

Research Update:

# Brazilian Infrastructure Group Invepar Upgraded To 'CCC+' From 'D' On Debt Restructuring Conclusion; Outlook Negative

November 1, 2023

## Rating Action Overview

- On Oct. 30, 2023, Invepar announced the conclusion of its debt restructuring, including the renegotiation of the debt of its subsidiary BR-040 S.A. (Via 040, not rated), which Invepar guarantees.
- Because Invepar has completed the debt restructuring that we assessed as distressed, we're now reevaluating the group's capital structure. The group extended the maturity of its debt at the holding level to August 2026 (from August 2024) and the debt of Via 040 to October 2027 (from October 2023), easing short-term liquidity pressures.
- Nevertheless, the group's business has shrunk following the past transfer of some assets and is now limited to the Guarulhos airport operations, which has its own financial commitments and may not distribute dividends until at least 2027. Invepar continues relying on the conclusion of Linha Amarela S.A.'s judicial dispute to completely amortize its debentures.
- Consequently, on Nov. 1, 2023, S&P Global Ratings raised its global scale rating on Invepar to 'CCC+' from 'D' and national scale rating to 'brBB-' from 'D'. At the same time, we raised our issue-level ratings on its third and fifth debentures to 'brB' from 'D' and the recovery rating remains '6'.
- The negative outlook reflects the chance that we could lower the ratings in the next 12 to 18 months if the dispute involving Lamsa continues into the end of 2024 and beginning of 2025 without resolution, and the holding company faces new liquidity pressures on its debentures.

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## Rating Action Rationale

**Short-term liquidity pressures have eased, but risks remain for the next few years.** Invepar has restructured its holding level debt--the third and fifth debentures (balance of R\$1.05 billion as of June 30, 2023)--and extended the maturity by 24 months to August 2026. The group also extended the maturity of Via 040's bank debt (about R\$1.0 billion) by 48 months to October 2027. In

exchange, Invepar agreed to amortize roughly R\$90 million of the latter debt with upfront cash, using a mix of its own available cash and Via 040's cash position.

In addition, while Invepar keeps operating Via 040, creditors will continue receiving quarterly interest payments tied to Interbank Deposit Rates (CDI) plus 1%, the same interest rate as before. Once and if a reauction of Via 040 concludes, Invepar will incorporate the debt of the subsidiary and will cease to pay interest, which will in turn accrue throughout 2027, until the debt matures. As a result, we think that the group's short-term liquidity pressures have receded.

**Invepar continues depending on favorable external conditions to pay down its debt.** Despite the liquidity relief, Invepar's ability to amortize its holding level debt in the medium term remains tied to the conclusion of its subsidiary Linha Amarela S.A.'s (Lamsa; not rated) judicial dispute (ongoing since September 2020). In addition, the amortization of Via 040's debt at this point depends on the ability of the Guarulhos (GRU) airport to upstream cash dividends by 2027, once the airport amortizes its BNDES debt.

In addition, according to the terms of the overall restructuring, 70% of any cash in excess of R\$100 million at Invepar's holding level will be used to amortize its debt. The minimum cash amount at Invepar's level will decrease to R\$90 million from September 2025 to February 2026, and to R\$80 million from March 2026 until the debentures mature in August 2026. In our view, this lowers the group's ability to manage any high-impact, low-probability event, such as a required capital injection in any of its subsidiaries. On the other hand, we expect the GRU Airport, Invepar's main asset, to continue operating on a stand-alone basis, supported by continued air traffic recovery.

## Outlook

The negative outlook on Invepar incorporates the risk of the dispute involving Lamsa continuing into 2025 without resolution. If this occurs, the holding company will face further liquidity pressures on its debentures.

## Downside scenario

We could lower the ratings on Invepar to 'CCC' in the next 12 to 18 months if the dispute involving Lamsa persists, leading to additional liquidity pressures on its debentures now due in August 2026. We could also downgrade the group if the holding company defaults on any of its obligations or if it files for bankruptcy, considering that Invepar's asset base is limited to the GRU airport, which is not upstreaming cash.

## Upside scenario

We could raise the rating if the group manages to fully amortize the debt at the holding level following a successful conclusion of Lamsa's judicial dispute, provided that we think the group will be able to address the maturity of Via 040's debt by October 2027.

## Company Description

Invepar has the concession to operate the GRU Airport, Brazil's largest airport located in the metropolitan area of São Paulo, which is the group's main asset. In addition, the group manages toll roads and urban mobility assets CLN and Lamsa (which is accounted as held for sale). It also

manages Via 040, the 936.8-kilometer toll road concession that connects 35 municipalities from Brasília, Brazil's capital, to the state of Minas Gerais. Via 040 is currently reported as a discontinued operation due to the ongoing auction for the concession.

The three major local pension funds--Previ, Funcef, and Petros--are in aggregate the majority shareholders and control 75% of Invepar's shares. An investment fund, Yosemite, holds the remaining shares.

## **Issue Ratings - Recovery Analysis**

### **Key analytical factors**

We kept our recovery ratings on Invepar's third and fifth debentures issuances unchanged at '6' as a result of the negligible recovery for the debt at the holding level. Despite the '6' recovery rating, considering we raised the national scale issuer credit rating to 'brBB-', we also raised the issue-level ratings on the debentures to 'brB'.

Our hypothetical default scenario would occur in 2026, assuming that Invepar would not be able to conclude the debt exchange by transferring Lamsa to the creditors of the debentures.

In our recovery analysis, given the uncertainties over Lamsa's judicial dispute in terms of timing and definition of the value of the tolls, we consider that this subsidiary wouldn't contribute excess value to the holding company. We assume that a distressed sale of CLN would contribute with limited recovery of the holding level debentures.

### **Simulated default assumptions**

- Simulated default year: 2026
- Emergence EBITDA: R\$410 million
- EBITDA multiple: 5x
- Gross enterprise value: R\$2.0 billion

### **Simplified waterfall**

- Net recovery value after administrative expenses (5%): R\$1.9 billion
- Unsecured debt claims under subsidiaries: R\$2.7 billion
- Recovery prospects at the holding level: 5%
- Recovery rating: 6

### **Related Criteria**

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC-', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Brazilian Infrastructure Group Invepar Downgraded To 'D' From 'CCC-' On Distressed Debt Exchange, Oct. 25, 2023

## Ratings List

### Upgraded; CreditWatch/Outlook Action

	To	From
<b>Investimentos e Participacoes em Infraestrutura S.A. - Invepar</b>		
Issuer Credit Rating	CCC+/Negative/--	D/--/--
Brazil National Scale	brBB-/Negative/--	D/--/--

### Ratings Upgraded

<b>Investimentos e Participacoes em Infraestrutura S.A. - Invepar</b>		
Senior Unsecured	brB	D
Recovery Rating	6(5%)	

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