FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns 'BB-' First Time Rating to Simpar S.A.; Outlook Stable

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Fitch Ratings - Rio de Janeiro - 07 Aug 2020: Fitch Ratings has assigned a first time Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of 'BB-' to Simpar S.A. and National Long-Term rating of 'AA-(bra)'. The Rating Outlook is Stable.

Simpar is the new holding company for JSL S.A. and its subsidiaries. Simpar's ratings reflect its strong business profile, supported by a leading position in the Brazilian logistics industry and diversified service portfolio, as well as its track record of resilient operating performance throughout various economic cycles. The company's high consolidated leverage, which mostly relates to its ongoing strong growth strategy, is partially mitigated by its above-average financial flexibility and the company's ability to generate positive FCF through adjustments to its capex spend. Simpar maintains a strong liquidity position, which reduces refinancing risks in the short to medium term.

Fitch expects Simpar to continue to take advantage of market opportunities to grow its business while managing its capital structure to a consolidated net adjusted debt/EBITDA ratio of around 4.5x in 2021. Simpar's rating also incorporate management's commitment to maintain adequate liquidity and a manageable debt maturity profile. Growth strategies that elevate the company's leverage or the sale of relevant equity stakes, in any operating company that reduces Simpar's unrestricted access to their cash without materially lowering its leverage, may lead to a change in Fitch's consolidated rating approach and could pressure credit quality.

Following the JSL's shareholder approval on Aug. 5, 2020, Simpar became the new holding company by incorporating JSL's logistics business as a wholly owned subsidiary of Simpar and JSL's ownership interests in Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A.

(Vamos, AA(bra)/Stable), Movida Participacoes S.A. (Movida, AA-(bra)/Stable), CS Brasil Participacoes e Locacoes Ltds (CS Brasil), Original Veiculos e Original Distribuidora de Pecas e Acessorios Ltda (Original), BBC Holding Financeira Ltda e BBC Pagamentos Ltda (BBC) also will be directly owned by Simpar as well as all the other investments in Brazil and abroad. The corporate reorganization did not materially change the group's consolidated credit quality or Fitch's consolidated approach towards the wholly owned subsidiaries and the group holding company. Fitch views the JSL corporate reorganization as neutral to the current credit quality of JSL S.A., the other rated subsidiary entities and the outstanding debt issuances of the group.

KEY RATING DRIVERS

Diversified Business Portfolio: Simpar's operations mirror JSL's and continue to reflect a strong business profile, supported by a leading position in the Brazilian logistics industry and resilient operating performance. JSL Logistica, now as a new wholly owned subsidiary of Simpar, will continue to focus on supply chain management, passenger and general cargo transportation. All other operating business remain as they are, Movida a rent-a-car and fleet rental company, Vamos, a heavy vehicles and equipment rental business, CS Brasil a fleet rental company focused on the public sector, and Original, a vehicle dealership business. As of March 2020, JSL Logistica (100% stake) represented 25% of consolidated EBITDA, Vamos (100% stake) 27%, Movida (55% stake) 33%, CS Brasil (100% stake) 13% and the dealerships (100% stake) only 2%. The reorganization will not impact the business performance of the operating companies.

Strong Market Position: Simpar has a leading position in the Brazilian logistics industry with a diversified portfolio of businesses and a relevant presence in multiple sectors of the economy. The company's strong market position, strategic and operational nature of the service it provides, coupled with long-term contracts for most of its logistic and heavy vehicle rentals, minimizes the company's exposure to more volatile economic cycles. The company's significant operating scale has made it an important purchaser of light vehicles and trucks, giving it a significant amount of bargaining power versus other competitors in the industry.

