

Q1 2019 Earnings Call

Company Participants

- Fernando Musa, Chief Executive Officer
- Pedro van Langendonck Teixeira de Freitas, Chief Financial Officer

Other Participants

- Christian Audi, Analyst
- Fernanda Cunha, Analyst
- Gustavo Allevato, Analyst
- Hassan Ijaz Ahmed, Analyst
- John Ciresi, Analyst
- Luiz Carvalho, Analyst
- Petr Grishchenko, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's First Quarter of 2019 Earnings Conference Call.

Today with us, we have Fernando Musa, CEO; Pedro Freitas, CFO; and Pedro Teixeira, Corporate Finance and Investor Relations Director. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. (Operator Instructions) We have simultaneous webcast that may be accessed through Braskem's IR website at www.braskem-ri.com.br in the MZiQ platform where the slide presentations is available for download.

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 their beliefs 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 will turn the conference over to Pedro Teixeira, Corporate Finance and Investor Relations Director. Mr. Teixeira, you may begin your conference.

Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

Good afternoon, everyone. Thanks for participating in Braskem's conference call for the first quarter 2019. Let's begin our presentation moving straight to Slide number three. On Slide number three, we highlight the results of our operations in Brazil. In Brazil, the demand grew by 8% comparing the first quarter 2019 with the fourth quarter 2018. It was a growth that was driven by restocking activities. On the same way, the sales of Braskem grew by 10%, so we grew a little bit more than the market. So it has led to an increase in our market share from 63% to 64%.

We also increased our exports by 16% comparing the first quarter 2019 with the fourth quarter 2018. The crackers in Brazil ran at a utilization rate of 88%, 1 percentage point higher than in the fourth quarter 2018. Our EBITDA, however, in Brazil decreased from \$399 million to \$293 million as a consequence mainly due to chemical spreads that were lower especially in propylene and benzene and also polyolefin spreads as a consequence of new capacity in the US for PE that are starting up, and the reduction in demand growth in Asia.

Moving to Slide number four. Here we will discuss a little bit about the results of our operations in US and Europe. In the US, the demand has fallen by 3%, due to the weak performance of textile fibers segment. However, we were able to increase our sales in the US by 5%, recuperating and gaining market share. In Europe, the demand grew by 18%. Our sales also grew by 15%. It was a movement of restocking in the chain in anticipation of scheduled shutdowns that are to happen in the second quarter 2019. In the US and Europe, our EBITDA reduced from \$82 million to \$72 million as a consequence of worse commercial conditions.

Moving to Slide number five. We will discuss our operations in Mexico. The PE demand in Mexico has fallen by 9% as a consequence of lower public and private investments. Our sales also reduced to a lower -- to a smaller degree, only 2% decrease. So we increased our market share in Mexico. Utilization rate in Mexico for the first quarter 2019 increased 6 percentage points, as compared to the fourth quarter 2018. So we ran our facility in Mexico at a utilization rate of 79% as a consequence of higher availability of ethane. In Mexico, we posted an EBITDA of \$100 million in the first quarter 2019, 33% lower than the first quarter 2018 as a consequence of lower spreads between PE and ethane prices in the region.

Moving to Slide number six. Here, we talk about our CapEx. In the first quarter 2018, we invested BRL461 million. This represented 14% of the total budget for the year. Of this amount, we invested BRL164 million in the PP plant in new that we are under construction. The construction of this facility reached 56.2% of physical completion. And since the

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beginning since when we started constructing this facility in 2016, we have already invested total amount of \$422 million.

Moving to Slide number seven. Here, we show our free cash flow in reais. So we posted a total EBITDA of BRL2.8 billion. There were some non-recurring events that total in this quarter BRL1.5 billion, mainly related to PIS/COFINS tax revenues from other payments between 2012 and 2017 and the reversal of some provisions. So excluding these amounts, we posted an EBITDA of BRL1.3 billion equivalent to \$336 million. We had a maintenance CapEx of BRL328 million, interest paid of around BRL0.5 billion and strategic investments in this quarter of BRL190 million, leaving a free cash flow of BRL130 million, which represents a 14% of free cash flow returns.

Moving to Slide number eight. Here, we talk about our debt leverage and credit rating. We posted in this quarter a net debt-to-EBITDA ratio of 2.09 times. It's stable in comparison with the ratio for December 2018. We also posted or had a cash and equivalent position of BRL1.7 billion, very robust cash and equivalent position. And the cost of our debt is equivalent to FX variation plus 5.5%, and the company remains investment grade by Fitch and S&P.

Moving to Slide number 10. And here, we begin to talk about the scenario outlook that we have for our operations in Brazil. We have three charts here that show the spreads that we expect for chemicals, polyolefins and vinyls. The first bar, it shows the spreads that were posted in 2018. Second bar shows what was our forecast when -- back in March when we released our annual results, and the right side bar shows our current forecast. So we are more pessimistic for chemicals and for polyolefins. For chemical spreads, we are more pessimistic due to startup of new refineries in Asia. In polyolefins, we are also more negative due to the slowdown demand in China and the lower global growth. And we have the same negative view for vinyl spreads, especially due to the high levels of caustic soda inventories.

Moving to Slide number 11. And here, we show our petrochemical scenario outlook for our international business, our business in US, Europe and Mexico. We are a bit more optimistic for the PP market in the US since the US market is tight and we are facing a higher supply of propylene. In Europe, we remain cautious, but we haven't changed much our forecast for spreads for our Europe operations. And in Mexico, the same. Our current forecast remains stable in comparison with the forecast we had back in March. Spreads remain pressured due to higher ethane prices and lower prices of PE in the regions.

