S&P Global
Ratings

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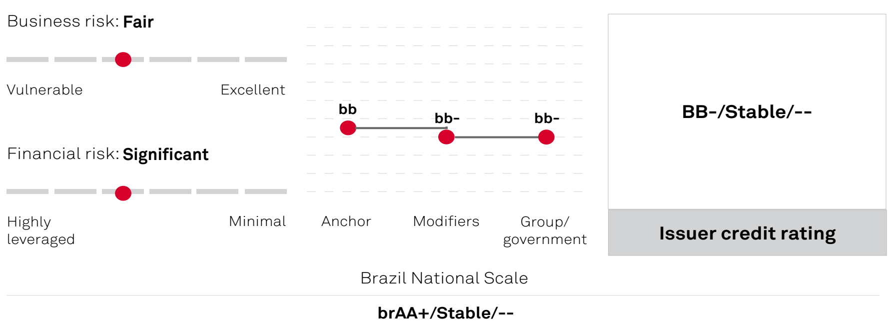
Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A.

October 31, 2024

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Largest truck rental company operating in Brazil, with a solid relationship with automakers.	High interest burden because of elevated debt levels to finance growth, amid sustained high interest rates.
Cash flow predictability, given most contracts exceed five years.	EBIT interest coverage remains under pressure at about 1.7x.
Good access to the domestic credit market and long-term issuances.	High capital expenditure (capex) to sustain growth.

Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A. (Vamos) has solid growth prospects in the fragmented truck leasing segment. S&P Global Ratings expects its fleet will total about 52,000 vehicles by year-end 2024, versus 50,384 vehicles in June (10,594 machines and 39,790 trucks). For the next few years, we expect fleet expansion of about 10% annually, comprising 70%-80% trucks and 20%-30% machinery. The market is still highly fragmented, and we expect Vamos will maintain its leadership position while it expands organically and potentially via strategic mergers and acquisitions (M&A), as seen in recent years.

We expect Vamos will post EBIT interest coverage of about 1.7x and funds from operations (FFO) to debt of about 18% in 2024, with improvements in the next few years. In our view, continued efforts to sign new contracts and expand the company's backlog and operating cash flows balance the high interest burden amid continued elevated interest rates domestically. In second-quarter 2024, Vamos' backlog amounted to Brazilian real (R$) 14.1 billion, 12.3% growth compared to year-end 2023. Vamos' contracts are long term, at about five years, which brings cash flow predictability during macroeconomic cycles.

Even with the increasing backlog, we expect only modest improvements in credit metrics due to high interest rates. We forecast EBIT interest coverage of about 2.0x and FFO to debt of 15%-20% in the new two years.

We assume the spin-off of the dealership division will occur as recommended. Vamos is in the process of separating its dealership division, which will later be merged with Automob (NR), a sister company also owned by the Simpar group. We believe the spin-off is credit neutral for Vamos. Although the dealership operations are large in terms of revenue, the cash flow contribution is not representative due to very low margins. We don't expect a relevant hit to credit metrics, in fact, given that the dealership business normalized EBIT margins by 1%-2%, these should expand materially to about 60% considering rental, used-vehicles sales, and customization services--versus 35%-40% before.

On Oct. 23, 2024, the group disclosed a fairness opinion provided by an independent third party recommending the transaction with some minor changes in terms of entities' valuations versus the initial proposal. Final approval is expected by year-end 2024 and requires more than 50% agreement at a shareholder meeting. Therefore, in our forecast for 2025 we already assume the spin-off occurs as recommended.

Outlook

The stable outlook reflects our expectation that Vamos will remain focused on leverage control while improving profitability and cash flows in the next few months with the signing of new contracts. We believe the company maintains solid growth prospects given opportunities to expand in the fragmented truck rental segment. We expect EBIT interest coverage of about 2.0x and FFO to debt of 15%-20% in 2024-2025, due to its high debt levels and interest burden.

Downside scenario

A negative rating action could occur if Vamos' profitability and credit metrics weaken amid sustained high interest rates reducing the signing of new contracts. This could result from worsening economic conditions undermining Vamos' growth, leading to idle vehicles, lower rates, and difficulties renewing its fleet. In this scenario, we would see EBIT interest coverage below 2.0x and FFO to debt below 13% on a sustained basis.

