



RATING ACTION COMMENTARY

Fitch Affirms Localiza's IDRs at 'BB+'

Thu 19 Oct, 2023 - 4:45 PM ET

Fitch Ratings - Rio de Janeiro - 19 Oct 2023: Fitch Ratings has affirmed Localiza Rent a Car S.A.'s (Localiza) Long-Term Local Currency (LC) and Foreign Currency (FC) Issuer Default Ratings (IDRs) at 'BB+', and the Long-Term National Scale Rating of Localiza and their wholly owned subsidiaries Localiza Fleet S.A. (Localiza Fleet), Companhia de Locacao das Americas (Locamerica) and Locamerica Rent a Car S.A. (Locamerica RaC) at 'AAA(bra)'. At the same time, Fitch has affirmed the senior unsecured debt instruments of Localiza and its subsidiaries at 'AAA(bra)'. The Rating Outlook for the corporate ratings is Stable.

Localiza's ratings reflect its consistent leadership in the Brazilian car and fleet rental industry, with large scale and resilient operational performance throughout economic cycles. Localiza benefits from a diversified client base and long-term contracts for a significant part of its revenues. The analysis incorporates the maintenance of moderate consolidated financial leverage, despite the expectation of negative FCF due to high capex for fleet growth and renewal.

The group has proven access to unsecured financing and, strong liquidity and a well spread debt amortization schedule. Fitch equalizes the ratings of Localiza and its subsidiaries reflecting the incentives that the parent has to support them.

KEY RATING DRIVERS

Solid Leading Market Position: Localiza's large scale, proven operating expertise, national footprint and a strong used car sale operation allows for competitive advantage on assets purchase and lower operating costs relative to peers and supports its prominent business position within the car and fleet rental industry in Brazil. As of June 2023, Localiza's total fleet of 587,424 vehicles, consisting of 306,870 in rent-a-car (RaC) and 280,554 in fleet management, secured a comfortable leadership in both markets. Fitch forecasts Localiza's own total fleet at around 645,000 vehicles in 2023 and 682,000 vehicles in 2024.

Strong Operating Performance: Localiza's consolidated EBITDA should continue to expand based on organic growth and healthy rental margins, despite of lower and normalized profitability in the used car sales. Balanced demand and supply dynamics allow adequate rental rates, resulting in a return on invested capital (ROIC) spread in line with historic levels. Localiza should reach consolidated net revenue of around BRL30 billion and rental EBITDA at around BRL9.4 billion in 2023 and BRL39 billion and BRL11 billion in 2024, from BRL25.7 billion and BRL8.5 billion, respectively, in the LTM ended in June 2023.

Moderate Leverage: Fitch expects Localiza to maintain its net adjusted leverage at moderate levels. Consolidated net leverage (IFRS-16 adjusted), measured by net debt/rental EBITDA, should range 2.5x-3.0x on the rating horizon, comparing with Localiza's average of 2.7x from 2019 to 2021 and with 4.8x in 2022 (due to a peak in capex). The company's BRL4.5 billion follow-on in the second quarter of 2023 led to a decline on leverage to 3.0x in the LTM ended in June 2023.

Negative FCF: The capital-intensive nature of the rental industry, which demands sizable and regular investments to grow and renew the fleet, pressures Localiza's cash flow. FCF should remain negative, on average, at BRL24 billion from 2023 to 2025, pressured by annual average growth capex of BRL30 billion. Funds from operations (FFO) and cash flow from operations should be, on average, BRL6.8 billion and BRL6.2 billion, respectively, in the same period. Localiza has room to postpone fleet renewal and reduce expansion capex, if needed.

Parent and Subsidiary Linkage: Localiza Fleet, Locamerica and Locamerica RaC's ratings reflect Localiza's high strategic and operational incentives to support them, according to Fitch's Parent and Subsidiary Rating Linkage Criteria, which equalizes the ratings of the four companies. The subsidiaries operate under a common brand and compose a synergic vehicle rental ecosystem, benefiting from greater bargaining power when buying and selling vehicles and negotiating with customers. Localiza also guarantees 100% of Localiza Fleet's debt.

DERIVATION SUMMARY

Compared with Localiza, Simpar S.A. (Simpar; FC and LC IDRs BB/Stable) has lower scale on car and fleet rental businesses and a weaker financial profile - with higher leverage and more pressured FCF. Positively, Simpar presents a more diversified business portfolio through operations in logistics and rental of heavy vehicles and machinery. Compared with Unidas Locacao e Servicos S.A. (Unidas, FC and LC IDRs BB-/Stable), Localiza has a much

stronger business profile, higher liquidity, better access to credit market and lower leverage.