So moving to the last slide. Here is a summary about what our expectations are for the year. We changed -- we are little bit more negative for the spread in Brazil. We haven't changed much our view for spreads in the US, Mexico and Europe. We are reducing -- we are more pessimistic about demand. The demand growth that we had in Brazil was 2.1 times -- 2.1% back in March, but now we are forecasting a GDP growth in Brazil by 1.7%. This should turn to a growth in the resin market between 3% to 4% for this year.

And we are also more pessimistic about the demand in Mexico. We were considering the beginning of the year 2.1% growth in the GDP. Now we have reduced our forecast to 1.6%.

We haven't changed our view for utilization rates for the year. That should be better than what was performed in 2018. But all in all, the EBITDA for 2019 should be or shall be lower than EBITDA that we posted in 2018.

I will turn now to Mr. Fernando Musa, CEO of Braskem.

Fernando Musa {BIO 17592170 <GO>}

Thank you, Pedro. Good afternoon, everyone, or good morning for some of you. Before we start the Q&A, I wanted to explain the material facts that we just released that led to the -- stopping the trade for a few minutes.

As we have communicated several times to the market, the situation around our salt mining operation in Alagoas has been under analysis by ourselves and the authorities in the aftermath of a small earthquake that happened in early March last year in the city of Maceio that led to some cracks in homes and some of the streets in one of the neighborhoods that is close to our salt mining operations.

Since that time, we've conducted a series of studies by international experts and international companies specialized in these type of studies that have been shared with the authorities. And yesterday, the authorities released their first report on the analysis that includes some of the data that we shared with them and also their own independent analysis done so far. This report has been discussed widely in the region in the city of Maceio and has led to a series of additional actions by the local prosecutors that have already filed injunctions that led to the freeze of BRL100 million in our account.

This process and the evolution of the process in the last few weeks and months led us to the decision today to start the process of suspending the operations at the salt mine, while we evaluate the report released by the authorities yesterday with the consequence -- the direct consequence of slowdown and in consequence shutdown of the chlor-alkali plant in Alagoas that is supplied by the salt that comes from the salt mines.

We are also evaluating the implications of that to the PVC operation in Maceio and to the operations in the complex of Camacari given the integration that the system has between what happens in Alagoas and what happens in Bahia. We are and have been committed to a series of emergency actions in the neighborhood to support the population that has been dislocated or impacted by the situation, and we'll continue with those remediation and emergency actions in the region.

Our key concern and key priority is with the safety of people, both the communities around us and with our team members in our operations. And we will prioritize our actions around that safety principle, which was one of the key contributors to our decision to initiate the shutdown of the salt mines now. This is certainly a relevant development for the vinyls business inside Braskem, and I'm sure you will have other questions. But it's important to remind everyone that even though it's a relevant business, it does represent anywhere between 3% and 5% of the EBITDA generation of the company. Therefore, it's relevant, but is not that material from a total results point of view.

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The key message here is that we will evaluate the report released by the authorities yesterday. It is a very complex situation, and as -- is typical situations like that, as we evolve with the studies and as the authorities evolve in their studies, there might be other actions and/or changes in the actions that have been taken given what is learned in the process. As of today, we are committed to the safety of people, and we will prioritize actions with the safety of people and the operations as the key driver of the actions in the short-term.

With that, I'll open up for questions now.

Questions And Answers

Operator

Thank you. This call is now opened for questions. (Operator Instructions) Our first question comes from Gustavo Allevato from Banco Santander. Mr. Gustavo, you may proceed.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Hi guys. Good afternoon. I have a few questions. First one is regarding the spread outlook and domestic sales. I'd like to know, if I try to understand the company's commercial strategy because we see like it has significant increase in PE imports the past month, but even though the company's sales in the domestic market has fallen. So I'd like to understand why the company does not lower prices to capture market share (inaudible).

The second question is regarding -- more related to the controller shareholder. Trying to understand, we know that the controller shareholder gave Braskem shares to secure some loans. So I'd like to know if there is a price that could trigger this sale of the shares by the banks.

And third and last question is regarding like a more medium-term outlook. So we are seeing like big change in the trends in the plastic consumption around the world. So trying to see like the company, how does the company position with this -- the change in these trends? Thank you.

A - Fernando Musa {BIO 17592170 <GO>}

Hello, Gustavo, I'll start with the first question on the domestic situation on PE. And it's important for all of you to understand that the Brazilian market is very open and has received and will continue to receive significant imports of all products in the resin side especially. And with the startup of all the projects and plants that happened around 2017 and 2018, the availability of polyethylene in the region with a very competitive cost base from North America has increased significantly.

Brazil is a natural destination especially with the tariffs between China and US, that -- the tariff disputes that creates an incentive to move products to other places and not China. We have been following a strategy that prioritizes, what I would call a good balance between the price point and market share. We have a significant market share and we are

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always evaluating the trade-off of what's the price point against a very competitive product that is coming from the US with a very low cost base and the market share. It's important to realize that -- given that we have a significant market share and market price reduction across the board impacts us disproportionately, so it is a very fine-tuning challenge around international prices, exchange rates, which have implications.

So one important aspect that happened in the first quarter is the speed of decline of the prices -- the international prices and the fluctuations in exchange rates created a scenario where for some times, our price that was set in reais became quite "expensive" in relative terms to imports. And many clients started to import while we were adjusting our commercial strategy and tactics. So part of the challenge of managing this balance between price point and market share gets exacerbated in this challenge or in difficulty when you have a lot of volatility with price and exchange rate, which was the case in the first year, so -- in the first quarter.

