S&P Global Ratings

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Research Update:

Outlook On Four Brazilian Car Rental And Transportation Companies Revised To Stable On Better-Than-Expected Performance

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Rating Action Overview

- With a faster-than-expected recovery of mobility activity in Brazil, domestic rent-a-car (RaC) companies' utilization rates have rebounded during the third quarter to the historical level of 75%-80% and average tariffs have recovered, compared with our previous forecast of a gradual recovery to pre-COVID levels in the fourth quarter of 2020.
- Despite the economic fallout due to the pandemic, companies managed to maintain resilient fleet management performance and increase the used-car sales in the past few months, adjusting their RaC fleet size, which we expect will contribute to cash flow stability for the year.
- Despite risks of new partial lockdowns and stalled economic recovery, we understand that companies' proven ability to adjust fleet size provides cash flow--and consequently--liquidity protection.
- On Oct. 13, 2020, S&P Global Ratings revised the outlook on Simpar S.A., Movida Participações S.A., Companhia de Locacao das Americas (Unidas), and Vix Logistica S.A. to stable from negative. We also affirmed all ratings on the companies.
- The stable outlook reflects our expectation that the faster-than-expected improvement in the demand for car rentals and transportation services in the second half of 2020, combined with cash flow stability from corporate leasing contracts, will compensate for the sharp drop in the second-quarter cash flows stemming from lockdowns. We now expect companies to maintain credit metrics in line with current ratings in 2020 and 2021 as economic conditions improve and risks of movement restrictions diminish.

Rating Action Rationale

Ability to adjust fleet size and faster-than-expected recovery in mobility in Brazil contributing to a rebound in RaC activity. Data shows a sharp recovery in movement since the imposition of harsh restriction measures in Brazil in April. Over the past few months, despite the weak economic conditions, Brazilian RaC players have adjusted their fleet size thanks to a 15% rise in used-cars sales for the first nine months of 2020, along with their operating structures. As a result of these factors, utilization rates have returned to the historic 75%-80% level from 55%-60% during April. With the gradual return of individual and ride-hailing customers, we have observed average rates also returning to pre-pandemic levels. These factors, in addition to stable cash flows from corporate leasing contracts given the long-term nature and high economic costs for termination, have enabled a faster recovery in the companies' operating performance in the third quarter. This has led us to revise our EBITDA forecast from a previous expectation of a 10%-20% decline to a flat to mid#single digit growth for the year. For 2021, given the likely rebound in investments for fleet growth amid improving economic conditions, we expect a further increase in EBITDA in the 10%-20% range.

The use of used-car sale proceeds to service debt mitigate potential risks of new lockdowns and stalled economic recovery. Throughout the pandemic, we have observed companies using cash inflows from vehicle sales, combined with significant reductions in investments, to preserve their liquidity and maintain a higher than usual cash position. In our view, companies could replicate such a strategy if economic recovery slows or the risk from the coronavirus rises.

Companies will emerge from the pandemic with higher debt levels, although we expect credit metrics to remain in line with current rating levels. Our base-case scenario assumes the resumption of debt-funded fleet-growth investments as market conditions for RaC services in Brazil continue to improve over the next quarters. Such expectation, combined with the increase in debt levels in the second quarter, as companies financed previous auto purchases, will result in an overall leverage level for the sector slightly above that in 2019. Nevertheless, we note that the companies entered the pandemic with significant rating headroom after having completed equity follow-ons throughout 2019. This, combined with our expectation of improving operating performance, will likely keep debt at manageable levels, and consequently, keep ratings stable. In addition, we expect a smooth debt amortization profile with the overall average debt maturity at about three years.

The rating actions on each rated company in the sector are detailed below.

Simpar S.A.

