Research Update:

Simpar Rated 'BB-' After Approval Of JSL's Group Reorganization, Outlook Negative

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Rating Action Overview

- On Aug. 5, 2020, Brazil-based transportation group JSL S.A. announced the approval of its corporate reorganization, with Simpar S.A. succeeding JSL as the group's non-operating holding company and as guarantor of JSL Europe's 2024 notes and Simpar's 13th debentures issuance.
- JSL will now be the group's subsidiary focusing on the logistics services segment, with reduced scope and higher leverage than what it was prior to the overhaul.
- On Aug. 6, 2020, S&P Global Ratings assigned 'BB-' global scale and 'brAA+' national scale issuer credit ratings to Simpar.
- We also lowered the issuer credit ratings on JSL to 'B+' from 'BB-' on global scale and to 'brAA-' from 'brAA+' on national scale.
- We affirmed our 'BB-' rating on the group's 2024 senior unsecured notes and 'brAA+' rating on the 13th debenture issuance. This is because these two issuances now mirror the credit quality of Simpar. At the same time, we lowered the rating on JSL's 8th debenture issuance to 'brAA-' from 'brAA+', following the same action on the issuer credit rating, because this issuance will remain on JSL's balance sheet.
- We also removed our ratings on JSL from CreditWatch negative, where we placed them on July 21, 2020.
- The negative outlook on both Simpar and JSL reflects risks of lower cash flows given possible further movement restrictions and deeper-than- expected economic contraction.

Rating Action Rationale

The ratings on Simpar reflect our view of the group's business diversification and adequate profitability of its main subsidiaries, with JSL's leading position and growing business at Movida and Vamos. Given the minority shareholders' acceptance of the proposed group reorganization, Simpar is now the non-operating holding entity of several logistics and transportation companies, which JSL previously controlled. We expect the group to pursue growth by focusing on each of its subsidiary through internal and acquisition-based growth funded with own cash flows and eventual equity increases. Any significant acquisition would be expected to be accompanied by equity raising, maintaining manageable leverage metrics.

JSL Europe's 2024 senior unsecured notes and the group's 13th debenture issuance, among other debt instruments, will now be guaranteed by--or migrate to--Simpar. Although creditors of these instruments will now be at a risk of not relying directly on an operating company, the amount of debt and cash at Simpar compared with the net value of each subsidiary mitigate the risks of structural subordination. We revised the recovery rating on those instruments to '4' from '3', indicating lower recovery expectations, but still affirming the issue-level ratings, which are at the same level as the group's credit rating.

We now view JSL's credit quality as weaker than that of the group, reflected in the downgrade of the former. The spin-off of the logistics and cargo transportation business has diminished JSL's scope and raised its leverage. In our view, JSL's business strengths stem from its status as the leading logistics services provider in Brazil, with around twice revenue base than those of peers. JSL provides the significant range of services to 16 sectors, operating with adequate profitability, although somewhat geographically concentrated in Brazil and with smaller scale than those of global peers.

We believe JSL will post debt to EBITDA of 4.7x-5.0x and funds from operations (FFO) to debt close to 10% in 2020. These ratios incorporate its recently announced acquisition of Fadel Holding Ltda. We believe JSL could engage in additional M&As, given the market's fragmentation. Still, we expect that any large transaction would be accompanied by an equity issuance, so that the company's leverage wouldn't increase above the forecasted levels expected for 2020. Our 'B+' final rating on JSL, one notch above the 'b' stand-alone credit profile (SACP), reflects our view of its relevance for the group. In line with the lower issuer credit rating, we also lowered our rating on JSL's eighth debentures issuance, which remained on its balance sheet.

Outlook is negative for both companies. The negative outlook reflects our view that despite the significant impact on some of the subsidiaries' cash flows in 2020, Simpar's business resiliency should help soften it this year and boost recovery in 2021. The long-term contracts on its fleet management services and truck and heavy equipment rentals should partly offset the expected reduction in Simpar's cash flows. We view its exposure to rental cars (30%-35% of Simpar's EBITDA) as a factor that would pressure credit metrics if movement restrictions are prolonged in the next few months, or lower economic activity lasts for longer than expected. In 2020, we project a drop in consolidated revenues and EBITDA of about 10% and 10%-15%, respectively, compared with 2019.

