



## RATING ACTION COMMENTARY

# Fitch Affirms Simpar, JSL and Vamos Ratings; Outlook Revised to Positive

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Fitch Ratings - Rio de Janeiro - 15 Apr 2021: Fitch Ratings has affirmed the Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) of Simpar S.A. and JSL S.A. at 'BB-' and the Long-Term National Scale Ratings of Simpar, JSL and Vamos Locacao de Caminhoes Maquinas e Equipamentos S.A. at 'AA-(bra)'. At the same time Fitch also affirmed Simpar Europe's and Simpar Finance S.a.r.l.'s senior unsecured debt ratings at 'BB-'. The Outlook was revised to Positive from Stable.

The Positive Outlook reflects expectations Simpar will continue to strength its operational cash generation and manage its consolidated leverage at more moderate levels. Simpar's ratings reflect its strong business profile, leading position in the Brazilian logistics industry and diversified service portfolio.

The group benefits from long-term contracts with medium to large corporate clients for a significant part of its revenues and a track record of resilient operating performance throughout economic cycles. The ratings incorporate the group's strong growth strategy, which is partially mitigated by its above-average financial flexibility, adequate liquidity and well spread debt amortization profile.

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## KEY RATING DRIVERS

**Strong Market Position:** Simpar has a leading position in the Brazilian logistics industry with a diversified portfolio of businesses and a presence in multiple sectors of the economy. The group's strategic and operational nature of the service it provides, coupled with long-term contracts for most of its logistic and heavy vehicle rentals, minimizes its exposure to more volatile economic cycles.

The group's significant operating scale has made it an important purchaser of light vehicles and trucks, giving it significant bargaining power relative to peers. JSL Logística focuses on supply chain management and transportation, Movida Participações S.A. (BB-/Stable) on light vehicles and fleet rental, Vamos on heavy vehicles and equipment rentals, and CS Brasil Participações e Locações on fleet rental for the public sector.

**Robust EBITDA:** The base case scenario for Simpar presents expected strong and growing consolidated EBITDA based on recent acquisitions, organic growth and improving margins. Movida and Vamos should be the most important contributors to the EBITDA expansion in 2021, as these two businesses regain traction after the worst period of the 2020 lockdown restrictions. JSL Logistics will continue to grow, improve margins and become a more asset light operation. Simpar should reach consolidated EBITDA at BRL2.8 billion (23% margin) in 2021 and BRL3.6 billion (24% margin) in 2022, from BRL2.1 billion (22% margin) in 2020.

**Moderate Leverage:** JSL's follow-on in 2020 and Vamos' IPO in 2021 raised BRL2 billion in equity, enhancing the group's ability to conciliate its growth strategy with a sound capital structure. A continued improvement in the operating margins of the logistics and vehicle rental business is important to temper medium-term leverage. Simpar's consolidated net leverage, measured by total net debt/EBITDA, should be around 3.5x from 2021 to 2023, comparing with an average of 4.3x in the last four years.

**Manageable Negative FCF:** FCF should remain negative, on average, at BRL2.6 billion from 2021 to 2023, pressured by annual average capex of BRL3.4 billion. Cash flow from operations (CFFO) should range between BRL960 million and BRL1.1 billion during this period, benefitting from growing EBITDA. CFFO was BRL2.0 billion in 2020, while FCF was negative at BRL1.5 billion after capex of BRL3.8 billion.

**Strong Parent and Subsidiary Linkage:** JSL's and Vamos' ratings reflect the companies' strong legal, operational and strategic link with controlling shareholder, Simpar (HoldCo), according to Fitch's Parent and Subsidiary Rating Linkage Criteria, which equalizes the ratings of the three companies. In addition to relevant ownership, Simpar guarantees some of both companies' debt, which, in some cases, also have consolidated financial covenants.

Companies also benefit from important commercial synergies, such as greater bargaining power when buying vehicles and negotiating with customers. At Simpar, board control and relevant ownership stakes in its operating companies also mitigate the structural subordination of its debt, with no upstream dividends or intercompany loans restrictions that a majority board vote cannot overcome.

## DERIVATION SUMMARY

Simpar's bargaining power and business position tend to be relatively closer to Localiza Rent a Car S.A. (BB/Negative), and much stronger than that of Ouro Verde Locacao e Servico S.A. (BB-/Stable). Compared with Localiza, Simpar has a weaker financial profile with higher leverage and more pressured FCF. Compared with Ouro Verde, Simpar has higher leverage and a similar liquidity position but a much better business profile and access to credit markets. Compared to Rumo S.A. (BB/Negative), both companies share similar business risks, considering their respective business traits, but Simpar's leverage is higher.

## KEY ASSUMPTIONS

Fitch's Key Assumptions Within Its Rating Case for the Issuer Include

- Average consolidated annual revenue growth at 20% from 2021 to 2023;
- Consolidated EBITDA margins at 24%, on average, from 2021 to 2023;
- Consolidated net capex at around BRL3.4 billion, on average, from 2021 to 2023;
- Cash balance remains sound compared with short-term debt;
- Dividends at 25% net income;
- No large-scale M&A activity or equity sale.

## 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 declines in demand coupled with the company's inability to adjust operations;
- Consolidated net adjusted leverage above 4.5x on a sustainable basis;
- Material deterioration in 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>.

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## LIQUIDITY AND DEBT STRUCTURE

**Strong Liquidity:** Simpar's robust liquidity position is a key credit consideration, with cash covering short-term debt by an average of 1.8x 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. Simpar had BRL5.8 billion of cash and equivalents and BRL14.2 billion of total

adjusted debt (11% secured), with BRL2.0 billion due in the short-term (3.2x cash coverage ratio) as of December 2020.

The group's debt profile is mainly comprised of local debentures, promissory notes and CRA issuances (64%) and bond issuances. Simpar's financial flexibility is also supported by the group's ability to postpone growth capex to adjust to the economic cycle and to the considerably number of the group's unencumbered assets, with a book value of fleet over net debt at 1.5x.

### 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 Environmental, Social and Corporate Governance (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](http://www.fitchratings.com/esg).

Simpar Finance S.a.r.l.					
● senior unsecured	LT	BB-		Affirmed	BB-
Vamos Locacao de Caminhos, Maquinas e Equipamentos S.A.	Natl LT	AA-(bra)	Rating Outlook Positive	Affirmed	AA-(bra) Rating Outlook Stable
● senior unsecured	Natl IT	AA-(bra)		Affirmed	AA-(bra)

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ENTITY/DEBT	RATING	PRIOR
JSL S.A.	LI BB- Rating Outlook Positive IDR	Affirmed BB- Rating Outlook Stable

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## APPLICABLE CRITERIA

[Parent and Subsidiary Linkage Rating Criteria \(pub. 26 Aug 2020\)](#)

[Metodologia de Vínculo Entre Ratings de Controladoras e Subsidiárias \(pub. 26 Aug 2020\)](#)

[Corporate Rating Criteria \(pub. 21 Dec 2020\) \(including rating assumption sensitivity\)](#)

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

### APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

### ADDITIONAL DISCLOSURES

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

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