FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Movida's IDRs; Outlook Negative

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Fitch Ratings - Rio de Janeiro - 28 Aug 2024: Fitch Ratings has affirmed Movida Participações S.A.'s (Movida) Long-Term Foreign Currency (FC) and Local Currency (LC) Issuer Default Ratings (IDRs) at 'BB' and downgraded Movida Locacao de Veículos S.A. (Movida Locacao) and Movida Long-Term National Scale Ratings to 'AA+(bra)' from 'AAA(bra)'. Fitch has also affirmed the senior unsecured bond issuance of Movida Europe S.A. at 'BB'. The Rating Outlook has been revised to Negative from Stable.

Fitch equalizes the ratings of Movida and Simpar S.A. (Simpar; FC and LC IDR BB/Stable), reflecting the medium legal and strong operational and strategic incentives that the holding has to support Movida, if needed. Movida and Movida Locacao's ratings are also equalized due to Movida's strong incentives to support its subsidiary.

The Negative Outlook reflects that Simpar's consolidated financial leverage has been consistently above Fitch's expectations and not consistent with the current ratings. The higher for longer leverage, a result of greater capex and lower return on invested capital, has also hurt the company´s ability to convert EBITDA to cash flow.

The National Scale Rating downgrade reflects Simpar's credit profile deterioration within the 'BB' rating category. Simpar's 'BB' IDRs reflect its large scale, robust business profile and strong competitive position within the Brazilian rental and logistics industry. Simpar group continue to benefit from a diversified service portfolio and long-term contracts for a significant part of its revenues, resulting in higher cash flow predictability.

On a standalone basis, Movida has a solid position in the competitive Brazilian car and fleet rental business, with relevant scale and positive operating performance. Movida's consolidated financial leverage should remain moderate, despite of expected negative

FCFs. The company has consistent access to funding and significant liquidity, allowing it to properly manage its debt amortization schedule.

KEY RATING DRIVERS

Parent and Subsidiary Linkage: Movida's ratings reflect Simpar's medium legal and strong operational and strategic incentives to support its subsidiary, which equalize the ratings of both companies. In addition to the cross-default clauses on Simpar's debt and the relevant shareholding control, Movida has strong growth potential and important commercial synergies, which contributes to the group's greater bargaining power with customers, suppliers and in vehicle purchases. Simpar's controlling shareholders and its managers form the majority of Movida's board of directors.

Solid Business Position: As the second largest player in the car and fleet rental industry in Brazil, Movida has a strong business position, supported by its relevant scale, positive operating performance, a national footprint and an adequate used car sale operation. As of June 2024, Movida's total fleet of 247 thousand vehicles, consisting of 109 thousand in rent-a-car (RaC) and 138 thousand in fleet management (GTF), secured meaningful market shares both in RaC and GTF. As a result, the company has proven bargaining power with automobile manufacturers and is able to capture economies of scale. At YE 2024 and 2025, Fitch forecasts Movida's own total fleet at around 256 thousand and 267 thousand vehicles, respectively.

Resilient Operating Performance: Movida's rental EBITDA should grow gradually based on organic growth and resilient margins, as the company scale increases. Balanced demand and supply dynamics, declining interest rates and adequate rental rates, should enable a gradual return on invested capital (ROIC) spread recovery, closer to historic levels. The rating scenario considers Movida's net rental revenues around BRL6.2 billion in 2024 and BRL6.7 billion in 2025, comparing with BRL5.1 billion in 2023. Rental EBITDA margin should be adequate at 61%-63%.

Pressured FCFs: The rating scenario considers that Movida's cash flow from operations (CFFO) should evolve along with rental EBITDA and benefit from the expected interest rates decline in Brazil. Fitch forecasts EBITDA of BRL3.8 billion and CFFO reaching BRL1.6 billion in 2024, with BRL4.2 and BRL2.0 billion, respectively, in 2025. Movida operates in a capital-intensive industry, with FCF expected to remain negative, around BRL7.4 billion, after average annual capex of BRL9 billion in 2024 and 2025, and dividend payout ratio of 30%. Movida's used car sale proceeds, forecasted at BRL6 billion, on average, over the two-year period, will fund part of its expected capex.

