Fitch Affirms Raizen Energia & Raizen Combustiveis at 'BBB'; Stable Outlook

Ratings Endorsement Policy
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Fitch Ratings-Sao Paulo/Chicago-01 July 2014: Fitch Ratings has affirmed the following ratings for Raizen Energia S.A. (Raizen Energia), Raizen Combustiveis S.A. (Raizen Combustiveis) and related companies:

Raizen Energia
--Foreign currency Issuer Default Rating (IDR) at 'BBB';
--Local currency IDR at 'BBB';
--National scale rating at 'AAA(bra)'.

Raizen Combustiveis
--Foreign currency IDR at 'BBB';
--Local currency IDR at 'BBB';
--National scale rating at 'AAA(bra)'.

Raizen Energy Finance Limited (Raizen Energy Finance):
--Senior unsecured notes due in 2017 at 'BBB'.

The corporate ratings Outlook is Stable.

Fitch has also withdrawn the outstanding Issuer Default Ratings (IDRs) of the following special purpose vehicles (SPVs and/or Finance Companies) created for the sole purpose of issuing debt. Fitch will continue to rate debt instruments issued out of these vehicles.

Raizen Fuels Finance Limited (Raizen Fuels Finance):
--Foreign currency IDR at 'BBB'

Raizen Energy Finance Limited (Raizen Energy Finance):
--Foreign currency IDR at 'BBB';

Raizen Energia and Raizen Combustiveis S.A. ratings are based on the combined financial strength of two operational companies (Raizen), given the mutual financial support and cross guarantees provided by the joint venture arrangement between Cosan and Shell.

KEY RATING DRIVERS
Raizen's rating reflects the strength of its business profile on a combined basis, with a diversified asset base, a sizeable scale in most of its markets, and a relevant and increased contribution from the fuel segment, which provides the company with a more predictable cash flow stream. Raizen's sugar and ethanol businesses are volatile, and are exposed to climatic conditions and other challenges related to the ethanol industry in Brazil. Currently, ethanol prices are strongly correlated to the regulated gasoline prices and to government policies. These business risks are partially mitigated by its solid capital structure.

Fitch expects that Raizen will continue to maintain a conservative capital structure in the coming years while adequately managing its business growth. The ratings also incorporate implicit financial support from its shareholders, Shell in particular. Shell Brazil Holdings BV is a subsidiary of Royal Dutch Shell Plc, rated by Fitch at 'AA'.

Strategic Importance for Shareholders

Raizen represents around 10% of Shell's capital employed in its global downstream business and is a key vehicle for Shell's growth in the renewable energy sector. Although Raizen operates as an independent entity, its strategic importance for Shell, which owns 50% of the joint venture (JV), help support its ratings. Fitch views Shell's 10-year call option to be credit positive. Under the JV agreements, between the 10th and the 15th anniversaries of the closing of the JV, Shell will be granted the right to acquire the remaining 50% of the JV from Cosan. Raizen also benefits from the business expertise of Cosan S.A. Industria e Comercio (Cosan, rated 'BB+' by Fitch), which jointly controls the company. The shareholder commitment is demonstrated by their stand-by committed line of credit in the amount of USD500 million.

Solid Business Profile; Diversified Business Provides Stability

Raizen's sizeable scale, with 65 million tons of sugar cane crushing capacity, an extensive fuel distribution network and its diversified asset base, gives the company operational flexibility and complementary businesses synergies. Raizen is the leading global sugar and ethanol producer, with an 11% market share in Brazil's fragmented market. It is also the third largest fuel distributor in Brazil and the largest generator of biomass energy in the country. Improving profitability of its downstream business has resulted in a material improvement in the EBITDA margins of this segment to 4.1% for the last 12 months ended March 31, 2014, compared to 3.4% in the fiscal year 2012.

The downstream business currently accounts for approximately 45% of Raizen's EBITDA and 41% of its operating cash flow generation (CFFO), which reduces the cash flow volatility associated with the sugar and ethanol industry. Per Fitch's forecasts, depending on market

conditions for sugar and ethanol, the downstream business should account for 45% - 50% of Raizen's EBITDA going forward.

Strong Operational Performance; High Capex and Dividends Pressure FCF

Raizen has been able to generate strong operational cash flow on a consistent basis, with funds from operation (FFO) above BRL3 billion since 2012. For fiscal year ended March 31, 2014, cash flow from operations (CFFO) was BRL3.7 billion. Free cash flow (FCF) was negative BRL524 million in 2014 due to significant investments of BRL3 billion and dividends of BRL1.1 billion. Going forward, Fitch projects FCF to remain negative due to the large capex requirements for the sugar & ethanol business and the maintenance of high dividends payout in the fuel distribution segment. Fitch believes Raizen has the flexibility to reduce these payments if needed, as its shareholders show commitment to maintaining a strong credit profile.

Raizen's EBITDA margins have hovered around 8% during the last three years despite the difficult operating conditions for the sugar and ethanol sector in Brazil, which shows the positive contribution and resilience of the fuel distribution business. Raizen's EBITDA was BRL4.6 billion in fiscal year 2014, which compares favorably with BRL4.4 billion in 2013 and BRL3.5 billion in 2012.

Raizen's strategy to seek growth opportunities through small acquisitions in the fuel distribution segment is not expected to significantly alter its credit profile.

Sound Capital Structure

Raizen has a track record of maintaining a strong credit profile, underpinned by low leverage and a strong liquidity position. As of March 31, 2014, Raizen had BRL2.3 billion of cash and market securities and BRL2.3 billion of short-term debt. Raizen's total adjusted debt amounts to BRL13.2 billion when land lease obligations are included. These lead to Raizen's total adjusted debt/EBITDAR ratio to 2.6x, and the net adjusted debt/EBITDAR to 2.1x. When inter-company loans and tax financing are not factored into the calculations net adjusted debt/EBITDAR stands at 1.7x as of the FY14. This is because such debts are fully covered by judicial deposits and other non-current financial assets that should be reimbursed to both Cosan and Shell in the context of the creation of the Joint Venture in 2011.

RATING SENSITIVITIES

--Deterioration of capital structure due to excessive dividend payouts or large debt-financed acquisitions and weaker operating cash flow generation that would lead to a net leverage ratio above 2.5x on a consistent basis could also trigger a downgrade.

--Any evidence of a decrease in business importance to Shell could pressure Raizen's ratings. A stronger than forecasted increase in the fuel distribution business cash flow generation could further mitigate the volatility of the sugar and ethanol business and lead to positive rating action.

Contact:

Primary Analyst
Claudio Miori
Associate Director
+55-11-4504-2207
Fitch Ratings Brasil Ltda
Alameda Santos, 700 - 7 andar, Sao Paulo, sp CEP 01418-100

Secondary Analyst
Debora Jalles
Director
+55-21-4503-2629

Committee Chairperson
Daniel Kastholm
Managing Director
+1-312-368-2070

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Corporate Rating Methodology' (May 28, 2014);
--'National Scale Ratings Criteria' (Oct. 31, 2013).

Applicable Criteria and Related Research:
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage
National Scale Ratings Criteria

Additional Disclosure
Solicitation Status