Research Update:

Simpar S.A. 'BB-' And 'brAA+' Ratings Affirmed On Expected Lower Capex Amid Heavy Interest Burden; Outlook Stable

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Rating Action Overview

- Brazil's high base interest rate and Simpar S.A.'s elevated debt levels will pressure the group's credit metrics in 2025 and 2026, with EBIT interest coverage between 1.1x-1.3x and funds from operations (FFO) to debt of 10%-13%.
- Still, the group has been vocal on efficiency measures and liability management to somewhat offset the heavy interest burden, leading us to now expect more moderate revenue growth with lower capital expenditure (capex).
- We affirmed our global-scale long-term issuer credit and national scale ratings on Simpar at 'BB-' and 'brAA+', respectively. We also affirmed the issue-level ratings on the company's senior unsecured debentures and senior notes, with a recovery rating of '4' (35%).
- The stable outlook indicates our expectation that the group will remain focused on efficiency measures to balance continued high interest rates.

Rating Action Rationale

The sustained high--and increasing--interest rates in Brazil will pressure Simpar's credit metrics in 2025 and 2026. We forecast EBIT interest coverage of 1.4x and FFO to debt near 10% in 2024, which is generally in line with our previous expectations. However, the higher interest rates of 14% on average in 2025 and 13.6% in 2026 will pressure such metrics and led us to revise down our forecasts. We now expect EBIT interest coverage of 1.1x in 2025 and 1.3x in 2026, versus 1.6x-1.8x before, and FFO to debt of 10%-13% in 2025-2026, versus 13%-17% before.

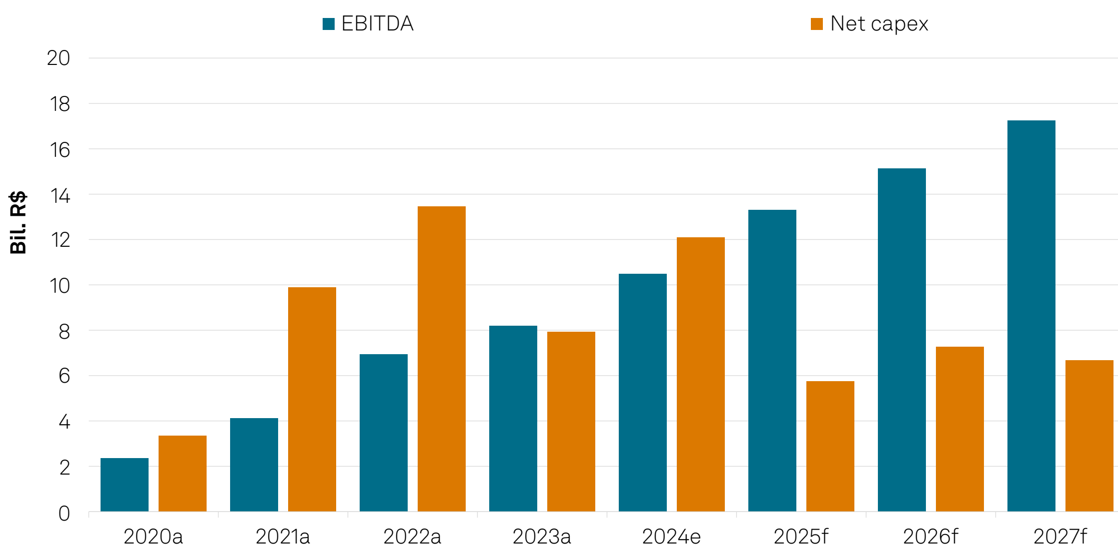
In our view, Simpar's scale, diversified business model in the transportation industry with resilient end market exposure, and relevant portion of EBITDA pegged to long-term contracts provide important cash flow predictability during economic downturns. Moreover, we believe the group is committed to reducing leverage, mainly through higher operating cash flows and focusing on liability management. We expect debt to EBITDA of below 4.0x in the next two years, versus our expectation of about 4.5x by year-end 2024 and 4.8x in 2023.