We're revising the outlook on global and national scale ratings on Simpar to stable from negative. At the same time, we're affirming our 'BB-' and 'brAA+' ratings. The outlook revision reflects the better-than-expected recovery at its RaC and fleet management subsidiary, Movida, and the proven cash flow resilience of its logistics services and truck leasing subsidiaries, JSL S.A. and Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A. Although we currently don't expect lockdowns in coming months, Movida could adjust its RaC fleet size if necessary, while it maintains profitable contracts at its fleet management division. Also, we expect JSL and Vamos to maintain their growth strategy. We now expect EBITDA growth of 5%-10% for the year, compared with our previous forecast of a 10% decline.

In light of the less adverse operating conditions and the recent corporate reorganization, we expect Simpar's main subsidiaries to continue pursuing growth strategies. We expect JSL to expand its portfolio by acquiring small companies operating in Brazil's fragmented logistics/transportation market, posting net debt to EBITDA of 3.5-4.0x in 2020 and 2021. We forecast Vamos to post strong operating results with about R$1 billion of capex and EBIT interest coverage of 2.8x-3.0x in 2020 and 2021. We expect the utilization rates at Movida's RaC operations to rise over the coming quarters and its fleet grow 10%-15% in 2021, which should lead to EBIT interest coverage to rise to 2.0x-2.3x in 2021 from 1.8x in 2020. On a consolidated basis, we expect this metric to be 1.6x–2.0x and FFO to debt above 12% in 2020 and 2021.

Outlook

The stable outlook reflects the resiliency of the group's most significant cash contributors, as seen in the past few months. We believe that the impact of lockdowns will be moderate on Simpar's results. Simpar has a strong contracted position in its logistics business, Movida's RAC utilization rate has returned to pre-pandemic levels, fleet management contracts didn't experience breaches, and growth prospects for Vamos remain favorable. In addition, Simpar has some liquidity cushion due to its ability to reduce capex if needed, which provides some flexibility to deal with potential market volatility. We expect Simpar's EBIT interest coverage at 1.6x-2.0x and FFO to debt above 12% in 2020 and 2021.

Downside scenario

We could downgrade Simpar if further the market conditions weaken and cash generation shrinks making FFO to debt fall below 12% or if the group expands more aggressively increasing debt so that EBIT interest coverage goes below 1.1x. We can also lower the ratings if liquidity tightens to so that cash sources don't match cash uses for the next 12 months.

Upside scenario

A positive rating action is unlikely in the near term, because the ratings on Simpar remain capped at the sovereign rating level. Therefore, a positive rating action would depend on a similar action on the sovereign rating and improvement in Simpar's stand-alone credit profile (SACP). Higher SACP and national scale rating are possible if Simpar posts stronger- than-expected cash flows either due to improved market conditions or more conservative growth pace, resulting in EBIT interest coverage close to 3.0x and FFO to debt consistently above 20%.

Movida Participações

We affirmed our 'brAA' national scale ratings on Movida and revised the outlook to stable. The outlook revision reflects our expectation that the company's EBITDA will rise 5%-10% in 2020, which should mitigate the effect of its fleet's depreciation rate and higher debt. Our forecast considers that given Movida's rapid fleet adjustment amid the pandemic in the second quarter of 2020, the company should maintain RaC utilization rates of 75%-80% and average rates of R$70-R$75 for the year. We consider an expansion of the company's operational and rented RaC rented fleet in the second half of the year, which should align it with the 2019 level, will compensate for the weaker results in the second quarter. We expect the rented fleet at the company's fleet management division to expand about 10% over 2019 and stable monthly ticket fees. We now expect a 5%-10% increase in used-cars sales for the year.

As a result, we expect the company to maintain EBIT interest coverage at about 1.8x and FFO to debt 14% in 2020, and at 2.0x-2.3x and 15%-20% in 2021, as economic conditions improve. These ratios are similar to those in our previous forecast, although we now incorporate higher debt stemming from fleet-expansion investments over the next few quarters, which mitigate the impact of the better-than-expected operating performance. We expect the company to maintain a prudent financial policy and to access the domestic credit market to maintain an adequate liquidity position while resuming fleet investments.