Reorganization Preserved Consolidated Credit Profile: The consolidated financial profile of Simpar post reorganization, as the new holding company of the JSL Group, is similar to that of the consolidated JSL before the restructure. Additionally, Simpar has unrestricted ability to access the cash of the fully owned subsidiaries and to set the business and financial strategies of all the operating companies. Over the LTM ended at March 2020, Simpar's pro forma consolidated total and net leverage, measured by total debt/EBITDA and net debt/EBITDA, are 6.9x and 4.2x, respectively, compared to JSL's ratios of 6.3x and 4.1x, respectively, before reorganization.

The difference on the leverage ratios is due to a currency swap reset, which increases both total debt and total cash and creates a tax expense of BRL130 million. The outstanding bonds' new guarantor (Simpar, which replaces JSL S.A.) does not have operational cash flow generation, which is not material enough to impact the issuances' rating. JSL S.A., an operating holding company, was already considered, on a standalone basis, quite weaker than the consolidated group.

Full Ownership Mitigates Structural Subordination: The full ownership of all the operating companies, excluding Movida, mitigates the structural subordination of the debt at Simpar level. It allows Simpar to determine the business and financial strategies of the operating companies, select their management and manage their cash - as there is no restriction on upstream dividends or intercompany loans. The absence of cross default provisions and upstream guarantees together with the new corporate structure, where the logistic business operations are no longer at the holding company, would be credit negatives, but not sufficient to pressure the ratings at this point.

Major Equity Sale May Change Rating Approach: The sale of relevant equity stakes, in any operating company, that reduces Simpar's unrestricted ability to access their cash without materially lowering leverage, may lead to a change in Fitch's consolidated rating approach and may view Simpar as a dividend receiving holding company, which debt that would be structurally subordinated to that of the operating companies; its credit profile on a standalone basis may be considered weaker than that of the operating companies.

Robust Operating Cash Flow: JSL group has delivered a solid operating cash flow and reasonable margins, while growing its rentals businesses, Vamos and Movida. Fitch expects to see margin returning to pre-crises levels in 2021-2022 as these two businesses regain traction after the worst period of lockdown restrictions. Fitch also expects JSL Logistics to grow and become a larger part of the group portfolio. As the 2Q20 operating data begins to come out, Fitch believes Simpar's business should be less impacted by the pandemic than previously forecasted. Considering our current rating scenario, Fitch forecasts Simpar's consolidated EBITDA at BRL1.6 billion (18% margin) in 2020 and BRL1.8 billion (19% margin) in 2021, from BRL1.9 billion (20% margin) in 2019.

Coronavirus Impacts Leverage: The coronavirus outbreak containment measures, such as social distancing and mobility restrictions, are severely impacting the rent-a-car (RaC) business and used car sales. Fitch's base case rating scenario projected mixed results among JSL's main lines of business. Movida, will be the most affected by social-distancing and mobility-restriction measures. RaC revenue is expected to fall around 50% during 2Q20, versus a 70% drop projected in our ratings base case. The logistics and fleet rentals businesses, JSL Logistics, Vamos and CS Brasil, should be relatively less exposed to short-term volatility, as revenue streams are based on long-term contracts mainly with medium to large corporate clients. In these segments, 2Q20 revenue declines should be around 10%. Fitch expects Simpar's leverage to remain above 4.0x in the medium term given the revenue and profitability reductions.

DERIVATION SUMMARY

Simpar's ratings reflect its leveraged capital structure and solid business profile, supported by a leading position in the Brazilian logistics industry and a diversified and resilient portfolio of businesses. The company's large business scale provides important bargaining power with automobile and equipment OEMs, and is a key competitive advantage compared to peers in the Brazilian market.

Fitch believes that Simpar's bargaining power and business position tend to be relatively closer to the industry's benchmark, Localiza Rent a Car S.A.(BB/Negative), and much stronger than Ouro Verde Locacao e Servico S.A. (B/Stable). Compared to Localiza, Simpar has a weaker financial profile with higher leverage and higher refinancing risks in the medium term. Compared to Ouro Verde, Simpar has higher leverage and similar liquidity position, but a much better business profile and access to credit markets.