Deleverage May Take Longer: Net leverage (IFRS-16 adjusted), measured by adjusted net debt/rental EBITDA, should remain around 4.0x, on average, over the rating horizon, compared to an average of 4.2x in the last four years. The expected negative FCFs and weak used car sale prices pose a challenge for Movida's intended financial deleverage. Movida recent liability management, which, at some point, reduced total adjusted debt to BRL16 billion (YE 2023) from BRL19.5 billion in 2022 is positive as the company may benefit from lower cost of capital.

DERIVATION SUMMARY

Simpar's business profile is superior to that of Localiza Rent a Car S.A. (Localiza; FC and LC IDRs BB+ and National Long-Term Rating AAA(bra), all with a Stable Outlook). Simpar has a scale similar to that of Localiza, a more diversified service portfolio, but a weaker financial profile - with higher leverage and more pressured FCF, which pressure the rating.

Compared with Unidas Locações e Serviços S.A. (Unidas; Foreign and Local Currency IDRs BB- and National Long-Term Rating AA(bra), all with a Stable Outlook), Simpar has a much stronger business profile, greater liquidity, and better access to the credit market. These advantages are partially offset by slightly higher leverage compared to Unidas.

KEY ASSUMPTIONS

--Total fleet increasing 5% in 2024 and 3% on average on the next three years;

--Average ticket for RaC increasing 4% in 2024 and 2.5% on average on the next three years;

--Average ticket for GTF increasing 9% in 2024 and 3% on average on the next three years;

--Capex of BRL9 billion in 2024, BRL8.8 billion in 2025 and BRL8.6 billion in 2026;

--Dividend payout around 30% throughout the rating horizon.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--An upgrade on Simpar's ratings.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--A downgrade of Simpar's ratings;

--Deterioration of Simpar's legal, strategic and operational incentives to provide support.

LIQUIDITY AND DEBT STRUCTURE

Robust Liquidity: Movida presents a robust liquidity profile and proven access to capital markets. The issuer's cash to short-term debt ratio has been strong, higher than 2.0x on average during the last four years. As of June 2024, Movida had BRL3.7 billion of cash and equivalents and BRL19 billion of total adjusted debt (95%+ unsecured), with BRL2.8 billion due in the short term, BRL803 million on the second half of 2025, BRL2.8 billion in 2026 and BRL3.6 billion in 2027.

Movida's debt profile is mainly comprised of local debentures (55%), bank loans (25%) and the fully hedged U.S. dollar denominated bonds due 2031 (20%). The company's ability to postpone growth capex to adjust to the economic cycle and the considerable number of the group's unencumbered assets, with a book value of fleet over net debt at around 1.3x, add to its financial flexibility

ISSUER PROFILE

Movida is the second largest vehicle and fleet rental company in Brazil, both in terms of fleet size and revenue, and also operates in the sale of used vehicles. The company is publicly traded, with shares traded on B3 S.A. -- Brasil, Bolsa, Balcão and a free float of 34.24%, with Simpar (65,02%) being the main shareholder.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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
Movida Europe S.A.				
senior unsecured	LT	BB	Affirmed	BB
Movida Locacao de Veiculos S.A.	Natl LT	AA+(bra) Rating Outlook Negative	Downgrade	AAA(bra) Rating Outlook Stable
senior unsecured	Natl LT	AA+(bra)	Downgrade	AAA(bra)
senior secured	Natl LT	AA+(bra)	Downgrade	AAA(bra)
Movida Participacoes S.A.	LT IDR	BB Rating Outlook Negative	Affirmed	BB Rating Outlook Stable

	LC LT IDR BB Rating Outlook Negative Affirmed		BB Rating Outlook Stable
	Natl LT AA+(bra) Rating Outlook Negative Downgrade		AAA(bra) Rating Outlook Stable
senior unsecured	Natl LT	AA+(bra) Downgrade	AAA(bra)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Metodologia de Ratings em Escala Nacional (pub. 22 Dec 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Movida Europe S.A.	EU Endorsed, UK Endorsed
Movida Participacoes S.A.	EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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