Upside scenario

We could raise the ratings in the next 12-18 months if the company continues to gain scale while strengthening its credit metrics. In this scenario, we would see EBIT interest coverage above 2.4x and FFO to debt above 23% consistently. An upgrade of Vamos would also depend on the same rating action on its parent, Simpar (global scale: BB-/Stable/--; national scale:

brAA+/Stable/--), which we believe is unlikely in the short to medium term due to high interest rates pressuring Simpar's credit metrics.

Our Base-Case Scenario

Assumptions

- Brazil's inflation averages about 4.3% in 2024, 3.8% in 2025, and 3.5% in 2026, affecting labor-related and fleet maintenance prices.
- Average base interest rates of 10.81% in 2024, 10.94% in 2025, and 9.25% in 2026, influencing funding costs and rates of new fleet management contracts.
- A total year-end fleet of about 52,000 in 2024, 57,400 in 2025, and 62,600 in 2026.
- Lease net revenue (including used vehicle sales) of R$4.5 billion in 2024, about R$5.5 billion in 2025, and R$6.2 billion in 2026. This is from expanding the fleet with a split of 70%-80% trucks and 20%-30% machinery, and price adjustments in 2024 in line with the first six months of the year and growing with inflation thereafter.
- The truck customization segment contributes R$500 million-R$600 million of net revenue in the next three years.
- EBITDA margins improve in 2024 versus 2023, following the implementation of new lease contracts and lower inventory levels. For 2025, we assume a substantial margin improvement because we exclude the dealership business from the consolidated numbers.
- Vamos should also remain focused on efficiency measures, supporting high EBITDA margins.
- Net capex of about R$3.9 billion in 2024, for maintenance and fleet expansion, and about R$3 billion n 2025-2026, mainly for fleet expansion and, to a lesser extent, fleet renewal.
- Dividend distributions of 25% of the previous year's net income.

Key metrics

Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A.--
Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. BRL)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	1,513	2,823	4,913	6,085	7,722	5,854	6,669	7,527
Gross profit	774	1,329	2,414	3,341	4,322	4,616	5,261	5,888
EBITDA (reported)	640	1,065	1,962	2,668	3,549	4,163	4,746	5,309
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	(3)	0	0	--	--	--	--	--
EBITDA	637	1,066	1,962	2,668	3,549	4,163	4,746	5,309
Less: Cash interest paid	(113)	(222)	(594)	(852)	(1,224)	(1,356)	(1,288)	(1,362)
Less: Cash taxes paid	(54)	(53)	(98)	(28)	(190)	(251)	(361)	(442)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	471	790	1,269	1,788	2,134	2,556	3,097	3,505

Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A.--
Forecast summary

EBIT	370	851	1,939	2,279	3,050	3,586	4,095	4,654
Interest expense	153	372	928	1,527	1,749	1,943	1,840	1,945
Cash flow from operations (CFO)	486	646	2,593	(770)	2,313	1,965	2,674	3,051
Capital expenditure (capex)	559	2,654	7,008	1,484	3,885	3,035	2,988	3,000
Free operating cash flow (FOCF)	(73)	(2,007)	(4,414)	(2,253)	(1,572)	(1,070)	(314)	51
Dividends	159	191	--	247	235	218	288	414
Share repurchases (reported)	--	--	1	--	--	--	--	--
Discretionary cash flow (DCF)	(232)	(2,198)	(4,415)	(2,501)	(1,807)	(1,288)	(602)	(363)
Debt (reported)	2,799	6,017	7,392	11,536	13,636	14,400	15,600	16,800
Plus: Lease liabilities debt	65	71	91	181	181	102	105	109
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(779)	(3,825)	(1,723)	(2,294)	(2,891)	(2,423)	(2,967)	(3,751)
Plus/(less): Other	(35)	370	1,701	1,889	917	890	788	761
Debt	2,050	2,634	7,462	11,312	11,844	12,969	13,526	13,919
Equity	506	2,640	3,639	4,735	5,374	6,307	7,675	9,289
FOCF (adjusted for lease capex)	(117)	(2,027)	(4,449)	(2,395)	(1,589)	(1,011)	(344)	20
Interest expense (reported)	153	372	928	1,527	1,749	1,943	1,840	1,945
Capex (reported)	16	47	74	117	3,885	3,035	2,988	3,000
Cash and short-term investments (reported)	779	3,825	1,723	2,294	2,891	2,423	2,967	3,751
Adjusted ratios								
Debt/EBITDA (x)	3.2	2.5	3.8	4.2	3.3	3.1	2.8	2.6
FFO/debt (%)	23.0	30.0	17.0	15.8	18.0	19.7	22.9	25.2
FFO cash interest coverage (x)	5.2	4.6	3.1	3.1	2.7	2.9	3.4	3.6
EBITDA interest coverage (x)	4.2	2.9	2.1	1.7	2.0	2.1	2.6	2.7
CFO/debt (%)	23.7	24.5	34.8	(6.8)	19.5	15.2	19.8	21.9
FOCF/debt (%)	(3.5)	(76.2)	(59.2)	(19.9)	(13.3)	(8.2)	(2.3)	0.4
DCF/debt (%)	(11.3)	(83.5)	(59.2)	(22.1)	(15.3)	(9.9)	(4.4)	(2.6)
Lease capex-adjusted FOCF/debt (%)	(5.7)	(77.0)	(59.6)	(21.2)	(13.4)	(7.8)	(2.5)	0.1
Annual revenue growth (%)	24.9	86.6	74.0	23.9	26.9	(24.2)	13.9	12.9
Gross margin (%)	51.2	47.1	49.1	54.9	56.0	78.9	78.9	78.2
EBITDA margin (%)	42.1	37.7	39.9	43.8	46.0	71.1	71.2	70.5
Return on capital (%)	15.4	21.7	23.7	16.8	18.3	19.7	20.2	21.0
Return on total assets (%)	10.2	11.8	14.4	12.2	13.7	15.1	16.3	16.7
EBITDA/cash interest (x)	5.6	4.8	3.3	3.1	2.9	3.1	3.7	3.9
EBIT interest coverage (x)	2.4	2.3	2.1	1.5	1.7	1.8	2.2	2.4
Debt/debt and equity (%)	80.2	49.9	67.2	70.5	68.8	67.3	63.8	60.0
Debt fixed-charge coverage (x)	4.2	2.9	2.1	1.7	1.2	1.6	2.6	2.7

Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A.--Forecast summary

Debt/debt and undepreciated equity (%)	80.2	49.9	67.2	70.5	68.8	67.3	63.8	60.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R$--Brazilian real.

We believe growth will be financed with new debt, and partly internal cash flows. In our forecast, we assume gross debt of about R$14.5 billion–R$16.0 billion in 2025-2026, of which about R$1.5 billion will be incremental debt issuances to support capex. We also expect the company to continue refinancing upcoming maturities by issuing long-term debt and maintaining a smooth maturity profile, with a weighted-average above four years. As of June 2024, Vamos registered gross debt of R$13 billion, of which R$1.6 billion was short term. Moreover, its cash position was approximately R$2.1 billion.

Company Description

Vamos is the leading company in Brazil for renting trucks, machinery, and heavy equipment. The company also operates a network of truck, bus, machinery, and equipment dealerships for the Volkswagen, Valtra, Komatsu, and Fendt brands, and has used vehicle stores throughout Brazil's main regions.

Vamos is a subsidiary of the transport and logistics services group Simpar, which currently holds a 61.35% stake in the company.

Financial Risk

Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	R$	R$	R$	R$	R$	R$
Revenues	939	1,212	1,513	2,823	4,913	6,085
EBITDA	449	533	637	1,066	1,962	2,668
Funds from operations (FFO)	387	416	471	790	1,269	1,788
Interest expense	71	101	153	372	928	1,527
Cash interest paid	57	71	113	222	594	852
Operating cash flow (OCF)	345	314	486	646	2,593	(770)
Capital expenditure	94	593	559	2,654	7,008	1,484
Free operating cash flow (FOCF)	251	(279)	(73)	(2,007)	(4,414)	(2,253)
Discretionary cash flow (DCF)	250	(569)	(232)	(2,198)	(4,415)	(2,501)
Cash and short-term investments	66	499	779	3,825	1,723	2,294
Gross available cash	66	499	779	3,825	1,723	2,294
Debt	1,007	1,763	2,050	2,634	7,462	11,312
Common equity	581	491	506	2,640	3,639	4,735
Adjusted ratios						
EBITDA margin (%)	47.8	44.0	42.1	37.7	39.9	43.8

Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A.--Financial Summary

Return on capital (%)	15.0	16.1	15.4	21.7	23.7	16.8
EBITDA interest coverage (x)	6.3	5.3	4.2	2.9	2.1	1.7
FFO cash interest coverage (x)	7.7	6.8	5.2	4.6	3.1	3.1
Debt/EBITDA (x)	2.2	3.3	3.2	2.5	3.8	4.2
FFO/debt (%)	38.4	23.6	23.0	30.0	17.0	15.8
OCF/debt (%)	34.3	17.8	23.7	24.5	34.8	(6.8)
FOCF/debt (%)	24.9	(15.8)	(3.5)	(76.2)	(59.2)	(19.9)
DCF/debt (%)	24.8	(32.3)	(11.3)	(83.5)	(59.2)	(22.1)

Reconciliation Of Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. R$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	11,536	4,735	6,085	2,668	2,084	1,527	2,668	(2,137)	247	117
Cash taxes paid	-	-	-	-	-	-	(28)	-	-	-
Cash interest paid	-	-	-	-	-	-	(852)	-	-	-
Lease liabilities	181	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(2,294)	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	195	-	-	-	-	-
Debt: Derivatives	156	-	-	-	-	-	-	-	-	-
Debt: other	1,733	-	-	-	-	-	-	-	-	-
OCF: Asset disposals	-	-	-	-	-	-	-	(608)	-	-
OCF: other	-	-	-	-	-	-	-	1,975	-	-
Capex: other	-	-	-	-	-	-	-	-	-	1,367
Total adjustments	(224)	-	-	-	195	-	(880)	1,367	-	1,367
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	11,312	4,735	6,085	2,668	2,279	1,527	1,788	(770)	247	1,484

Liquidity

We view Vamos' liquidity as adequate. We expect the company to maintain sources over uses of cash of about 1.6x for the next 12 months and sources minus uses to remain positive even if EBITDA drops 15%. We expect the company will maintain a robust cash position in the next few years and deliver increasing operating cash flows.

Despite the relevant capex for the coming years, we believe Vamos can reduce this in a stress scenario. In our view, the company will maintain its smooth debt maturity profile while it continues refinancing maturities in advance, and have consistent access to funding sources, considering its assets can be pledged as collateral.

In our base case, we assume all approvals for the spin-off of the dealership division are granted. Therefore, our liquidity analysis already excludes its related cash sources and uses.

Principal liquidity sources

- Cash and cash equivalents of R$1.5 billion as of June 30, 2024 (excluding Vamos Concessionárias).
- Undrawn revolving credit facilities of R$639 million as of June 2024, maturing beyond 12 months.
- Expected FFO of about R$1.9 billion in the 12 months from June 30, 2024.
- New debt issuances of approximately R$1.9 billion after June 30, 2024 (eleventh debentures and the new Certificado de Direitos Creditórios do Agronegócio [CDCA]).
- Potential debt issuance of R$2.7 billion, considering the company's ability to contract uncommitted credit lines to fund up to 70% of its capex needs.

Principal liquidity uses

- Short-term debt of R$1.3 billion as of June 30, 2024 (excluding Vamos Concessionárias).
- Short-term assignments of credit rights of R$413.3 million as of June 30, 2024.
- Short term acquisitions payable of R$70.6 million as of June 30, 2024.
- Net capex of about R$3.8 billion in the next 12 months.
- Dividend distributions of about R$220 million in the next 12 months.

Covenant Analysis

Requirements

Vamos has payment acceleration covenants on its debentures, agribusiness receivables certificates, and some bilateral bank loans that are measured at the end of the fiscal year. The more restrictive covenants require a net debt to EBITDA ratio below 3.5x and a net EBITDA interest coverage ratio above 2.0x.

Compliance expectations

We estimate a relatively tight cushion of about 10%-15% for the net debt to EBITDA covenant due to elevated debt amid high capex. Although we forecast a smaller cushion in 2024, we don't expect a breach because the company can reduce capex if the cushion is tight.

For the net interest coverage ratio, we forecast a cushion of 30%-35% in 2024-2025 and near 45% in 2026 given the company's robust cash position, despite its high interest burden.

Environmental, Social, And Governance

Governance factors are a neutral consideration in our credit analysis of Vamos. The CEO of Simpar, the parent of Vamos and indirect controlling shareholder, has been implicated in alleged fraud in bidding for contracts and accused of corruption and bribery. Most of the lawsuits have already been ruled off and some dismissed because of a lack of proof. The amounts associated with the remaining lawsuits are immaterial.

Group Influence

We view Vamos as a highly strategic subsidiary of Simpar. We believe Vamos is very important to the group's long-term strategy and highly unlikely to be sold. We expect Simpar to provide support to Vamos under almost all foreseeable circumstances, given the latter's favorable potential in a segment with strong growth prospects.

