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RATING ACTION COMMENTARY

Fitch Upgrades Simpar, Movida, JSL and Vamos Ratings; Outlook Stable

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Fitch Ratings - Rio de Janeiro - 11 Jul 2022: Fitch Ratings has upgraded Simpar S.A. (Simpar), JSL S.A. (JSL) and Movida Participacoes S.A.'s (Movida) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-', and Simpar, JSL, Movida e Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A.'s (Vamos) Long-Term National Scale Ratings to 'AAA(bra)' from 'AA-(bra)'. The Rating Outlooks for Simpar's, JSL's and Movida's LC IDR and for the National Scale Rating is Stable. The Rating Outlook for Simpar, JSL and Movida's FC IDR is Negative. At the same time, Fitch has upgraded the senior unsecured and secured debt issuances of all companies accordingly.

The upgrade reflects the continued strengthening of Simpar group scale, business profile and competitive position within the Brazilian rental and logistics industries coupled with a growing EBITDA and adequate financial profile. Simpar group benefits from a diversified service portfolio and long-term contracts for a significant part of its revenues, resulting in a resilient operating performance. The ratings incorporate the group's strong growth strategy. Fitch rates Simpar and its subsidiaries on a consolidated basis, considering the legal, operational and strategic incentives of the holding to support its companies. The Negative Outlook for the FC IDR reflects the Outlook of the Brazilian sovereign.

KEY RATING DRIVERS

Stronger Business Profile: Simpar increased scale has strengthened its leading position in the Brazilian rental and logistics industry with a diversified service portfolio and presence in multiple sectors of the economy. The group's strategic and operational nature of the service it provides, its competitive cost structure - being at the lowest marginal cost in the industry - and a revenue stream based on long-term contracts for most of its rental and logistic businesses, minimize its exposure to more volatile economic cycles in Brazil.

The group benefits from its diversified services and significant operating scale, that has made it an important purchaser of light vehicles (second biggest buyer) and trucks (biggest buyer) in the country, giving it significant bargaining power relative to peers. Movida (41% of net revenue and 50% of EBITDA - second biggest player) focuses on light vehicles and fleet rental; JSL (30% of net revenue and 20% of EBITDA - market leader) concentrates on supply chain management and transportation; and Vamos (20% of net revenue and 25% of EBITDA - market leader) focuses on heavy vehicles and equipment rentals.

Robust EBITDA: Rating case scenario presents strong and growing consolidated EBITDA based on recent acquisitions, organic growth and improving margins. Healthy demand dynamics should continue to allow tariffs increase, which is crucial to face cost inflation, higher asset purchase prices and increasing cost of capital. Simpar should reach consolidated net revenue of BRL23.3 billion (+69% over 2021) and EBITDA at BRL6.9 billion (29% margin and +76% over 2021) in 2022 and BRL31 billion and BRL8.4 billion (27% margin) in 2023, from BRL14 billion and BRL3.9 billion (28% margin), respectively, in 2021.

Adequate Leverage: Margin expansion at the rental and logistics business resulting in higher return on invested capital (ROIC) and a ROIC spread over the cost of debt at levels in line with historical should enable Simpar to couple with high interest rates and asset inflation - allowing the company to conciliate its growth strategy with a sound capital structure. Simpar's consolidated net leverage (IFRS-16 adjusted), measured by total net debt/EBITDA, should be around 3.5x from 2022 to 2024, comparing with an average of 4.0x in the last three years.

Manageable Negative FCF: The capital-intensive nature of the rental industry (73% of Simpar's EBITDA), which demands sizable and regular investments to grow and renew the fleet, pressures the group's cash flow. FCF should remain negative, on average, at BRL4.9 billion from 2022 to 2024, pressured by annual average growth capex of BRL5.6 billion. Funds from operations (FFO) should increase from BRL580 million in 2022 to BRL1.5 billion in 2023 and BRL2.5 billion in 2024, benefitting from growing EBITDA. FFO was

BRL1.9 billion in 2021, while FCF was negative at BRL6.4 billion after growth capex of BRL8.3 billion. The group has some room to postpone fleet renewal and reduce expansion capex, if needed.

