, practically stable in relation to the Third Quarter when it was 9.8. Braskem believes that its annual payment profile is closely aligned with its level of cash flow. Moving now to slide nine, we see the benefits from the acquisitions made earlier this year.

In line with the Company's strategic objectives of becoming one of the five largest petrochemical companies in the world, on January 22nd, Braskem announced the acquisition of Quattor. The addition of almost 2 million tons of polyethylene and polypropylene to its portfolio has transformed Braskem into a more competitive player -- sorry -- will transform Braskem into a more competitive player and enable it to compete globally and has made the Company the leader in the Americas in terms of thermoplastic resin capacity. The acquisition of Quattor was organized in order to maintain the Company's financial health and discipline with the planned capital injection that we announced this morning, resulting in an extremely robust capital structure.

Another acquisition, this time of the polypropylene assets of Sunoco Chemicals, represents the first step in the strategy to expand internationally and become the leading petrochemical company in the Americas, as well as to establish operations in one of the world's largest resin consumption markets.

Headquartered in Philadelphia, Pennsylvania, Sunoco Chemicals has annual polypropylene capacity of 950,000 tons and three industrial units. In addition to these units, the acquisition also includes a technology center located in Pittsburgh, Pennsylvania.

Moving to slide ten, we see a representation of the Company's capital structure considering a capital increase of BRL4.5 billion. Bear in mind that even after the disbursements related to the acquisitions of Quattro and of the polypropylene assets of Sunoco Chemicals, Braskem will maintain a high level of liquidity, with cash of approximately BRL7.5 billion, in line with its strategy of assuring its financial health.

This level of leverage is also very comfortable with levels below between 3 and 3.5 times below the limits of its covenants, which is a net debt-to-EBITDA ratio of 4.5 times in both dollar and local currency. On slide number 11, we see an overview of Braskem's recent project to be implemented in Mexico, which is known as the Ethylene XXI project.

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On last February 23rd, Braskem and IDESA, a leading Mexican petrochemical group, signed with Mexico's state oil company Pemex an investment agreement and raw material supply agreement in the state for ethane for the installation of an integrated petrochemical project in the country. In this, Braskem and IDESA will invest around \$2.5 billion.

At the end of 2009, Braskem and IDESA were the winners of the tender offer held at Pemex Gas and Petroquímica Básica for the acquisition of 66,000 barrels per day of ethane, which will be used as feedstock for the petrochemical complex to be built in the Veracruz region. The raw material supply agreement is valid for 20 years.

The project involves annual production of 1 million tons of ethylene and 1 million tons of polyethylene at three polymerization plants. The operation startup is expected for 2015. The initiative should provide significant stimulus for replacing the current polyethylene Mexico imports.

Braskem and IDESA will hold interest in the joint venture structure adopted for the project of 65% for Braskem and 35% for IDESA. The financing will adopt a project finance structure with 70% debt and 30% equity. Moving to our last slide, number 12, we present the areas management is currently focusing on.

Management remains confident and committed to its strategic objectives. And on this front, Braskem remains committed to sustainable growth and development and continues strengthening its long-term relationship with customers.

After announcing the acquisition of Quattor, which made Braskem the leader in the Americas in terms of thermoplastic resins. And the polypropylene assets of Sunoco Chemicals, which represents an important step in Braskem's internationalization expansion process, the priorities for 2010 include consolidating and capturing synergies from the integration of the petrochemical assets of these companies.

Braskem will also focus on analyzing Suape and Comperj petrochemical projects in order to decide on how it's going to participate. Meanwhile, Braskem's green polyethylene plant is advancing as planned and is expected to start up in the Third Quarter this year. Braskem's leadership maintains its commitment to identifying the best ways to create value for its shareholders.

And the recent acquisitions do not rule out the possible of future transactions in the U.S. market. Preserving its financial solidity and liquidity while maximizing operational profitability remain the focus of the Company. That concludes our presentation. Thanks for listening. And let's move to the question and answer session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Your first question comes from the line of Aaron Holsberg with Cantor.

Q - Aaron Holsberg {BIO 6234516 <GO>}

Good morning. I guess two questions -- one, how soon would you pursue further acquisitions in North America? Are you going to put that focus on consolidating what you have for the time being? Or are you actively studying other things? The other thing is what the timing of the integration of Quattor is.

A - Bernardo Gradin

Thank you, Aaron. Good morning. This is Bernardo speaking. We'll focus on consolidating in the near future. We are not actively (chewing) a new acquisition in the US. But we are interested on furthering the expansion in the US. So I don't think we'll have news for the very short term because we'll have our hands full for the next six months or year.

With regards to Quattor, the timeframe we expect to have the full approval from the antitrust authority in Brazil is a maximum two years. But we have expectations that within one year we'll have such approvals. There will be also partial approvals that would allow us to pursue the synergies in this year. We expect the antitrust to provide us with a first response by the end of March.

Q - Aaron Holsberg {BIO 6234516 <GO>}

Thank you.

A - Bernardo Gradin

Thank you.

Operator

(Operator Instructions) Your next question comes from the line of (Theas Alulo) with Credit Suisse.

Q - Theas Alulo

Thank you very much for the call, my question is -- what should we expect margins in 2010 going forward? What's your outlook for margins? Thank you, -- EBITDA margin.

A - Bernardo Gradin

Thank you, Theas. It is a very good question. I don't have a very good answer. It's very difficult to project margins in a market that will have new income of operating in the Middle East and Asia. So let's see how the markets will behave. I think this year will be more difficult than last year. But I can't precise how.

Operator

Your next question comes from the line of Alessandro Arland with Bank of America.

Q - Alessandro Arland

Yes, hi. Good afternoon. Just a quick question regarding your debt -- does the Company plan to tap the international bond market in the Second Quarter of 2010, maybe a dollar bond issue after the Quattor acquisition? Thank you.

A - Carlos Fadigas

Alessandro, this is Fadigas speaking. We may consider issuing a bond in the second half at a certain point this year. The main purpose would be twofold. One, we want to move some debt from the bank market into the capital market.

Quattor was -- the major part of Quattor's debt was with the bank market. And we want to change that. And a second thing is that by issuing eventually a ten-year bond, we would be able to increase the average life of the Quattor debt as well.

So although we probably will not need cash because with the capital increase, we may find ourselves in one month from now with some BRL7 billion to BRL8 billion in cash. But even though we may go ahead and issue a bond at a certain point this year benefiting from the good conditions on the market and because of the impact in the debt profile that a bond issuance would bring.

So that's something we are analyzing. Right now, we have bonds of -- six bonds of Quattor in the secondary market. They are trading at very interesting levels for Braskem. So that also adds to the eventual decision to go ahead and issue a bond at a certain point this year.

Q - Alessandro Arland

Thank you very much, Fadigas.

Operator

(Operator Instructions) There are no further questions at this time. I'll turn the floor over to Mr. Bernardo Gradin for closing remarks.

A - Bernardo Gradin

In the name of Braskem and Braskem's team, I'd like to thank you very much for your attention, time, along 2009. This was a very challenging period for all of us. But we are very happy and pleased with the end results.

And we are very optimistic that the new Braskem will provide better and increasing results for our stakeholders. Once again, thank you. And see you on our next encounter. Goodbye now.

Operator

Thank you. This concludes today's Braskem's Earnings Conference Call. You may disconnect your lines at this time.

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