We forecast the group's subsidiaries will continue working on efficiency measures, gradually expanding EBIT margin in the coming years. We expect Movida, the second largest rent-a-car (RaC) and long-term fleet management operator domestically, to increase rates and improve utilization rates for RaC to 80%-85% in the next years from 75%-80% in 2024 by aligning fleet size to demand. Vamos, Brazil's largest truck and equipment rental operator, should also continue signing new contracts with higher prices incorporating higher interest rates, with limited fixed-cost expansion. Furthermore, we think JSL will maintain its leadership position as an integrated logistics operator with the signing of new contracts and deployment of relevant backlog. Additionally, we expect Automob to continue absorbing synergies from past mergers and acquisitions (M&A) and increase returns with a higher number of units sold per square foot.

That said, we forecast Simpar's consolidated EBIT margin above 20% from 2025, compared with 19.7% by year-end 2024.

After reaching a relevant market position in most segments in which it operates, we expect lower capex from Simpar in the next couple of years. After growing significantly in the past few years, with capex representing 2x-3x EBITDA for several periods, we now forecast capex will represent about half of EBITDA in the coming years. The group has consolidated itself among the top players in most of the segments it which it operates, importantly via M&A financed with debt. We now expect it to focus on organic growth to sustain its relevant market positions. We forecast consolidated net capex of about Brazilian real (R$) 5.7 billion in 2025 mostly directed to meet new contracts and fleet renewal at Vamos (R$2.5 billion) and Movida (R$1.2 billion) and to meet new contracts at JSL (R$850 million). We expect Movida and JSL to finance most of the capex with internal cash, while Vamos will partially fund it with new debt. With the expected gradual easing of interest rates from 2026, we expect somewhat higher capex of about R$7.2 billion.

Simpar's adjusted EBITDA and net capex



a--Actual. e--Estimate. f--Forecast. R$--Brazilian real. Capex--Capital expenditure. Source: S&P Global Ratings.

Outlook

The stable outlook reflects our view that Simpar group will remain focused on efficiency measures to balance sustained high interest rates. We also expect more modest revenue growth this year amid lower capex. During this period, we don’t envision large M&A, and expect growth to be mostly organic. We forecast FFO to debt of about 10% in 2025 and above 12% in 2026, and EBIT interest coverage of 1.1x in 2025 and 1.3x in 2026.

Downside scenario

We could lower the ratings in the next 12-18 months if the group's cash flows are further pressured amid higher interest rates or weaker operations than in our base case. Although unlikely considering the current focus on deleveraging, this could also happen if the group adopts a more aggressive growth strategy funded with debt and not accompanied by cash flows. For a downgrade, we would need to see persistently higher leverage, with EBIT interest coverage sustained below 1.3x and FFO to debt below 12%.

Upside scenario

In our view, an upgrade is unlikely in the next 12-18 months due to the high interest rates pressuring Simpar’s credit metrics. For an upgrade, we would expect the company to maintain an EBIT margin comfortably above 20% and much lower leverage. We would also expect it to reach and maintain EBIT interest coverage of at least 1.7x and FFO to debt trending to 20%.

Company Description

Simpar is a privately owned entity headquartered in Sao Paulo. The group was founded in 1956 and provides transportation and logistics services in Brazil and other countries through its subsidiaries: JSL, Movida, Vamos, CS Brasil, Automob, BBC Bank, CS Infra, and Ciclus Ambiental.

We expect the group to post consolidated revenue of about R$41 billion and EBITDA of close to R$10.5 billion in 2024, with the following EBITDA breakdown: Movida (45%), Vamos (30%), JSL (15%), and other subsidiaries (10%).