We view JSL as a highly strategic subsidiary of the group. We understand that because of the reorganization, the company will operate as an independent subsidiary, in line with the group's strategy of separating each entity according to its business lines and maintaining a non-operational holding. Still, we expect JSL to benefit from the group's long-term commitment because the subsidiary represents a relevant portion of consolidated EBITDA. Therefore, JSL is likely to receive support during stressed conditions. Also, JSL currently has acceleration-type covenants measured by Simpar's results, as well as cross-default clauses and cross-acceleration type covenants with Simpar.

Given COVID#19's impact on the group's 2020 cash flows and its capacity to reduce the size of its fleet in order to adapt to market conditions, we expect Simpar's debt to EBITDA to increase to 4.0x-4.5x and FFO to debt to be slightly lower than 12%. Despite the reduced cash flows, we expect EBIT interest coverage at 1.4x-1.7x in 2020. Given our forecast of economic rebound in

Brazil in 2021, Simpar's leverage metrics should also improve, with EBIT interest coverage at 1.6x-1.8x, debt to EBITDA at 3.5x-4.0x, and FFO to debt above 12% next year.

Outlook

Simpar

The negative outlook reflects our view that Simpar's cash flows, and consequently its leverage metrics, could be more pressured in the medium term if the economic contraction lasts longer than predicted.

Downside scenario

We could downgrade Simpar in the next 6-12 months if we perceive that Brazil's recession will be more severe and the impacts will be more lasting on its operations, leading to weaker cash flows in its various segments, with EBITDA falling more than 30% compared to 2019. In that scenario, we expect EBIT interest coverage below 1.1x, debt to EBITDA above 5.0x, and FFO to debt below 12% in 2020 and 2021.

Upside scenario

We could revise the outlook to stable in the next 12 months if the impacts of the pandemic are smaller than expected, rental car use rates recover at a rapid pace in the next few months, and we have more clarity on Brazil's economic activity in 2021. In this scenario, EBIT interest coverage would remain at about 1.7x, debt to EBITDA below 4.0x, and FFO to debt above 12%.

JSL

The negative outlook mirrors that of its parent company while also reflecting our expectation of weaker credit metrics as a result of the economic fallout from COVID-19, with FFO to debt of around 10% and debt to EBITDA around 4.8x in 2020.

Downside scenario

We could lower our ratings on JSL following a downgrade of its parent company. Although not likely in the short term, we could lower JSL's SACP amid further deterioration in freight transportation and commodity logistics services if the economic contraction lasts longer than predicted. Such a scenario would result in debt to EBITDA above 5x, FFO to debt below 12% consistently, and lower cash flows, harming the company's liquidity. These metrics could also result from an aggressive acquisitive strategy, funded mainly with new debt or cash holdings.

Upside scenario

We could revise the outlook to stable if we take the same action on Simpar. Currently, any upside to JSL's SACP is somewhat limited. Nevertheless, it could follow a faster-than-expected recovery of freight transportation and commodity logistics services, followed by a significant improvement in 2021, as economic conditions recover. In such a scenario, we expect the company to permanently maintain debt to EBITDA below 4.0x, FFO to debt above 12%, and FFO cash interest coverage above 2.0x.

Company Description

Simpar S.A. is a privately owned company headquartered in Sao Paulo, Brazil. The group was founded in 1956 and through its subsidiaries provides transportation and logistics services in Brazil and internationally. Simpar operates through six subsidiaries: JSL, Movida, Vamos, CS Brasil, Original Concessionárias and BBC Leasing. We expect the group to post consolidated revenue of about R$8.7 billion and EBITDA close to R$2 billion in 2020, with the following breakdown: Vamos 30%, Movida 30%, JSL 20%, CS Brasil 20% others 10%.

- Movida is one of the three main car rental companies in Brazil, offering rent-a-car and fleet management services.
- Vamos is a Brazilian truck, machinery, and equipment rental company, also operating 29 new truck and equipment dealerships and 10 used ones across the country.
- JSL is the main provider of logistics services and freight transportation in Brazil.
- CS Brasil provides fleet management and outsourcing services to the public sector as well as public passenger transport, collection and transportation of household, and commercial or industrial waste.
- Original Concessionárias and BBC Leasing represent less than 10% of Simpar's revenue. BBC offers leasing, freight payments and financial services, while Original covers the group's authorized car dealerships.