We are continuously monitoring that and our pricing policy is continuously adjusted by the commercial teams to find the right equilibrium between price and market share. I think one of the challenges in the first quarter that was not a PE-exclusive challenge, but a more broader challenge in Brazil was the very high expectations that led people to really reinventory, rebuild inventory. And in a moment where you do envisage some imports make a lot of sense if you can cut good deals if you're building inventory and it's not for your day-to-day needs. The logic might be slightly different on the plant side. So I don't see this as a major problem. It's part of the cyclical nature of our industry in dealing with this tricky or challenging equilibrium between price points and market share.

As far as the loans that -- the Odebrecht loan that has the shares pledged -- the Braskem shares pledged as a guarantee, I think the information should be asked to Odebrecht. We have been informed that the shares have been pledged, but we have no details on the conditions of the loan or any trigger. So I do not know the answer to your question.

And on your third question on different trends that we're following, we are following different trends around consumption that have been incorporated in our planning in general. And those go from different aspects around sustainability and circular economy that have been very relevant especially in the last 12 to 24 months around the world given the challenges that the industry faces with all the plastic that is ending up in the ocean, but also includes analysis around how new consumer behavior is impacting and consumer behavior and expectation is impacting, for example, design of packaging given the changes in habits, more consumption of food on the go instead of at home and more consumption of food being delivered instead of necessarily being consumed at restaurants.

So all those changes in consumer behavior are being analyzed by the company and incorporated in our product development and strategic plan. And of course, one of the big, big trends for our industry is the electrification of the car fleet around the world with its implications for the oil availability, pricing, the sustainability of the refining business and the potential focus by oil companies towards more petrochemical production. This is another trend that has been analyzed and we're following closely, which brings some threats but also brings a series of opportunities for us to pursue.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Okay. Fernando, thank you for your answers. Can you just do a follow-up for the first question? So can you help us think of the utilization rate for petrochemical complexes in Brazil for 2019 and also in the US and Europe? So if you can help us after the recent developments that we just got in use.

A - Fernando Musa {BIO 17592170 <GO>}

So the expectation for the Brazilian economy has started the year very strong. And right now, we are in a different path. And this will lead to decisions by the different value chains in Brazil that we believe will lead to a strong second half of the year. So my personal expectation is that in a combination of small improvements in spreads that we should start seeing as we progress over the year with less product -- projects coming online, we should see improvement in spreads that would lead to higher utilization rates by everybody. We should see Brazilian demand being stronger in the second half of the year that contributes to that. And we also have the expectation of improvement in our internal operational performance going forward.

We do have a large turnaround in Bahia in the back end of the year that will impact the utilization rate. But this is a normal process every other year. We'll have one or two large turnarounds at the crackers that should lead to that. In US and Europe, the expectation is to have continuous improvement in utilization rates. The spreads are healthy there and -- especially in Europe after the turnaround season that will be very heavy on the crackers side that will impact availability of propylene for all players in the market. We should expect an improvement in utilization rates. We do face one problem in one of the plants in the German country where we -- our key supplier has entered into a very long turnaround and, therefore, has not been able to supply us all the propylene, which has forced us to cut down rates significantly.

But today, they have a plan to fix their problem and they are in turnaround now. It's going to be slightly longer than they had anticipated, but once this is back in the second half of the year, we should see improved utilization rate.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Okay. Very clear. Thank you.

Operator

Our next question comes from Luiz Carvalho from UBS. Mr. Luiz you may proceed.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Hi, Musa. Hi, Pedro, thanks for taking the questions. I have a couple of follow-ups here. The first one is the -- if you can try to help us to understand what will be the potential impact in terms of, I don't know, EBITDA revenues: one, from the privatization of the plants in Brazil; and two, of the force majeure event in Germany at least what's I mean mentioned by ICIS, so I just would like to confirm that you guys had the force majeure

slow in Germany. So if you could try to help us to quantify both events, that would be helpful.

The second -- basically the second point that I have is basically related to the tax exemption, let me put this way, in the Amazon free tax, so Zona Franca de Manaus. We have been informed that there are many products coming from that -- specifically from that region, I would say mainly PVC from Mexico coming from Colombia. But also I've heard that other products are coming from that with the exemption of importers. So if you can try to quantify and try to help us understand what are the real impacts on your -- I don't know on the former -- on the past question that you were answering regarding the margins in the domestic market versus the market share. That would be. Thank you.

A - Fernando Musa {BIO 17592170 <GO>}

Okay. Thank you Luis for the questions. On the impact of Alagoas, the Maceio issues, we are still in the planning phase of the shutdown. And this is -- once we have more clarity on the process and the timing, we'll have more clarity. As I said before, the vinyls business represents anywhere between 3% and 5% of the business. In 2018, it was 4.3% of the total revenues of the company. We have been evaluating what are the alternatives for operation of the chlor salt -- the chlor-alkali and PVC plants without the operation of our salt mine. This is something that we are studying and, therefore, we do not have a clear number to provide now.

As I said before, it's a complex process that has started since end of the day yesterday and we are evaluating all this. As far as the force majeure in Europe, yes, we did declare force majeure from our Schkopau plant. The Schkopau plant represents 60% of our capacity production in Europe and Europe represents roughly 15% of our total production capacity on the PP side. So this force majeure, which is tied to the problems that the crackers supplying us is facing, is impacting 60% of the local production in Europe for a -- we expect a short period of time. So the impact is not going to be that material.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay. And in terms of the Amazon tax?