- Movida is the second largest car rental company in Brazil, offering car rental and fleet management services with a total fleet of 247,587 cars and 348 stores, as of Sept. 30, 2024.
- Vamos is a Brazilian truck, machinery, and equipment rental company, with a fleet of 51,090 (79% trucks and 21% equipment) and a network of 12 owned stores of used truck and equipment as of Sept. 30, 2024.
- JSL is Brazil's largest provider of logistics services and freight transportation operating under both asset-light and asset-heavy business models.
- Automob is Brazil's largest authorized light and heavy vehicle dealerships group. It operates through 188 stores in 12 states, and a portfolio consisting of 35 brands. The company recently incorporated dealerships of heavy vehicles from Vamos.
- BBC Bank mainly offers leasing, freight payments, and financial services to customers and suppliers.
- CS Brasil provides fleet management and outsourcing services to the public sector, as well as public passenger transport.
- CS Infra operates public concessions of ports, toll roads, and urban mobility infrastructure.
- Ciclus Ambiental, formed by Ciclus Rio and Ciclus Amazônia, operates in the waste and sanitation management and recycling sector.

Our Base-Case Scenario

Assumptions

- Brazil's GDP grows about 1.9% in 2025, 2.1% in 2026, and 2.2% in 2027.
- Brazil's inflation averages 4.2% in 2025, 3.7% in 2026, and 3.5% in 2027, affecting labor-related and fleet maintenance prices.
- Average base interest rates of 14% in 2025, 13.6% in 2026, and 10.8% in 2027, influencing funding costs and rates of new fleet management contracts.
- Simpar's consolidated revenue increases about 15%-20% in 2025 and 10%-15% in 2026-2027, from Vamos' continued solid growth prospects and JSL and Movida's price increases.
- Vamos' revenue expands about 20%-25% in the next three years from new contracts with higher prices. We expect Movida's revenue growth to be more moderate at 10%-15% in 2025-2027, versus 30% in 2024, from average higher prices and higher utilization rates amid smaller fleet size. JSL's revenue is expected to grow 12% in 2025-2027, due to the current backlog, new contracts, and price adjustments.

- Automob maintains solid growth prospects amid synergies from past M&A and the consolidation of Vamos' dealerships.
- Lower working capital needs from the group in the next few years amid more moderate growth and continued solid relationships with suppliers allowing for extended payable days.
- Cash payments related to past M&A totaling about R$191 million in 2025, and R$486 million in 2026, mostly from Automob.
- Debt refinancing across the entire group, and consolidated gross debt between R$55 billion–R$60 billion in the next few years.
- Dividend payouts of 25% of Simpar's prior-year net income.

Key metrics

Simpar S.A.--Forecast summary

Period ending	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**	**Dec-31-2026**	**Dec-31-2027**
(Mil. BRL)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	9,807	13,866	24,382	31,844	40,989	47,931	53,837	60,026
Gross profit	3,132	5,543	9,477	11,652	13,917	17,364	19,536	22,130
EBITDA (reported)	2,221	4,246	7,013	8,373	10,493	13,300	15,135	17,253
Plus/(less): Other	136	(129)	(75)	(175)	(5)	(5)	(5)	(5)
EBITDA	2,357	4,117	6,938	8,198	10,488	13,294	15,130	17,248
Less: Cash interest paid	(1,134)	(1,540)	(3,126)	(4,554)	(5,622)	(7,841)	(8,010)	(6,964)
Less: Cash taxes paid	(348)	(174)	(465)	(482)	(574)	(79)	(381)	(1,002)
Funds from operations (FFO)	874	2,404	3,347	3,163	4,592	5,374	6,740	9,283
EBIT	1,804	3,706	6,270	5,973	8,078	9,865	11,306	12,691
Interest expense	1,073	2,090	3,904	4,475	5,615	8,707	8,894	7,732
Cash flow from operations (CFO)	1,821	2,830	2,363	2,162	4,065	4,834	6,085	8,853
Capital expenditure (capex)	3,358	9,886	13,462	7,940	12,096	5,752	7,277	6,664
Free operating cash flow (FOCF)	(1,537)	(7,056)	(11,099)	(5,778)	(8,031)	(918)	(1,193)	2,189
Dividends	49	227	415	482	--	278	48	231
Share repurchases (reported)	54	284	18	38	1	--	--	--
Discretionary cash flow (DCF)	(1,640)	(7,566)	(11,532)	(6,297)	(8,032)	(1,196)	(1,241)	1,958
Debt (reported)	16,892	33,264	37,901	43,166	54,051	54,689	58,577	59,720
Plus: Lease liabilities debt	806	1,114	1,924	2,137	2,291	2,387	2,487	2,579
Less: Accessible cash and liquid Investments	(5,845)	(13,634)	(12,742)	(10,946)	(12,676)	(10,693)	(11,484)	(12,914)
Plus/(less): Other	(2,287)	(3,682)	6,020	5,007	3,497	3,305	2,819	2,699
Debt	9,566	17,061	33,102	39,364	47,163	49,688	52,400	52,083
Equity	3,224	5,824	5,582	6,752	7,864	7,778	8,654	10,854
Adjusted ratios								
Debt/EBITDA (x)	4.1	4.1	4.8	4.8	4.5	3.7	3.5	3.0
FFO/debt (%)	9.1	14.1	10.1	8.0	9.7	10.8	12.9	17.8
EBITDA interest coverage (x)	2.2	2.0	1.8	1.8	1.9	1.5	1.7	2.2