Compared to CEMEX, S.A.B. de CV. (CEMEX; LC and FC IDRs BB+/Positive), Localiza has a more diversified business profile, higher profitability, less volatile cash flow generation and a more liquid/tradable asset base. On the other hand, CEMEX has higher scale, a historic of positive cash flow generation and relatively similar leverage on the rating horizon.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Total fleet growth around 8% on the next three years;
- Average ticket for RaC increasing 8% in 2023 and 3.5% in 2024;
- Average ticket for GTF increasing 19% in 2023 and 7.5% in 2023;
- Average capex around BRL30 billion in 2023-2025;
- Dividend payout around 30%-35% throughout the rating horizon.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade on Localiza's LC IDR and FC IDR would result from an improvement in Brazil's Local Current Rating and Country Ceiling, as well as a movement in its net debt-to-EBITDA ratio towards 2.0x on a recurring basis;
- Upgrade not applicable to the National Scale ratings.

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

- Failure to preserve liquidity and inability to access adequate debt funding
- Failure to preserve a debt structure consisting overwhelmingly of unsecured debt
- Prolonged decline in demand coupled with company inability to adjust operation, leading to a higher than expected fall in operating cash flow;

--Increase in total leverage to more than 4.5x and in net leverage to more than 3.5x on a regular basis;

--A negative movement on Brazil's Country Ceiling could result in negative rating action for Localiza's FC IDR.

LIQUIDITY AND DEBT STRUCTURE

Robust Liquidity Profile: Localiza's robust liquidity position, ample access to different sources of funding, and track record of a proactive liability management are key credit considerations, with cash covering its short-term debt by an average over 2.5x during the last three years. The group's expected negative FCF, a result of organic growth and fleet renew, should be financed by a combination of cash and additional debt in the rating scenario.

As of June 2023, Localiza had BRL9.7 billion of cash and equivalents and BRL37 billion of total debt, with BRL7.2 billion due in the short term - mainly bank loans - and an additional BRL6.7 billion up to 2025. The group's consolidated debt is mainly comprised of local capital market debt (79%) and bank loans (16%). Localiza's financial flexibility is also supported by the group's ability to postpone growth capex to adjust to the economic cycle and the groups considerable number of unencumbered assets, with the market value of the fleet over net debt at around 1.5x.

ISSUER PROFILE

Localiza is the largest car and fleet rental company in Brazil, either by fleet size or revenue. It operates in the RaC, Fleet Rental and Used Car Sale segments and fully owns Localiza Fleet, Locamerica and Locamerica RaC, among other not rated operating companies. The company is listed on the Brazilian stock exchange and its reference shareholders own 20.13% of the company, with 79.31% free float.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit

impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Locamerica Rent a Car S.A.	Natl LT	AAA(bra) Rating Outlook Stable	AAA(bra) Rating Outlook Stable
	Affirmed		
Localiza Fleet S.A.	Natl LT	AAA(bra) Rating Outlook Stable	AAA(bra) Rating Outlook Stable
	Affirmed		
senior unsecured	Natl LT	AAA(bra) Affirmed	AAA(bra)
Companhia de Locacao das Americas - LOCAMERICA	Natl LT	AAA(bra) Rating Outlook Stable	AAA(bra) Rating Outlook Stable
	Affirmed		
Localiza Rent a Car S.A.	LT IDR	BB+ Rating Outlook Stable	BB+ Rating Outlook Stable
	Affirmed		
	LC LT IDR	BB+ Rating Outlook Stable	BB+ Rating Outlook Stable
	Affirmed		

Natl LT	AAA(bra) Rating Outlook Stable	AAA(bra) Rating Outlook Stable
Affirmed		

senior unsecured

Natl LT	AAA(bra)	Affirmed
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AAA(bra)

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APPLICABLE CRITERIA[Metodologia de Ratings em Escala Nacional \(pub. 22 Dec 2020\)](#)[Corporate Rating Criteria \(pub. 28 Oct 2022\) \(including rating assumption sensitivity\)](#)[Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)[Metodologia de Vínculo Entre Ratings de Controladoras e Subsidiárias \(pub. 16 Jun 2023\)](#)[Climate Vulnerability in Corporate Ratings Criteria \(pub. 21 Jul 2023\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

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

[Corporate Monitoring & Forecasting Model \(COMFORT Model\), v8.1.0 \(1\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Localiza Rent a Car S.A.

EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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