Our Base-Case Scenario

- Brazil's real GDP decline of about 7% in 2020 and growth of 3.5% in 2021.
- Inflation in Brazil close to 2.7% in 2020 and increasing to 3.2% in 2021, affecting costs and contract prices, and rates on existing contracts due to clauses that allow for inflation pass-through.
- Simpar's revenue and EBITDA to decline around 10% in 2020 due to lower utilization rates at Movida and lower volumes caused by the COVID#19 pandemic in the logistics and road transport business, while the company's fleet management and truck leasing results show some resilience, maintaining its growth trajectory. Given the likely improvement in macroeconomic conditions, combined with our expectation of Vamos' ongoing growth, we expect an increasein revenues of 15% in 2021.
- Net capex at minimum levels of R$500 million given the fleet reduction at Movida, offsetting the investments in the truck leasing and road transport and logistics subsidiaries. For the next few years, we consider the return of investments for fleet expansion at Movida as well as the expected investments in other subsidiaries.
- No dividend payment from Simpar in 2020, and 25% of previous-year net income in 2021.

Assumptions specifically for JSL:

- We attribute the resulting cash and debt position of JSL for 2020 figures, given that part of JSL's cash position will shift to the non-operating holding level. Such transferal will be completed through the capital reduction at JSL and extraordinary dividends to Simpar.

Therefore, JSL's cash position will be about R$1.4 billion in 2020.

- Revenue and EBITDA falling around 15% in 2020. We attribute such impact mainly to the automotive stoppages for 2020 as well as slightly lower output of some of the company's commodities-extracting clients. The long-term contracts (varying from 2 to 10 years) to mitigate the impact this year.
- The company's cost structure shows asset light flexibility with small exposure to fixed costs, which should allow for almost stable gross margin in 2020 and afterwards.
- Net capex for 2020 of R$200 million incorporating contract renegotiations. Acquisition of Fadel Holding for about R$160 million, with 50% of it in 2020 and 50% in 2021.

We then expect the following credit metrics:

Simpar

- EBIT interest coverage at 1.4x-1.7x in 2020 and 1.6x-1.8x in 2021;
- Net debt to EBITDA of 4.0x-4.5x in 2020 and 3.5x-4.0x in 2021; and
- FFO to debt at about 12% in 2020 and higher than 12% in 2021.

JSL

- Net debt to EBITDA of 4.7x-5.0x in 2020 and 4.0x-4.5x in 2021; and
- FFO to debt lower than 10% in 2020 and at about 12% in 2021.

Liquidity

Simpar

We view Simpar's liquidity as adequate. We observe comfortable liquidity position for the next 12 months because the group has maintained a higher-than-historical amount of cash holdings through domestic market issuances and new bank loans at its subsidiaries. We expect sources of liquidity to exceed uses by more than 1.2x in the next 12 months. The group's liquidity also improved through its ability to reduce capital spending and with cash inflows from used-car sales, as seen through the reduction of Movida's total fleet.

On the other hand, we observe a tight covenant cushion of less than 15% on the incurrence covenants for its 2024 bond, which could limit financial flexibility. We also view Simpar as having a satisfactory standing in credit markets, although it's not a frequent issuer in international credit markets.

Principal Liquidity Sources

- Cash and cash equivalents of R$4.2 billion as of April 2020; and
- Expected FFO of about R$1.2 billion in the next 12 months.

Principal Liquidity Uses

- Short#term debt of R$1.6 billion as of April 2020;
- Capex of about R$750 million in the next 12 months;

- Working capital outflows totaling R$300 million in the next 12 months; and
- Cash disbursement for the acquisition of Fadel Holding totaling R$159.4 million in the next 12 months.

JSL

We assess JSL's liquidity as adequate. The company has maintained a sizeable cash position against its short-term debt needs amid the pandemic. We expect sources of liquidity to exceed uses by more than 1.2x in the next 12 months. Also, we believe sources of liquidity would remain positive even if EBITDA were to decline 15%.

The company doesn't have a track record of accessing credit markets on a stand-alone basis, but we assume that it will maintain sound relationship with banks. We note that JSL has significant flexibility in its capital spending, given its asset light business model.

Principal Liquidity Sources:

- Pro forma cash position of R$1.4 billion as of June 2020; and
- Expected FFO of about R$250 million for the next 12 months as of June 2020.