A - Fernando Musa {BIO 17592170 <GO>}

I think the Zona Franca de Manaus has been created as a way to incentivize production in Manaus of goods, leveraging the ability to import in a competitive way and with a series of tax benefits to industrialize the Amazon region. Some of the actions you described are not fulfilling that purpose, bringing PVC through Manaus to send to the southeast of the country is not what the tax incentives have been designed for.

And as far as I understand, the authorities have been looking at that issue. From a market point of view, it is a reality we do serve some of the buyers and the clients that are in the Manaus region. But given the geographical location and the tax situation, it is natural that a disproportionate volume of the demand in Manaus should be supplied by imports. It has an implication in the total market if and when clients move their production to Manaus to serve the Brazilian market. But this has happened in the past in waste and we're not

seeing that many more clients moving to Manaus to produce there and then serve the local market, given the challenges you have from a logistics point of view to bring back products from Manaus into the southeast region of the country where most of the demand is.

So if people use the tax break to import into Manaus and then re-export into Brazil, they are not following what the Zona Franca was designed for and this is something that eventually will stop.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay. If I may ask one final question here on the delays on the 20-F that you sent out a press release recently. What are the latest here, I mean any additional information on that? I mean, you were asked by the auditor, Pricewaterhouse? Any update on this front, that would be helpful as well. And potentially if you can discuss maybe the next steps going to the pink list and wise they will be helpful as well. Thank you.

A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

Luiz, thank you for the question. This is Pedro. We have been keeping the market updated on the procedures around the 20-F. They are still ongoing. We issued a communication to the market last Friday, a press release stating that the procedures are still ongoing and that we cannot be -- will be able to file the 20-F by the established deadline with the NYSE, which is May 16th. People are working very hard to get to the finish line in time. But it's like we said in the communication, the press release, we really cannot be sure that we will be able to file in time. We do have a possibility to make it, but again, it's a lot of work, hard work that is being done by the company and our external advisers. We need to assess the consistency of the control environment. And since the 20-F has a SOX component to it, which is around internal controls, we need to review that environment to make sure that we are reporting correctly to the market.

On the numbers, as you probably know since we are filing audited results here in Brazil, the numbers are correct and we don't have any indication that there will be any changes in the numbers that we have been posting in -- audited numbers we've been posting in Brazil. So we don't expect any mature change against what has been already divulged or published.

On the profits, if we get to the 16th without the 20-F, what happens is that our shares will be traded over-the-counter in the US. So the ADRs would be switched to a different trading environment, which is the OTC market also known in the US as Pink Sheet. And we will file -- so the NYSE will start the listing procedures and we will apply for an appeal. So if we are able to get the appeal going, the listing process is suspended, we'll still be trading on the OTC market, but the process is suspended until the appeal is evaluated and analyzed and decided by the NYSE, which I mean could take some time. We have seen a precedent where it took roughly six months for that to happen. But as far as I know, there is no established time period for that to happen. So I mean we would be trading OTC. That's the bottom line there.

The convertibility of the ADRs into Brazilian PNs here, so the preferred shares in Brazil remains. I mean that is maintained as a possibility, and all the other rights of the shares are also maintained, so -- of the ADRs are maintained. So it's basically change in the trading environment until -- I mean, there is the appeal process and that back and forth that I said.

And finally, if within that period where the appeal was being evaluated, if within that period, we file the 20-F, then there is an automatic relisting of the shares -- or of the ADRs in the NYSE environment.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay, thank you, Musa. Thank you, Pedro.

Operator

Our next question comes from John Ciresi from Bank of America. Please Mr. John, you may begin your question.

Q - John Ciresi

Okay. Thank you for the question. So actually, I have two questions. The first one is about the Alagoas incident. Actually, I'd like to know -- you mentioned the private agency you stated that you're waiting for, but did you do an agreement with all parties for them to wait as well? Or they can move on with the process to next steps? I mean, what are next steps that we are waiting for at this point? It can move by their side? We are waiting for the study? Because yesterday, the study from the CPRM actually got to a conclusion, but this is only a public agency and we should also wait for the private one, as I understood.

And the second one is about Mexico. So actually, the capacity utilization increased from 73% to 79% in this first Q. I just would like to know if this is a sustainable level that you see. In the release, you mentioned that it was because of higher ethane supply. What is holding off? Can we wait it to be closer to 80% in the future or should it be back to low 70s? Thank you.

A - Fernando Musa {BIO 17592170 <GO>}

So just going back to the Alagoas, just to be clear. We have been doing several studies with different types of methodologies. So in our seismic satellite-based imagery, et cetera, and those results have been shared with CPRM, which is the equivalent of the US geological agency in the US. In parallel, CPRM has been doing its own independent evaluation, and this is the report that they published yesterday, the first report on their work, that has a conclusion that there are connections between our operations and what's happening in the neighborhood nearby.

What I mentioned is that we are evaluating those reports by CPRM. They are doing different studies with different service providers and their own analysis. And we're looking to understand the data and compare it to our own data as we look at it. The CPRM report also mention that heavy rain and the lack of a good water distribution system that has

been damaged over the years and the total lack of a sewage system, that is non-existent in the neighborhood, is contributing to the damages that the streets and the homes are facing.

