



RATING ACTION COMMENTARY

Fitch Revises Cielo's Outlook to Stable; Affirms IDRs

Wed 20 Jul, 2022 - 16:38 ET

Fitch Ratings - São Paulo - 20 Jul 2022: Fitch Ratings has affirmed Cielo S.A.'s Long-term Foreign and Local Currency Issuer Default Ratings (IDRs) at 'BB' and revised the Rating Outlook to Stable from Negative.

The Outlook revision for Cielo mirrors the revision of the Outlooks for Bradesco's and Banco do Brasil's IDRs as well as the Brazilian leading banks, which are Cielo's counterparty risks. The rating actions on these Brazilian Financial Institutions, in turn, followed Fitch's affirmation of Brazil's sovereign ratings at 'BB-' and its Outlook revision to Stable from Negative on July 14, 2022.

KEY RATING DRIVERS

Outlook Stabilized: The Brazilian sovereign's Outlook revision reflects the better-than-expected evolution of public finances amid successive shocks in recent years since Fitch assigned the Negative Outlook in May 2020. In 2021 Brazil recorded its first primary fiscal surplus since 2013, highlighting revenue outperformance and the government's commitment to withdraw stimulus implemented during the pandemic.

Growth Resilience in 2022: Economic activity has been more resilient than Fitch previously expected. Fitch projects 1.4% growth in 2022, up from 0.5% previously, reflecting better-than-expected 1Q22 output, post-pandemic re-opening of lagging sectors, a solid job recovery, augmented social transfers and higher commodity prices. Fitch expects that the lagged impact of the significant monetary policy tightening and domestic election-related and global uncertainties should constrain growth going

forward and into 2023, despite the resilience thus far. Downside risks persist to our 1% growth projection for 2023.

Low Risk of Credit Loss: Cielo has no direct credit exposure to cardholders, as the card-issuing bank guarantees cardholders' payments, while the company's exposure to merchants is limited. The company is, however, partially exposed to card-issuing bank defaults on a payment settlement for Visa and MasterCard transactions.

The risk associated with Visa and MasterCard transactions is mitigated because more than 95% of the volume of transactions is concentrated in the five largest Brazilian banks, Banco do Brasil (BB-/Stable), Banco Bradesco (BB-/Stable), Itau (BB-/Stable), Caixa (BB-/Stable), and Santander Brasil (not rated). For some non-investment-grade banks, Cielo's risk management policy requires the card-issuing bank to pledge collateral.

RATING SENSITIVITIES

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

--A positive rating action on Brazil's sovereign ratings that leads to positive rating actions on Banco do Brasil, Bradesco, Caixa Economica Federal and Itaú.

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

--A negative rating action on Brazil's sovereign ratings that leads to negative rating actions on Banco do Brasil, Bradesco, Caixa Economica Federal and Itau;

--An increase in the volume of credit and debit transactions with banks rated 'BB-' and below without collateral being pledged by the card-issuing bank or not guaranteed by MasterCard;

--Weakening credit profile of the main banks that operate with Cielo;

--A significant loss due to fraud and chargebacks;

--Tougher competition leading to a significant loss of market share and profitability;

--Significant changes in regulatory risk.

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>.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
Cielo S.A.	LT IDR BB Rating Outlook Stable Affirmed	BB Rating Outlook Negative

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Flavio Fujihira

Director

Primary Rating Analyst

+55 11 4504 2603

flavio.fujihira@fitchratings.com

Fitch Ratings Brasil Ltda.

Alameda Santos, nº 700 – 7º andar Edifício Trianon Corporate - Cerqueira César São

Paulo, SP SP Cep 01.418-100

Natalia Brandao

Associate Director

Secondary Rating Analyst

+55 21 4503 2631

natalia.brandao@fitchratings.com

Ricardo De Carvalho

Managing Director

Committee Chairperson

+55 21 4503 2627

ricardo.carvalho@fitchratings.com

MEDIA CONTACTS**Elizabeth Fogerty**

New York

+1 212 908 0526

elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Metodologia de Ratings em Escala Nacional \(pub. 22 Dec 2020\)](#)[Corporate Rating Criteria \(pub. 15 Oct 2021\) \(including rating assumption sensitivity\)](#)[Metodologia de Ratings Corporativos \(pub. 15 Oct 2021\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any

third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of

electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

[READ LESS](#)

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be.

Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Technology, Media, and Telecom Corporate Finance: Middle Markets Corporate Finance

Corporate Finance: Leveraged Finance Latin America Brazil