Outlook

The stable outlook on Movida reflects resilient fleet management performance and its ability to adapt to travel restrictions by selling used cars. We expect the company to maintain credit metrics in line with the current rating level, as measured by an EBIT interest coverage at about 1.8x and FFO to debt 14% in 2020, and improving to 2.0x-2.3x and 15%-20% in 2021.

Downside scenario

A negative rating action in the next 12 months would be the result of a faltering economic recovery or imposition of new travel restrictions over a long period, causing RaC, used-cars sales, and fleet management cash flows to fall. In such a scenario, we expect EBIT interest coverage of less than 1.7x and FFO to debt below 12%.

Upside scenario

A positive rating action in the next 12 months would be the result of improved operating performance and cash flows due to higher demand for its RaC and fleet management services, while the company maintains used-car sales and solid credit metrics. In such a scenario, we expect EBIT interest coverage above 2.4x and FFO to debt close to 20%. We also expect Movida to keep an adequate liquidity position, with sources over uses of cash consistently above 1.2x. We could also upgrade Movida if we raise the ratings on its parent company, Simpar.

Unidas

We affirmed our 'brAAA' national scale rating on Unidas and revised its outlook to stable. The outlook revision reflects our view that Unidas' ability to protect cash flows and respond to adverse market conditions through the inflows from used-car sales will mitigate the effect of lockdowns on its RaC operations. We expect Unidas to reduce its RaC fleet size to close to 62,000 by the end of the year from around 77,000 in December 2019, which should allow the company to maintain an average utilization rate of around 75% and average tariffs in the R$65 - R$70 range. We expect rented fleet at the company's fleet management division to expand 5%-10% through new contracts signed in the past few months, mainly clients from the agribusiness and specialty-vehicle sectors. This should improve average tariffs about 2%, mitigating weaker RaC results. We expect the company's used-car sales to rise about 25% in 2020. Therefore, we expect Unidas' total fleet of around 156,000 cars in 2020, down from 162,842 in 2019. In our view, the company will resume its fleet-expansion strategy according to the market demand.

As a result, we now forecast the 2020 EBITDA to be in line with that of 2019. Given the impact of the deeper vehicle depreciation rates, given the company's revisions of such rates throughout the pandemic, and higher debt because of fleet investments, we expect EBIT interest coverage at about 2.3x and FFO to debt 20% for 2020, improving to 2.5x-3.0x and 20%-25% in 2021. These ratios are similar to previous expectations, although they're now based on a stronger operating performance for 2020.

We expect Unidas to have access to credit markets for its fleet expansion and refinancing of its short-term maturities. Nevertheless, we note that the company has sufficient used cars sales flexibility to preserve its liquidity if market conditions worsen again.

Outlook

The stable outlook reflects our expectation that Unidas' ability to adapt to changes in the RaC demand through used-cars sales, while capturing higher rents for its fleet management services, will allow the company maintain comfortable credit metrics and cash flows in 2020 and 2021.

Downside scenario

A negative rating action in the next 12 months could be the result of worsening operating performance as a result of prolonged economic contraction or new lockdowns. In this scenario, we expect EBIT interest coverage of less than 1.7x and FFO to debt below 12%.

Vix Logística

We affirmed our 'brA+' national scale rating on Vix and revised the outlook to stable. The outlook revision reflects our expectations of gross debt to EBITDA in the 4x area in 2020 and 2021, compared with our previous expectation of close to 5x for this year. This is mainly due to the sharper-than-expected improvement in the company's fleet management results throughout the year (through contracts signed in late 2019 and early 2020) and in chartering services (as the pandemic increased demand due to health procedures), as well as cost-cutting measures in its logistics division, which raised its margins. As a result, we now expect Vix's EBITDA at R$385 million - R$400 million, 10%-15% above the 2019 level. We expect the company's investments in fleet renewal and expansion, as well as in other divisions to rise in 2021. This should increase EBITDA, as cargo transport volumes and rented fleet grow amid the strengthening economic conditions but rise debt, resulting in stable credit metrics. We expect Vix to maintain a prudent financial policy, maintaining an adequate cushion in its liquidity while increasing investments.