Simpar's ratings compare well with other peers in the Brazilian transportation segment. Simpar and Rumo S.A. (BB/Negative) share similar business risks, considering their respective business traits, but Simpar's leverage is higher. Compared to Hidrovias do Brasil S.A. (BB/Negative), Simpar's business position is stronger but its leverage profile and refinancing risks in the medium term are weaker.

KEY ASSUMPTIONS

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

--Coronavirus-containment measures to persist during 2Q20 with a slow recovery in the 2H20;

--Company has limited ability to adjust cost structure in the short term;

--RaC and used car sales demand to drop, on average, 70% and 90%, respectively, in 2Q20;

--Fleet Rental segments to be less exposed to short-term volatility;

--Company has access to more expensive new funding, if needed.

RATING SENSITIVITIES

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

--An upgrade on the ratings is unlikely in the short to medium term, given the group's consolidated high leverage and fairly aggressive growth strategy.

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

--Equity sale of any operating company that reduces Simpar's unrestricted ability to access their cash, without materially lowering leverage.

--Failure to preserve liquidity and inability to access adequate funding;

--Prolonged decline in demand coupled with company inability to adjust operations, leading to a higher than expected fall in operating cash flow;

--Increase in net adjusted leverage to more than 4.0x beyond 2021;

--Material deterioration on the group's fleet rental and logistics business.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: JSL group continues to keep an adequate liquidity position, on a consolidated basis, during the worst periods of the coronavirus pandemic. The company was able to balance the smaller than expected decrease in demand with cost cutting measures, asset sales and access to new funding, which preserved its cash position. According to Fitch's estimates, cash over short-term debt remained above 2.0x during all of 2Q20. JSL group adequate liquidity position, relative its short-term debt, is a key credit consideration in its ratings, with cash covering short-term debt by an average of 1.0x during the last four years.

Fitch projects Simpar's cash flow will be negative due to the coronavirus crisis and the company's growth strategy, and will be financed by debt in Fitch's base case rating scenario. As of March 30, 2020, Simpar had BRL4 billion of cash and BRL12 billion of total debt, BRL1.9 billion of which is due on the short-term debt (2.1x cash coverage ratio); these figures exclude the BRL2.4 billion credit-linked note. The company's debt profile is mainly comprised of local debentures, promissory notes and CRA issuances (51%) and international bond issuance (45%). About 11% of Simpar's debt is secured. Additionally, Simpar financial flexibility is supported by the group's ability to postpone growth capex to adjust to the economic cycle and the group's sizable amount of unencumbered assets with book value of its fleet over net debt equaling 1.2x.

SUMMARY OF FINANCIAL ADJUSTMENTS

--Growth capex was moved from the CFO to the CFI;

--OEM receivables related to vehicle acquisitions added to capex;

--Total debt was adjusted by net derivatives, floor plan and accounts payables referred to acquisitions;

--The CLN and NCE transactions were removed from cash and debt, respectively.

SOURCES OF INFORMATION

Simpar S.A.

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

Simpar S.A.: Governance Structure: 4

Simpar has a concentrated ownership and control structure along with a complex group structure that weakens both the company's corporate governance and is factored into the rating.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3 - 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.

RATING ACTIONS

ENTITY/DEBT	RATING		
Simpar S.A.	LT IDR	BB- Rating Outlook Stable	New Rating
	LC LT IDR	BB- Rating Outlook Stable	New Rating
	Natl LT	AA-(bra) Rating Outlook Stable	New Rating
• senior unsecured	LT	BB-	New Rating
• senior unsecured	Natl LT	AA-(bra)	New Rating

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage (pub. 27 Sep 2019)

Corporate Rating Criteria (pub. 01 May 2020) (including rating assumption sensitivity)

Metodologia de Ratings em Escala Nacional (pub. 08 Jun 2020)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.7.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Simpar S.A.	-

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