

**Rating Action: Moody's affirms B3's national scale debenture ratings**

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19 Dec 2019

NOTE: On December 20, 2019, the press release was corrected as follows: The methodology paragraph was changed to: "The methodology used in these ratings was Securities Industry Service Providers Methodology published in November 2019. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology." Revised release follows.

Sao Paulo, December 19, 2019 -- Moody's America Latina ("Moody's") has today affirmed B3 S.A. -- Brasil, Bolsa, Balcao's (B3) Ba1 global local currency senior unsecured debt rating and Aaa.br Brazilian national scale senior unsecured debt rating assigned to B3's outstanding local currency debentures

This action follows a related press release made by Moody's Investors Service (MIS) that it had affirmed all ratings assigned to B3 S.A. -- Brasil, Bolsa, Balcao ("Moody's affirms B3's ratings, stable outlook " [https://www.moody's.com/research/Moody's-affirms-B3s-ratings-stable-outlook--PR\\_414510](https://www.moody's.com/research/Moody's-affirms-B3s-ratings-stable-outlook--PR_414510) ) published on 19 December 2019.

The following ratings assigned to B3 S.A. -- Brasil, Bolsa, Balcao were affirmed:

- Local currency senior unsecured debt rating of Ba1;
- Brazilian long-term national scale senior unsecured debt rating of Aaa.br

**RATINGS RATIONALE**

B3's global scale and national scale long term unsecured debenture rating of Ba1 and Aaa.br respectively, stem from B3's long term senior unsecured and issuer ratings of Ba1. B3 currently has BRL 1.2 billion of local currency debentures outstanding.

B3's long term senior unsecured and issuer ratings reflect Moody's unchanged assessment of the company's creditworthiness, which incorporates the benefits to creditors from its increasing earnings, high pretax margins and cash flow generation, which will continue to be strong over the next 12 -18 months, supported by the positive operating environment. Our assessment also takes into consideration B3's rising but manageable leverage and the company's increased dividend payout targets which will be maintained in 2020. B3's ratings are positioned one notch above Brazil's Ba2 sovereign rating, reflecting its strong linkages with the Brazilian sovereign.

Following on from 2018's record year, B3 reported revenue growth of 23% and pre-tax income of BRL 3.1 billion (US\$ 732 million) in the twelve months to 3Q19, an increase of over 50% versus a year earlier, illustrating its increased scale. Pre-tax margins were 49.3%, up by almost 840 basis points from a year earlier. Moody's expects B3 to continue to post strong financial results in 2020 as Brazil's low interest rate environment will continue to shift investor risk appetite toward equity and other riskier investments, while capital market new issuances will continue to be strong, following on from 2019's record levels of equity issuance. Moody's also said that B3 offers services for which it has no competition, particularly in cash equities trading and post trading, and that its business model enables it to generate increased revenue during periods of market volatility, when interest rate and currency derivative volumes rise.

Moody's said it expects that B3's leverage, as measured by Moody's-adjusted debt/EBITDA, will be maintained at 1.5x, as aligned with B3's leverage target. B3's actual Moody's-adjusted debt leverage ratio was 1.3x as of 3Q19, but this is expected to worsen following incremental debt issuance. B3 has increased its dividend payout ratio to a range of 120%-150% of 2019 net income, including share repurchases and cash dividend payouts, versus its previous range of 70%-80% in 2018.

Despite relatively higher debt leverage and a higher new dividend payout ratio, B3's cash flow coverage ratio will continue to remain strong, defined as retained cash flow after dividends minus capex, as a percentage of debt. B3 reported cash flow coverage of 48.2 % in 2018 and as of 3Q19 the ratio was 43.2%. In addition, Moody's expects B3's interest coverage to improve, even as more debt is issued, because a combination of

higher EBITDA and refinancing at lower interest rates will more than offset the effect of higher debt.

Moody's does not have any particular governance concerns for B3, and does not apply any corporate behavior adjustment in its standalone assessment of B3's creditworthiness.

#### WHAT COULD CHANGE THE RATINGS UP/DOWN

The national scale debenture ratings are already at the highest level on the national scale for Brazil. A downgrade in B3's global and national scale ratings could be driven by a deterioration in the company's financial profile, which, in turn, could be triggered by a decrease in its operating margin that substantially reduces the company's debt-service capacity and leads its leverage to increase significantly. Negative pressure on the ratings could also arise from a deterioration in the company's risk management capabilities and execution effectiveness. A decline in Brazil's creditworthiness could also result in B3's ratings being downgraded.

The methodology used in these ratings was Securities Industry Service Providers Methodology published in November 2019. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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Information type used to prepare the rating is the following: financial data.

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