Simpar S.A.--Forecast summary

CFO/debt (%)	19.0	16.6	7.1	5.5	8.6	9.7	11.6	17.0
FOCF/debt (%)	(16.1)	(41.4)	(33.5)	(14.7)	(17.0)	(1.8)	(2.3)	4.2
DCF/debt (%)	(17.1)	(44.3)	(34.8)	(16.0)	(17.0)	(2.4)	(2.4)	3.8
EBITDA margin (%)	24.0	29.7	28.5	25.7	25.6	27.7	28.1	28.7
Return on capital (%)	15.4	20.8	20.4	14.1	16.0	17.5	19.1	20.5
EBIT interest coverage (x)	1.7	1.8	1.6	1.3	1.4	1.1	1.3	1.6
Debt/debt and equity (%)	74.8	74.6	85.6	85.4	85.7	86.5	85.8	82.8

All figures are adjusted by S&P Global Ratings, unless stated as reported. We add acquisitions payables, assignments of credit rights and leases to the debt, and deduct cash position. a--Actual. e--Estimate. f--Forecast. R$--Brazilian real.

Liquidity

We view Simpar's liquidity as adequate. We expect comfortable sources over uses of cash in the next 12 months at about 1.6x. In our view, the group will maintain significant cash holdings as it continues to extend its debt amortization profile.

In addition, we believe that the group has proven access to diversified sources of funding, such as banks and the domestic capital market, at a reasonable cost. It currently has available committed credit lines of about R$2 billion.

Principal liquidity sources

- Cash position of R$13.7 billion as of Sept. 30, 2024.
- Total available credit lines of R$2.1 billion, maturing beyond 12 months.
- Cash FFO of R$5.3 billion in the next 12 months from Sept. 30, 2024.
- We assume the group could contract uncommitted secured funding of up to 70% of operating leasing subsidiaries' net capex.
- Movida's debentures of R$1 billion and the bilateral bank loan of R$300 million in fourth-quarter 2024.

Principal liquidity uses

- Short-term debt maturities of R$6.4 billion as of Sept. 30, 2024.
- Short-term acquisitions payable of R$288 million, as of Sept. 30, 2024.
- Short-term assignment of credit rights of R$1.4 billion, as of Sept. 30, 2024.
- Working capital needs of about R$1 billion in the next 12 months from Sept. 30, 2024.
- Net capex of R$7.3 billion in the next 12 months.

Covenants

Simpar's financial flexibility is limited by financial covenants on its debt, which require:

- Net debt to EBITDA-A (EBITDA plus cost of assets sold) of 3.5x and EBITDA-A to net interest at a minimum of 2.0x. These covenants apply to the local debentures and agribusiness receivable certificates, and they would accelerate debt payment if triggered.
- Net debt to EBITDA below 4.0x. This is applicable to the group's bond issuance. It's an incurrence covenant that limits the company's ability to contract additional debt.

