Simpar Europe's Proposed Senior Unsecured Sustainability-Linked Notes Rated 'BB-' (Recovery Rating: '4')

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SAO PAULO (S&P Global Ratings) Jan. 13, 2021--S&P Global Ratings assigned today its 'BB-' issue-level rating and recovery rating of '4' to Simpar Europe's proposed benchmark-size senior unsecured notes. The rating reflects the credit quality of the transportation and logistics services group, Simpar S.A. (Simpar; BB-/Stable/--), which unconditionally and irrevocably guarantees the notes.

The company will use proceeds of the new issuance to repurchase its outstanding 2024 bond, which was issued by the former JSL Europe. Therefore, we don't expect Simpar's debt to increase following this transaction. For the latest credit rationale on Simpar, please see "Outlook On Four Brazilian Car Rental And Transportation Companies Revised To Stable On Better-Than-Expected Performance," published on Oct. 13, 2020, and "Simpar Rated 'BB-' After Approval Of JSL's Group Reorganization, Outlook Negative," published on Aug. 6, 2020.

The terms of the notes specify that Simpar must meet its Sustainability Performance Target of reducing Greenhouse Gas Emissions Intensity to 124.04 tCO_2e/million R$ net revenues or less by the end of 2025 (a reduction of 7.8% from the 2019 level). If the company fails to reach this target, the interest rate payable on the notes will increase by 25 basis points from January 2026 until the notes' maturity. We believe that Simpar's initiative to link its cost of debt to an environmental target shows its commitment to improving sustainable practices and incorporate forward-looking environmental, social, and governance (ESG) factors into its businesses.

ISSUE RATINGS – RECOVERY ANALYSIS

Key analytical factors:

- The 'BB-' rating on Simpar Europe's proposed senior unsecured notes is at the same level as the issuer credit rating on Simpar. The '4' recovery rating indicates our expectation for average recovery (30%-50%; rounded estimate 35%) in the event of default.
- Our simulated default scenario contemplates a payment default in 2025. This scenario encompasses a combination of high delinquency rates on Vamos' and JSL's portfolio of contracts, lower utilization rates of Movida's RAC business, and a severe weakening of the Brazilian used car and truck market, resulting in lower cash generation. This would limit the group's ability to meet interest and principal payments.
- We also account for limited access to refinancing amid a long period of tight credit conditions.
- We assume that the debt at the subsidiaries, JSL, Vamos, Movida, and other subsidiaries have

priority over Simpar's unsecured debt in a hypothetical default scenario, because these subsidiaries are not guarantors of the debt at the holding level.

- We expect that in the event of a default, Simpar would reorganize rather than liquidate, given its large scale as the main transportation group in Brazil, generating higher value to creditors.

Valuation assumption:

- We value the group considering a combination of EBITDA multiple and discrete asset valuation (DAV) approach. The sum of the valuation of its operating lease businesses (Movida and Vamos) with its logistics and other businesses results in the overall group's gross recovery value.
- We value Simpar's operating lease business segment by the DAV approach, applying an overall haircut of 40% to those subsidiaries' asset base, arriving at a stressed gross valuation of about R$8.5 billion.
- We value its logistics and other businesses using a 5.5x multiple applied to our projected emergence-level EBITDA. The projected emergence-level EBITDA is of R$590 million, resulting in an estimated gross recovery value of about R$3.3 billion.
- As a result, the total gross recovery value for Simpar is of R$11.7 billion.

Simulated default assumptions:

- Simulated year of default: 2025
- Jurisdiction: Brazil

Simplified waterfall:

- Net enterprise value after 5% administrative costs: R$11.1 billion
- Debt position and minority interest at subsidiaries: R$9.6 billion
- Amount available to Simpar's senior unsecured creditors: R$1.6 billion
- Senior unsecured debt at Simpar: R$4.3 billion (including the new bond)
- Recovery expectations: 30%-50% (rounded estimate: 35%)

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

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Principles of Credit Ratings

Ratings List

New Rating	
Simpar Europe	
Senior Unsecured	BB-
Recovery Rating	4(35%)