FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Simpar's IDRs; Outlook Stable

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Fitch Ratings - Rio de Janeiro - 01 Sep 2023: Fitch Ratings has affirmed Simpar S.A.'s (Simpar) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB' and its Long-Term National Scale Rating at 'AAA(bra)'. At the same time, Fitch has affirmed the senior unsecured bond issuances of Simpar and its financial vehicles at 'BB'. The Rating Outlook for the corporate ratings is Stable.

Simpar's 'BB' IDRs reflect its large scale, robust business profile and strong competitive position within the Brazilian rental and logistics industry. Simpar group benefits from a diversified service portfolio and long-term contracts for a significant part of its revenues, with solid and resilient operating performance. The ratings also incorporate the group's ample financial flexibility and the expectation that EBITDA expansion and lower capex levels will lead to a gradual and consistent leverage reduction. Fitch believes there is limited room for missing expected cash generation, higher than expected capex and more meaningful acquisitions without pressuring the ratings.

KEY RATING DRIVERS

Strong Business Profile: Simpar's large scale and leading position in the Brazilian rental and logistics industry allow for competitive advantage on

assets purchase and operating costs relative to peers. The group's credit profile also benefits from its diversified service portfolio and presence in multiple sectors of the economy. Simpar' strategic and operational nature of the service it provides, its competitive cost structure and a revenue stream based on long-term contracts for most of its rental and logistic businesses minimize its exposure to more volatile economic cycles in Brazil.

Movida (35% of net revenue and 44% of EBITDA, the second largest player) focuses on light vehicles and fleet rental; JSL (23% of net revenue and 20% of EBITDA, the market leader) concentrates on supply chain management and transportation; and Vamos (20% of net revenue and 30% of EBITDA, the market leader) focuses on heavy vehicles and equipment rentals.

Solid and Growing EBITDA: Rating case scenario presents consistent and gradually improving consolidated EBITDA based on recent acquisitions, organic growth and resilient margins. Balanced demand and supply dynamics should continue to allow adequate rental and service rates, resulting in a return on invested capital (ROIC) spread in line with historic levels. Simpar should reach consolidated net revenue of BRL33 billion (+37% over 2022) and EBITDA of BRL8.5 billion (25% margin and +26% over 2022) in 2023 and BRL38 billion and BRL10 billion (26% margin) in 2024, from BRL29 billion and BRL7.5 billion (26% margin), respectively, in the LTM ended on June 2023.

Negative FCF: The capital-intensive nature of the rental industry (75% of Simpar's EBITDA), which demands sizable and regular investments to grow and renew the fleet, pressures the group's cash flow. FCF should remain negative, on average, at BRL5.6 billion from 2023 to 2025, after annual average growth capex of BRL5.7 billion, down from BRL12 billion in 2022. In 2022, the group has seen some opportunities in anticipating asset purchases on Vamos and Movida. Cash flow from operations (CFFO) should reach negative BRL643 million in 2023 and positives BRL43 million in 2024 and BRL1.7 billion in 2025, benefitting from stronger EBITDA and decreasing interest expenses and working capital needs.

Leverage to be Reduced: Fitch expects Simpar to reduce its net adjusted leverage to moderate levels close to 4.0x, which is more consistent with the current ratings. In 2022, continued high interest rates in Brazil and more robust capex than initially anticipated to prepare the group for growth and competition pressured its ability to deleverage. Consolidated net adjusted leverage was 4.8x in 2022 and 5.0x in the last twelve months (LTM) ended on

June 2023, comparing with an average of 4.1x from 2019 to 2021. Positively, total adjusted debt/EBITDA has come down after it peaked at 7.6x in 2021 to 6.0x in the LTM ended on June 2023, mainly as a result of EBITDA expansion.

DERIVATION SUMMARY

Simpar's business profile is above that of Localiza Rent a Car S.A. (Localiza; FC and LC IDR BB+/Stable), and much stronger than that of Unidas Locacoes e Servicos S/A (Unidas; FC and LC IDRs BB-/Stable). Compared with Localiza, Simpar has similar scale, a much more diversified service portfolio but a weaker financial profile, with higher leverage and more pressured FCF. Compared with Unidas, Simpar has a much stronger business profile, higher liquidity, better access to credit market and similar leverage.

Compared with CEMEX, S.A.B. de CV. (LC and FC IDRs BB+/Positive), Simpar 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 history of positive cash flow generation and slightly lower leverage on the rating horizon.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within the Rating Case for Simpar:

--Average consolidated annual revenue growth at 21% from 2023 to 2025;

--Consolidated EBITDA margin at 26%, on average, from 2023 to 2025;

--Consolidated growth capex at around BRL5.6 billion, on average, from 2023 to 2025;

--Cash balance remains strong compared with short-term debt;

--Dividends at 25% net income.

RATING SENSITIVITIES

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

--Consolidated net adjusted debt/EBITDA below 3.5x on a sustainable basis;

--Strengthening of the company's scale and profitability, without further deterioration of its' capital structure.

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

--Limits to Simpar's unrestricted ability to access the operating companies' cash;

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

--Prolonged decline in demand coupled with company inability to adjust operations;

--Consolidated net adjusted leverage above 4.5x on a sustainable basis;

--Material deterioration of the group's fleet rental and logistics businesses.

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

Strong Liquidity: Simpar's robust consolidated liquidity position is a key credit consideration, with cash covering short-term debt by an average of 3.2x during the last four years. The group's expected negative FCF, a result of its growth strategy, will be financed by debt in the rating scenario as the group benefits from ample access to different sources of funding. Simpar had BRL7.9 billion of cash and equivalents and BRL45.3 billion of total adjusted consolidated debt (approximately 2% secured), with final maturity at 2037. Around BRL5.3 billion is due in the short term (1.5x cash coverage ratio), an additional BRL2.1 billion at the second half of 2024 and BRL6.4 billion in 2025 as of June 2023.

At the holding level, Simpar had BRL3.2 billion of cash and equivalents (considering the BRL434 million of Vamos follow-on) and BRL8.1 billion of total adjusted debt, BRL700 million due in the short term, an additional BRL2.7 billion maturing up to 2030 and BRL4.7 billion in 2031. Simpar's board control and relevant ownership stakes in its operating companies mitigate the structural subordination of its debt, with no upstream dividends or intercompany loans restrictions that a majority board vote cannot overcome.

The group's consolidated debt profile is mainly comprised of local debentures (45%), bank loans (34%) and fully hedged U.S. denominated bonds (11%). Simpar'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 1.2x.

ISSUER PROFILE

Simpar is a non-operational holding company that controls and manages seven independent companies that provide mainly rental, logistics and mobility services, focused on long-term contracts. The company is listed on the Brazilian stock exchange and its main shareholder is JSP Holding S.A. (57.4%), the Simoes family holding company.

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
Simpar S.A.	LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	LC LT IDR	BB Rating Outlook Stable	Affirmed	BB Rating Outlook Stable
	Natl LT	AAA(bra) Rating Outlook Stable	Affirmed	AAA(bra) Rati Outlook Stable
senior unsecured	LT	BB	Affirmed	BB
senior unsecured	Natl LT	AAA(bra)	Affirmed	AAA(bra)

Simpar Europe				
senior unsecured	LT	BB	Affirmed	BB
Simpar Finance S.a.r.l.				
senior unsecured	LT	BB	Affirmed	BB

VIEW ADDITIONAL RATING DETAILS

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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)

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

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Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Simpar Europe	EU Endorsed, UK Endorsed
Simpar Finance S.a.r.l.	EU Endorsed, UK Endorsed
Simpar S.A.	EU Endorsed, UK Endorsed

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