We believe Simpar complied with the net debt-to-EBITDA requirement in 2024 with a small cushion. From 2025, we expect a cushion above 15% amid higher EBITDA. We also forecast Simpar will maintain a cushion of above 35% for the interest coverage ratio in the next two years. Moreover, we believe Simpar has some levers, such as reducing capex, to control the covenant metric if needed.

Environmental, Social, And Governance

Environmental, social, and governance factors are a neutral consideration in our credit rating on Simpar. On one hand, the company operates mainly in the transportation and logistics segment that contribute to increasing greenhouse gas (GHG) emissions. On the other hand, Simpar and its subsidiaries are committed to reducing GHG emissions by implementing several initiatives, such as waste recycling, a newer fleet with sophisticated technologies that directly help reduce emissions, and greater composition of electric vehicles in the fleet. Moreover, the holding company issued a sustainability-linked bond in January 2021, aiming to reduce GHG emissions 15% until 2030, which could lead to a rate step-up by 25 basis points if the company fails to achieve it.

Issue Ratings--Recovery Analysis

Key analytical factors

- We rate the group's senior unsecured bond and local market debentures 'BB-' and 'brAA+', respectively (the same as our issuer credit ratings on the company), with a '4' recovery rating. The '4' recovery rating reflects our expectation for average (30%-50%; rounded estimate: 35%) recovery in the event of a payment default, considering the expected recovery at each of Simpar's subsidiaries as well as the resulting debt structure of the nonoperating holding company.
- In our simulated default scenario, we contemplate a payment default in 2029. The simulated default scenario encompasses high default rates at Vamos' and JSL's portfolios of contracts, lower utilization rates of Movida's RaC business, and an erosion of Brazil's used-car and truck market, lowering the group's cash generation and limiting its asset sales. This would hamper its capacity to service interest and principal payments. We also account for limited access to refinancing amid a long period of fragile credit conditions.
- We value the group by considering a combination of the EBITDA multiple and discrete asset valuation approaches. We value its logistics and other business using a 6.0x multiple applied to our projected emergence-level EBITDA, reflecting Simpar's continued solid growth prospects.
- The projected emergence-level EBITDA is R$2.7 billion, resulting in an estimated gross emergence value of about R$15.9 billion. We have valued Simpar's operating lease business segments with a discrete asset valuation approach, applying an overall haircut of about 25%-30% to the asset bases of those subsidiaries, arriving at a stressed valuation of about R$35.8 billion.
- We assume that the secured debt and the debt at JSL, Vamos, and Movida have priority over Simpar's unsecured debt in a hypothetical default scenario because those subsidiaries are not guarantors of the debt at the holding company level.

Simulated default assumptions

- Year of default: 2029
- Jurisdiction: Brazil

Simplified waterfall

- Consolidated enterprise value (net of 5% administrative expense): R$49.1 billion, out of which R$21.4 billion is attributed to Movida, R$15.4 billion to Vamos, and R$12.2 billion to JSL and other subsidiaries
- Debt position at subsidiaries: R$48.2 billion
- Senior unsecured debt at the holding company level: R$5 billion
- Recovery expectations for bonds and debentures at the holding company level: 30%-50% (rounded estimate: 35%)

Note: All debt amounts include six months of prepetition interest.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB-/STABLE/--
Local currency issuer credit rating	BB-/STABLE/--
Business risk	3 - Satisfactory
Country risk	4 - Moderately High Risk
Industry risk	3 - Intermediate Risk
Competitive position	3 - Satisfactory
Financial risk	5 - Aggressive
Cash flow/leverage	5 - Aggressive
Anchor	bb
Diversification/portfolio effect	3 - Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Negative
Stand-alone credit profile	bb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Operating Leasing Industry, Dec. 14, 2016
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings list	
Ratings Affirmed	
Simpar S.A.	
Issuer Credit Rating	BB-/Stable/--
Brazil National Scale	brAA+/Stable/--
Ratings Affirmed; Recovery Ratings Unchanged	
Simpar Europe	
Senior Unsecured	BB-
Recovery Rating	4(35%)
Simpar S.A.	
Senior Unsecured	brAA+
Recovery Rating	4(35%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.