Parent and Subsidiary Linkage: Movida, JSL and Vamos' ratings reflect Simpar medium legal and strong operational and strategic incentives to support them, according to Fitch's Parent and Subsidiary Rating Linkage Criteria, which equalizes the ratings of the four companies. In addition to cross-default on Simpar's debt and relevant ownership, the operating companies benefit from strong growth potential and important commercial synergies, such as greater bargaining power when buying vehicles and negotiating with customers. Additionally, the subsidiaries Board of Directors have a majority of Simpar's shareholders or executives as members.

DERIVATION SUMMARY

Simpar's business profile is above that of Localiza Rent a Car S.A. (Localiza, FC IDR BB/Negative and LC IDR BB+/Stable), and much stronger than that of Ouro Verde Locacao e Servico S.A. (Ouro Verde, FC and LC IDRs BB-/Stable). Compared with Localiza, Simpar has bigger scale, a much more diversified service portfolio but a weaker financial profile - with higher leverage and more pressured FCF. Compared with Ouro Verde, Simpar has a much stronger business profile, higher liquidity, better access to credit market and similar leverage.

Compared to CEMEX, S.A.B. de CV. (LC and FC BB+/Stable), Simpar has a more diversified business profile, higher profitability, less volatile cash flow generation and a more liquid/tradable asset base. On the other hand, Cemex has higher scale, a historic of positive cash flow generation and slightly lower leverage on the rating horizon.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for Simpar:

--Average consolidated annual revenue growth at 40% from 2022 to 2024;

--Consolidated EBITDA margin at 28%, on average, from 2022 to 2024;

--Consolidated net capex at around BRL5.6 billion, on average, from 2022 to 2024;

--Cash balance remains strong compared with short-term debt;

--Dividends at 25% net income.

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 decline in demand coupled with company inability to adjust operations;

--Consolidated net adjusted leverage above 4.5x on a sustainable basis;

--Material deterioration on 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.

LIQUIDITY AND DEBT STRUCTURE

Strong Liquidity: Simpar's robust consolidated liquidity position is a key credit consideration, with cash covering short-term debt by an average of 3.2x 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 and the group benefits from ample access to different sources of funding. Simpar had BRL10.4 billion of cash and equivalents and BRL30 billion of total adjusted consolidated debt (2% secured), with final maturity at 2031. BRL2.2 billion is due in the short term (4.7x cash coverage ratio) and an additional BRL4.7 billion is due at the end of 2024 - as of March 2022.

At the holding level, Simpar had BRL2.8 billion of cash and equivalents and BRL5.7 billion of total adjusted debt, being BRL247 million due in the short term and additional BRL1.9 billion maturing up to 2030. Simpar board control and relevant ownership stakes in its operating companies mitigate the structural subordination of its debt, with no upstream dividends or intercompany loans restrictions that a majority board vote cannot overcome.

The group's consolidated debt profile is mainly comprised of local debentures (49%) and fully hedged U.S. denominated bonds (22%). 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 over 1.5x.

ISSUER PROFILE

Simpar is a non-operational holding company that controls and manages seven independent companies that provide mainly rental, logistics and mobility services, focused on long-term contracts. The company is listed on Brazilian stock exchange and its main shareholder is JSP Holding S.A. (57.3%), the Simoes family holding company.

Sources of Information

Simpar S.A. and its subsidiaries.

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
Movida Europe		
senior unsecured	LT BB Upgrade	BB-
Simpar S.A.	LT IDR BB Rating Outlook Negative Upgrade	BB- Rating Outlook Positive
	LC LT IDR BB Rating Outlook Stable Upgrade	BB- Rating Outlook Positive
	Natl LT AAA(bra) Rating Outlook Stable Upgrade	AA-(bra) Rating Outlook Positive
senior unsecured	LT BB Upgrade	BB-
senior unsecured	Natl LT AAA(bra) Upgrade	AA-(bra)
Simpar Europe		
senior unsecured	LT BB Upgrade	BB-
Simpar Finance S.a.r.l.		

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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

Corporate Rating Criteria (pub. 15 Oct 2021) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 01 Dec 2021)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.3 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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

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