So the challenge we face now from a technical point of view is understanding all that data, reaching to the right conclusions as far as what should be done to make sure that the neighborhood is safe and that we can operate safely. This is a complex process that will take some time and dialogue with the authorities, which we are and have been doing, this dialogue, and will continue to do. So this is what we are doing as far as Alagoas.

On Mexico, we have seen increased ethane supply from PEMEX. And in parallel, we have already mentioned to the market that we are evaluating different alternatives to increase the import of ethane into the country. But PEMEX itself is already importing some ethane. We are looking at different alternatives to find different ways to import ethane that should help maintain a healthy utilization rate at this level or even higher depending on how fast and which one of the alternatives are implemented. So in the recent past, this has been very sustainable. And I mean, for the future, we do see alternatives for import that should help this make -- very sustainable and, I mean, even increase.

Q - John Ciresi

Okay, thank you.

Operator

Our next question comes from Mr. Hassan Ahmed from Alembic Global. Please Mr. Hassan, you may proceed.

Q - Hassan Ijaz Ahmed {BIO 7430123 <GO>}

Hi, Pedro and Fernando. I hope you guys are well. Guys, my question is about this Alagoas sort of situation that you guys are in. If I have my numbers correct, you guys have around 460,000 tons of caustic soda out there, around 520,000 tons of EDC. So my question is that with the situation the way it is right now, on the caustic side, would you be servicing your customers by getting imports, possibly? And would you be doing a similar thing on the EDC side? Maybe importing the EDC to sort of feed into your vinyls facility and thereby satisfying your customers that way? And if at all you are considering that, where would these imports be coming in from? Would you be considering North America? Would you be considering Saudi Arabia? So any clarity around that would be great.

A - Fernando Musa {BIO 17592170 <GO>}

Hello, Hassan. Thank you for your question (inaudible). And as I mentioned before, we are evaluating all the alternatives on how to continue to service our clients in the region. We already import caustic soda as part of our portfolio, so this is an operation that we've been doing at a smaller volume, of course. But this is certainly something that we will be doing as part of our process while we figure out how this shutdown will happen. We will certainly increase our imports to guarantee supply of caustic soda to our clients. We have the infrastructure, we have tanks in several ports around Brazil. And it is something that

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the company has already been doing for a while. A natural source would be the US, but we will be looking depending on how long foreign imports. And how big the need for imports is, we might go after different sources.

On the EDC side, it's important to remind ourselves that we do have another small plant, a chlor-alkali plant in Bahia that will continue to operate profitably and provides a small volume for the local market. On the EDC side, you are correct. I mean, we have the ability to import EDC. And we have done that multiple times and do that in somewhat consistent way over the last few years. So this alternative of importing EDC is one that we've be evaluating. Again, the easiest logistical solution would be importing from US given the closeness, but this is -- both caustic and EDC are very tradable commodities with sources in multiple places and we will evaluate that.

The chlor-alkali plant in Bahia receives salt from Alagoas today and therefore is structured to receive salt coming from other places. So this would be an easy transition to bring some salt from other places to continue to -- if we find the salt at a competitive cost. Setting up this import of -- logistics to bring salt into Alagoas will probably take much longer since today it's not an operation that is done. So it's one of the activities that the team is already looking at from a technical point of view, if we need to bring salt from other regions into the Alagoas plant, what's the infrastructure and how do we adapt the plants to receive the salt and process the salt, given that today, it receives the brine directly from the salt mine. And if we receive the salt, we need to prime with water, create the brine. We need a new different tank, et cetera.

So all this is being looked at as alternatives for the continuity of the ability to serve our clients. And just to reinforce, importing caustic soda and importing EDC is something that is pretty normal for us. We know how to do it. We know who the suppliers are. We know how to buy it. We know how to move it. This will be "very easy." The -- bringing salt into Alagoas is slightly different technical problem that we are evaluating. And this might take a little bit longer to implement if the decision is to go through that process.

Q - Hassan Ijaz Ahmed {BIO 7430123 <GO>}

Very clear. Very clear. Now sticking to chlor-alkali. In the petrochemical scenario outlook slide that you guys presented, it just -- it seems that you're not overly excited or too sort of bullish about caustic soda sort of pricing through the course of the year. You're talking about inventories being relatively bloated and your expectation that spreads will decline. Only reason I bring this up is that one of the largest sort of chlor-alkali producers recently reported -- and this is globally, recently reported their earnings. And they sounded very upbeat about a \$50 to \$70 a ton price side for caustic in the back half of the year. So I'm just trying to sort of triangulate what they may be seeing or what they may not be seeing. What are you guys seeing that makes you sort of pessimistic on the back half prospects?

A - Fernando Musa {BIO 17592170 <GO>}

Sorry. I would say we believe the inventories are pretty high and there was a lot of inventory build in the US. The local markets has to face the challenge of Allo Norte [ph] not operating, so a relevant consumer is not fully operational, and therefore the consumption has been lower in the region. And this has contributed to the builds. And we

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do believe that mid-long term, the vinyls chain is very positive and we see an improvement in the pricing of caustic soda going forward in the year.

I think the challenge on the spreads for the vinyls is that it's a blended spread of caustic soda, PVC where the price of naphtha becomes a part of the spread. And therefore we have -- we do have a scenario where the oil price and therefore naphtha price has a small appreciation over the year. So despite -- we do have a scenario where caustic soda prices do go up. But given our naphtha base, ethylene production and when we blend it with the PVC, we have this small compression in spreads, compared to previous years for 2019.

But I mean our outlook for the following years is very positive given the positive supply/demand characteristics of the vinyls market in general with the limited amount of investment, especially in the PVC side. We see even healthy margins for that business going forward.