The outlook revision also reflects our expectation of leverage to be in the 5x area in 2020 for Vix's parent company, Águia Branca Participações (GAB; not rated), compared with our previous expectation of close to 6.0x. This is because we now expect Vix's performance to mitigate the weak results at GAB's bus transportations and auto and truck dealer divisions. We're maintaining our estimate of a 50% revenue contraction in GAB's bus transportation division because of the current reluctance to use mass transportation. However, the group's truck sales have been robust, and prompting to revise our previous forecast of a 30% shortfall to 20% in 2020. For 2021, we expect the group's leverage to drop to about 4x, with a gradual recovery of both divisions as economic conditions improve and coronavirus risks decline.

Outlook

The stable outlook reflects our expectation of Vix's gross leverage metric in the 4x range in 2020 and 2021 as a result of a resilient operating performance amid the pandemic, with the resumption of investments next year as economic conditions improve. We also expect the group's gross leverage to remain at 5.0x in 2020, improving to 4.0x in 2021.

Downside scenario

We could lower the ratings on Vix in the next 12 months if we observe a disruption in fleet management and its logistics services demand, hampering the company's cash flows and liquidity position. A drop in demand for the group's bus transportation services and weaker results at its auto and truck sales division could also result in a downgrade. In such a scenario, we expect gross debt to EBITDA above 5x for both Vix and the group in 2021 and a weaker liquidity for the group, with a deficit in sources over uses of cash.

Upside scenario

We could raise our rating on Vix in the next 12 months if we were to expect debt to EBITDA below 5x for the group consistently. We believe this would likely be the result of a steady recovery in bus passenger traffic and auto and truck sales, despite the lasting effects of the recession, and passengers' willingness to use mass transit despite the coronavirus risks. A positive rating action on the company would also depend on the maintenance of its credit metrics around or below 4x, along with a disciplined financial policy and healthy demand for the company's services, allowing for an active investment pipeline.

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
- Criteria | Corporates | Industrials: Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

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Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Simpar S.A.		
Issuer Credit Rating	BB-/Stable/--	BB-/Negative/--
Brazil National Scale	brAA+/Stable/--	brAA+/Negative/--
Simpar S.A.		
Senior Unsecured	brAA+	
Recovery Rating	4(35%)	
JSL Europe		
Senior Unsecured	BB-	
Recovery Rating	4(35%)	
Movida Participações S.A.		
Issuer Credit Rating		
Brazil National Scale	brAA/Stable/--	brAA/Negative/--
Movida Participações S.A.		
Senior Unsecured	brAA	
Recovery Rating	3(65%)	
*** * * * * * * * * * * * * * Companhia de Locacao das Americas * * * * * * * * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
Companhia de Locacao das Americas		
Issuer Credit Rating		
Brazil National Scale	brAAA/Stable/--	brAAA/Negative/--
Companhia de Locacao das Americas		
Senior Unsecured	brAAA	
Recovery Rating	3(65%)	
Unidas S/A		
Issuer Credit Rating		
Brazil National Scale	brAAA/Stable/--	brAAA/Negative/--
Unidas S/A		
Senior Unsecured	brAAA	
Recovery Rating	3(65%)	
*** * * * * * * * * * * * * * Vix Logistica S.A. * * * * * * * * * * * * * ***		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Vix Logistica S.A.		
Issuer Credit Rating		

Brazil National Scale	brA+/Stable/--	brA+/Negative/--
Vix Logistica S.A.		
Senior Unsecured	brA+	
Recovery Rating	3(60%)	

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.