Despite Simpar's decreased stake in Vamos after the follow-on back in 2023, we understand this is part of the group's strategy to monetize its stakes to improve the capital structure at the parent level. We expect Vamos to generate 30%-35% of Simpar's consolidated EBITDA in the next two years. Still, Vamos has been operating independently, and we don't view it as closely linked to the group's name and brand.

Issue Ratings--Recovery Analysis

Key analytical factors

We rate Vamos' senior unsecured debentures 'brAA+', with a recovery rating of '3', indicating our expectation of a meaningful recovery (50%-70%) for its unsecured debt in the event of default. The issues we rate are the third debentures of R$1 billion, due in July 2031, fourth debentures of R$2 billion due in October 2031, and the fourth CDCA of R$856.3 million.

- In our simulated scenario, we contemplate a payment default in 2028 deriving from high default rates in Vamos' contract portfolio, trade-down movement from clients--pressuring prices and margins of new contracts--and a relevant weakening of the used trucks market in Brazil (resulting in lower cash generation), all amid continued high interest rates and a more aggressive competitive environment.
- Our valuation of the company is based on discrete asset valuation on a going-concern basis because we believe it is likely that the company would be restructured given its size, geographic footprint, and client base.
- This is the same approach for other players that have a large fleet of vehicles in its asset base, such as Movida and Localiza.

Simulated default assumptions

- Simulated year of default: 2028
- Country of insolvency: Brazil (jurisdiction B), resulting in a '3' jurisdictional cap for unsecured debt.
- We apply a 15% haircut to the fleet value because the company would need to apply a discount to liquidate those assets under a stress scenario.
- Dilution rate of 20% and then a haircut of 30% in receivables, simulating a potential fall in clients' renewal rates and higher delinquencies.
- 100% haircut to the company's cash position since it would be consumed up to default.

- The above premises lead to a general haircut of about 26% to Vamos' total asset base value, leading to an estimated gross enterprise value at emergence of R$14.4 billion

Simplified waterfall

- Net enterprise value after 5% administrative costs: R$13.7 billion
- Senior secured debt: R$1.7 billion
- Senior unsecured debt: R$11.9 billion
- Recovery expectations for unsecured debt: Rounded 65%

Rating Component Scores

Foreign currency issuer credit rating	**BB-/Stable/--**
Local currency issuer credit rating	**BB-/Stable/--**
Business risk	**Fair**
Country risk	Moderately High
Industry risk	Intermediate
Competitive position	Fair
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bb-**

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- 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 | Industrials: Key Credit Factors For The Operating Leasing Industry, Dec. 14, 2016

- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Bulletin: Vamos Locacao de Caminhoes,Maquinas e Equipamentos S.A.'s Proposed Dealership Business Spin-Off Won't Hit Credit Metrics, Oct. 1, 2024

Ratings Detail (as of October 31, 2024)*		
Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A.		
Issuer Credit Rating		BB-/Stable/--
Brazil National Scale		brAA+/Stable/--
Senior Unsecured		
Brazil National Scale		brAA+
Issuer Credit Ratings History		
16-Mar-2022		BB-/Stable/--
09-Jun-2021	*Brazil National Scale*	brAA+/Stable/--
02-Feb-2021		brAA/Positive/--
22-Jun-2020		brAA/Stable/--
Related Entities		
Ciclus Ambiental do Brasil S.A.		
Senior Unsecured		
Brazil National Scale		brAA+
JSL S.A.		
Issuer Credit Rating		BB-/Stable/--
Brazil National Scale		brAA+/Stable/--
Senior Unsecured		
Brazil National Scale		brAA+
Movida Europe		
Senior Unsecured		BB-
Movida Locacao de Veiculos S.A.		
Issuer Credit Rating		
Brazil National Scale		brAA+/Stable/--
Senior Unsecured		
Brazil National Scale		brAA+

Ratings Detail (as of October 31, 2024)*	
Movida Participacoes S.A.	
Issuer Credit Rating	BB-/Stable/--
Brazil National Scale	brAA+/Stable/--
Senior Unsecured	
Brazil National Scale	brAA+
Simpar S.A.	
Issuer Credit Rating	BB-/Stable/--
Brazil National Scale	brAA+/Stable/--
Senior Unsecured	
Brazil National Scale	brAA+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.