Q - Hassan Ijaz Ahmed {BIO 7430123 <GO>}

Very helpful. Thank you so much, guys.

Operator

Our next question comes from Petr Grishchenko from Barclays. Please Mr. Petr, you may proceed.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Hi, good afternoon and thanks for taking my questions. So first, I guess as it relates to the requested shutdown, you've also been reported in local press, I think this morning, that prosecutor

is renewing requests for the asset freeze of BRL6.7 billion. I'm just wondering, if you guys had any discussion with the state following the release of the report?

A - Fernando Musa {BIO 17592170 <GO>}

So first, there was no request to shutdown as of now. We preemptively decided to start the process of shutdown given the conclusions that the authorities reported and the decision by the prosecutors at the end of the day yesterday to require the suspension of the operating license of the salt mines. But we have not formally been requested to shutdown as of now.

We have been discussing with the justice and the prosecutors around the situation for a while. The dialogue with the government has been more around the actions to -- emergency actions that we have been executing in the neighborhood to help mitigate some of the impacts of the problems that the population is facing. This has been the focus of the dialogue with the government. And the dialogue about the asset freeze, et cetera, has been happening with the prosecutors and at the courts.

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Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay. And maybe another question. I want to touch briefly on Mexico. You did mention you were studying importing ethane. So I'm just curious, based on your evaluation or studies, maybe can you discuss potential impact on margins if you, let's say, import I don't know 30% of your capacity? And maybe just to make math simple, if you can describe what you think the margin impact for, let's say, ethylene produced using imported ethane versus PEMEX, assuming full capacity?

A - Fernando Musa {BIO 17592170 <GO>}

So I think the rationale on the imported ethane is one where clearly the polyethylene product produced with the imported ethane is going to be at higher cost given that we buy ethane from PEMEX at Mont Belvieu price minus a discount. And the imported ethane will be at Mont Belvieu plus a transportation cost. The relevant aspect is that even at Mont Belvieu plus the transportation cost, the cost position is still very competitive and produces a very healthy margin. And as we increase production with that -- we increase the production with that additional tons being produced, the efficiency and cost dilution at the complex picks up significantly so the other tons also become more competitive.

And depending on the final solution that is implemented, we might even have the ability to go a little bit above 100% of the production given that, I mean, it's typical that those plants, once you're up and running, you'll learn how to tweak it and go into 105% of its nameplate capacity, it's very achievable. So with the import capabilities, we might be able to run consistently closer to 100%, and eventually temporarily even above 100%. And the margins of those marginal tons are still very healthy. So that's how we're seeing.

Of course, the different potential solutions for import will have slightly different cost. This is what we've been evaluating, the trade-off between the logistical efficiency, the cost, the safety aspects of the operation of importing ethane, which by the way, is one that we are very familiar with given that we've been doing it since 2017, importing ethane into both Bahia and Rio de Janeiro from Texas. So we know how to move the ethane. We know how to unload it. We know how to incorporate this moved ethane into a flow of locally produced feedstock. So it's not something that, from a technical point of view, could create any challenge that we have not have been able to deal with in the past.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Got it. That's very helpful color. Appreciate it. And the last question, if I may. I think earlier in the call, you mentioned a number, like, a figure -- like impact -- potential impact on the EBITDA from the shutdown. I'm wondering -- I think I missed the number. If you can repeat it, please.

A - Fernando Musa {BIO 17592170 <GO>}

What I mentioned is that the vinyls business currently provides between 3% and 5% of the EBITDA, depending on the quarter. We do not have an estimate of what the EBITDA impact will be because we still need to figure out the process of shutdown and the alternatives that we discussed a few minutes ago on what can be done to maintain operation if the salt mines are shut down. So all this is being evaluated and it's going to

take a while for us to have more clarity. If the whole business were to shut down, it represents between 3% and 5% of the global EBITDA. It's not our expectation that we will go to zero.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Great. Thank you and guys, best of luck.

Operator

Our next question comes from Ms. Fernanda Cunha from Citi. Ms. Fernanda, you may proceed.

Q - Fernanda Cunha {BIO 20784520 <GO>}

Hi, good afternoon. Thank you for taking my questions. So the first one -- actually the first two questions are follow-up questions. So the first one is what are the risks that you still see in drop of market share in Brazil? If you could also touch upon, if US-China trade war deteriorates, what level do you think you might drop your market share? And what level do you still feel comfortable working with?

The second one is related to Mexico margins. So in your outlook for spreads, do you think that 2019 spreads in Mexico will be relatively flat to what they are today. I'm just wondering why -- or what are the criteria we should be looking at in terms of the margins improving from the 32% that you presented in the first quarter?

And the third one is related to the CapEx to the US plant expansion. You said that physically, it has been -- 56% has been developed. But at the same time, you spent already \$450 million -- 400 and something, slightly less than \$450 million. At the same time, if you can recall -- if I recall correctly, you had mentioned I think last year that you were going to spend \$600 million, out of which \$150 million was on working capital. I'm just wondering if there's going to be any further increase in that number or if we're going to see working cap rates freeze even further. Thank you. These are my questions.

A - Fernando Musa {BIO 17592170 <GO>}

Thank you, Fernanda, for your questions. On the market share situation in Brazil, as I said, most of the -- basically all of the PE projects are up and running in the US until probably 2021 when the shale project starts. There's a couple of plants like Faso [ph] in Louisiana that are still up and coming, but they are smaller in size, compared to the ones that already started. So I would say that our outlook for market share is one where we believe the situation has reached an equilibrium. The situation of imports from the US into Brazil has reached the point where, I mean, it is already impacted by the China trades. We -- it's a trade war. If the tariff war goes away, then we will expect little bit more product flowing from US into China and, I mean, making it a little bit easier. But this would dislocate some of the production that is serving China from the Middle East, which would need to find a home, so probably would show up here in South America. So I would say we're probably close to where it is.

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And now it's going to be more around our -- going back to the first question, our tactical decisions on the trade-off of price point and market share that we will entertain here in Brazil, around a number that should be pretty stable with a small upside, I would say, in market share. If the economy picks up, there's more demand on the consumer side and the local production becomes, from a logistics point of view, advantage. So there is a tendency for the client here to privilege being served locally. Some of the US producers have established local inventory, but not all, so they have the ability to simulate like the service level that we do. But I mean, not everybody will do this. And it's very different to serve with inventory than to serve with the plants. So I would say we're in a pretty stable with an upside (Technical Difficulty)

On the Mexico margins, it's all about the PE prices, given that the expectation for the ethane is a pretty stable, small increase given that some of the new crackers that are not necessarily PE-integrated are coming online. But with the increased availability of PE, we do see even stability of the PE prices. And with naphtha going up in the second half, if it does go up, I mean, it would be putting cost pressure. So probably a small stability around the PE prices and some pick up on the ethane price, which explains this small compression in Mexico margins that we're seeing at a very, very healthy level. Extremely competitive given that we do buy the ethane from PEMEX at a discount, compared everybody else that is operating in the US.

And from the new PP plant in the US, our CapEx communicated was 3% to 5%. It was total CapEx. It did not include any inventory or working capital number. This is pure CapEx. We have executed 56% of the plant. As of today, we do expect to be on budget and on time with the project. It's important to realize that on budget at this stage probably means a plus or minus 3% to 5%, as we are progressing. And there's still roughly 10 months of work, 8 to 10 months of work, given that we expect startup in the first quarter of 2020. There's a roughly 8 to 10 months of work to be done.

So we're very pleased with the physical advancement. We did face a couple of challenges in the beginning of the year especially with the ITC fire that happened in Houston, which is very close to our site. We had to stop construction, because workers could not be on the outside given the smoke and the vapors that were coming from the fire for over one week, 1.5 weeks, which impacted a little bit the timeline. But I mean, a week is not going to derail significantly. And we do have actions to catch up to that week that we could not do any work on the project.

Q - Fernanda Cunha {BIO 20784520 <GO>}

If I may, just on Mexico, the margins. So from -- let me see, if I understood correctly. So you say the margins at 32% should be relatively flat at current spreads. First, is that correct? Is that your understanding? And second one is when can we see that improving back to the 40%, 50% level?

A - Fernando Musa {BIO 17592170 <GO>}

What I was saying is we see stability of the spreads compared to the beginning of the year forecast. But compared to last year, there is a compression. It's a combination of lower PE prices and it was very strong drop in the PE prices globally since the oil price

dropped late October, November last year. And at the same time, where the new projects were really 100% online. And in parallel with more crackers coming online, not only cracker supply in the PE plants, but we had a couple of projects that supply other derivatives started. The demand for ethane should increase during the year. So we do expect an increase in ethane prices in the back end of the year. So stable PE prices, compared to the beginning of the year, slightly increased ethane prices going forward, and therefore a small compression in margins, but still very healthy margins in general. Hope it was clear enough.

Q - Fernanda Cunha {BIO 20784520 <GO>}

Yes, thank you. That was very clear.

Operator

Our next question comes from Mr. Christian Audi from bank -- from Santander Bank. Please, Mr. Christian, you may proceed.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you. Just a few clarifying questions. And thanks for your very detailed answers previously. On the 20-F, I just wanted to make sure I understood it correctly. You mentioned that if you are unable to deliver the 20-F by May 16th, that the stock would start trading over the counter and that the NYSE would start the delisting process. I guess my question is how quickly -- that means that it gets delisted right away and it starts trading into the OTC right away?

And then you also mentioned that if you appeal, during the appeal, the stock's trading over the counter. But if you deliver the 20-F, then it would come back to being traded as an ADR in the New York Stock Exchange. Did I understand that correctly? Can you just check for me, please?

A - Fernando Musa {BIO 17592170 <GO>}

Let me try to clarify and then Pedro can complement. If there is no 20-F published by May 16th, two things happen: First, the ADRs are traded over the counter; second, NYSE starts a process of delisting. So we are still listed at NYSE, we're just not being traded in the NYSE environment, we're traded over the counter. As the process of delisting proceeds, one of the natural steps is going to be an appeal by us, which freezes the delisting process. And that suspends the delisting process while the appeal is being evaluated. So during that period, we continue to be traded over the counter. And we are in discussions with NYSE on the delisting of the company. During the -- until the delisting process is completed, any time between now and that delisting decision, that takes months after May 16th, based on previous experiences, if we publish 20-F, it's an automatic procedure to stop the delisting and to move back from the OTC to the NYSE trading system.

So anything to add, Pedro?

A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

No.

A - Fernando Musa {BIO 17592170 <GO>}

Hope that answers your question.

Q - Christian Audi {BIO 1825501 <GO>}

Yes, no. Very helpful. And just -- do we have a sense of how long a delisting process by the NYSE takes? Months?

A - Fernando Musa {BIO 17592170 <GO>}

Pedro mentioned before, is that in previous experiences, this has taken around six months.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. And is there a deadline also for the 2018, 2020 I understand for the 2017, it's May 16th. Is there a specific deadline for you to deliver the 2018 20-F?

A - Fernando Musa {BIO 17592170 <GO>}

So the 2018 20-F is due by May 15.

Q - Christian Audi {BIO 1825501 <GO>}

As well. So both 2017 and 2018 are due on the 16th. Pedro, is that correct?

A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

Yes. There is one big difference there. So the 2018 is 15th of May. But anyway, if we don't have the 2017, we cannot file the 2018. So we will need to file the 2017 before we can file the 2018.

Q - Christian Audi {BIO 1825501 <GO>}

Got it. And your appeal process is a process that can -- do we have a sense of the timing of that process? How long it takes? Or how long does it stay if you are affected?

A - Fernando Musa {BIO 17592170 <GO>}

As Pedro said before, I mean, there is no regulatory timeline. Previous experience puts this process around six months. But there is no regulatory timeline.

Q - Christian Audi {BIO 1825501 <GO>}

And is there a chance that on May 16, they could, rather than doing everything we just talked about, just give you an additional extension or no?

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A - Fernando Musa {BIO 17592170 <GO>}

No.

A - Pedro van Langendonck Teixeira de Freitas {BIO 19740578 <GO>}

No. The NYSE regulations do not allow the NYSE to provide additional -- an additional extension, so --

Q - Christian Audi {BIO 1825501 <GO>}

Perfect. Understood. My second -- thank you very much. Very clear. My second question was on Mexico. You made the point that you're studying the potential to import. During -- if you do begin to import, does PEMEX still pay you due to their inability to provide you with the feedstock? Would they continue to pay you that penalty fee that they have been paying up to now? Or they would cease paying for that?

A - Fernando Musa {BIO 17592170 <GO>}

No. If we decide to import by ourselves, it does not change PEMEX obligations under the contract. They continue to have the obligation to deliver 66,000 barrels a day. And if they don't, they have all the obligations that come from that. We continue to have the obligation to take 66,000 barrels, if they do provide them. So there is no impact whatsoever. And us importing directly creates no contractual change in our -- the (inaudible) basis relationship with PEMEX.

Q - Christian Audi {BIO 1825501 <GO>}

Got it. And how quickly can you not only begin importing, but how quickly can you move, as you mentioned before, potentially your capacity utilization in that plant from the current levels to 100%?

A - Fernando Musa {BIO 17592170 <GO>}

It depends. There are different solutions. Some of them are faster but smaller in size. Others are -- take a little bit longer, but enable us to bring more. This is the trade-off we've been evaluating. When you do faster and smaller, it tends to be more expensive on a per ton basis, compared to a larger operation that dilutes cost. So this is part of the economic evaluation that is being done on top of the technical evaluation of the different solutions, given that, I mean, our plant is roughly 5 to 6 kilometers from the port, and I mean, we need to find a way to move from the port into the site, which takes a challenge.

When I mean a long-term solution, a larger, that takes longer. We're talking a couple of years. We're already doing engineering studies, and it probably means building or retrofitting part of the port, building a terminal or retrofitting part of the current port, plus a tank, plus a pipeline from the port to the plant or a pipeline to another pipeline that then connects to our plant. So there is CapEx involved, which then leads to -- I mean, you need licenses to build and all this. So we're talking two to 2.5 years time frame for the larger, more competitive solutions. There are simpler alternatives that could be implemented faster, but they would be a little bit more expensive on a per ton basis.

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Q - Christian Audi {BIO 1825501 <GO>}

Excellent. And my very last question. On Alagoas, you've decided to shut down the operations of the mine. How long does that take until you actually -- or is it a pretty quick process? Or does it actually happen over time?

A - Fernando Musa {BIO 17592170 <GO>}

There are two steps to that process, where one is planning from a safety point of view, how to do it. Shutting down the mines would be easy and fast, but the implications for the chlor-alkali plant are the trickier plant. It's a much larger plant that currently produces chlorine. So we need to make sure that, I mean, the chlorine is taken care of, et cetera. So these studies are being done.

In parallel, there is this discussion with the authorities, as they mentioned yesterday when they released their report number one, that any shutdown should be done in a safe way, taking into account the findings that they have as far as what's happening in the neighborhood. So this is a dialogue we'll have been with them on what are the findings and what are the implications for the safe procedure to shutdown. We do not have a timeline now. We're starting the process, means -- I mean, we're starting all those dialogues and planning to do it as soon as viable. But the top priority, as I said before, is the safety of this process so that we guarantee that from an operational point of view, we're not incurring any unnecessary risks.

Q - Christian Audi {BIO 1825501 <GO>}

Great very clear. Thank you very much.

Operator

Thank you for your questions. Now I'll turn it over to the company for closing remarks.

A - Fernando Musa {BIO 17592170 <GO>}

So I'd like to thank you all for participating in this call and for the questions. As I mentioned before, it was a challenging quarter from an operational financial results that complemented with a nice series of one-time, contributed to a good EBITDA generation. We continue with our strategy around efficiency and competitiveness, diversification of feedstock and the geographic diversification that has been leading significant results for us. And we'll continue to manage the different consumer trends, secular economy trends as well as the different operational challenges we face around the world, we discussed some of them today. And I'm sure that as we continue our dialogues in further quarters, we'll continue to talk about the good results that we've been delivering for our shareholders and to society in general.

Thank you very much for your participation, and looking forward to talking to you in three months' time, when we release the second quarter results. Bye.

Operator

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

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