Principal Liquidity Uses:

- Short-term debt maturities of about R$531 million as of June 2020 (including short-term maturities of acquired company);
- Total capex of R$200 million for the next 12 months as of March 2020;
- Working capital outflow of R$100 million;
- Cash disbursement for the acquisition of Fadel Holding totaling R$159.4 million in the next 12 months; and
- Extraordinary dividend payments of around R$250 million.

Covenants

Simpar

Acceleration-type covenants on its 13th and 14th debentures issuance:

- Net debt to EBITDA-A of maximum of 3.5x;
- EBITDA-A to net interest at a minimum of 2.0x; and
- EBITDA-A = EBITDA without deducting the cost of vehicle sold.

We expect the group to maintain a cushion of around 50% on the net debt to EBITDA-A ratio and 20% on interest coverage in the next two years.

Incurrence covenant that limits the ability to contract additional debt on its 2024 senior unsecured notes:

- Net debt to EBITDA of 4.40x in 2020, 4.20x in 2021, and 4.0x in 2022.

We forecast a tight cushion of around 10% in 2020, improving to around 15% in 2021.

JSL

JSL has the same acceleration-type covenants for its debentures and for its Agricultural Receivables Certificates (CRAs). These debts will continue to be measured at the group's level.

Issue Ratings - Recovery Analysis

JSL

Key analytical factors

- We lowered our rating on the company's 8th senior unsecured notes to 'brAA-', the same level as the national scale issuer credit rating. The recovery rating of '3' indicates our expectation for adequate (50%-70%; rounded estimate: 65%) recovery.
- We estimate $1.8 billion in gross recovery value at the time of default under our projected scenario. This is based on our estimate of an EBITDA at emergence of R$330 million, applying a 5.5x multiple, in line with peers operating in logistics services and freight transportation.
- Our simulated default scenario considers the combination of high delinquency rates on JSL's portfolio given a prolonged and deep economic contraction in Brazil, combined with a significant increase in interest rates, denting the company's access to refinancing.
- We expect that in the event of a default, JSL would reorganize rather than liquidate, because of its asset-light business model, generating higher value to creditors.

Simulated default assumptions

- Year of default: 2024
- Jurisdiction: Brazil
- EBITDA multiple: 5.5x
- EBITDA at emergence: R$330 million

Simplified waterfall

- Net enterprise value (after 5% administrative costs): R$1.7 billion
- Priority debt: R$130 million
- Senior unsecured debt: R$2.3 billion (consisting of local market debentures and CRAs)
- Recovery expectation for senior unsecured creditors: 65% (rounded estimate)

Note: All debt amounts include six months of prepetition interest.

Simpar

Key analytical factors

- We rate the senior unsecured bond and local market debentures at 'BB#' and 'brAA+', respectively, the same as our issuer credit ratings. The '4' recovery rating now reflects our expectation for average recovery (30%#50%; rounded estimate 35%) in the event of default.
- We consider the pro forma debt structure of the group, with the allocated debt and cash position for JSL as a subsidiary (the former holding company) and its successor (Simpar) following the reorganization.
- Our simulated default scenario contemplates a payment default in 2024. The simulated default scenario considers a combination of high default rates in Vamos and JSL's portfolio of contracts, lower utilization rates of Movida's RAC business, and a severe weakening of the Brazil's used#car and truck market, resulting in lower cash generation and limited asset sales activity, hampering the group's capacity to adhere to interest and principal payments. We also account for limited access for refinancing amid a long period of deteriorated credit conditions.
- We assume that the debt at the subsidiaries, JSL, Vamos, Movida, and other subsidiaries have priority over Simpar's unsecured debt in a hypothetical default scenario, because these subsidiaries are not guarantors of the debt at the holding level.
- We expect that in the event of a default, Simpar would reorganize rather than liquidate, given its large scale and as the main transportation group in Brazil, generating higher value to creditors.

Valuation Assumption

- We value the group considering a combination of EBITDA multiple and discrete asset valuation (DAV) approach. The sum of the valuation of its logistics and other businesses with its operating lease business (considering Movida and Vamos) results in the overall group's gross recovery value.
- We value its logistics and other businesses using a 5.5x multiple applied to our projected emergence#level EBITDA. The projected emergence#level EBITDA is of R$500 million, resulting in an estimated gross recovery value of about R$2.8 billion.
- We value its operating lease business segment by the DAV approach, applying an overall haircut of 40% to those subsidiaries' asset base, arriving at a stressed gross valuation of about R$6.8 billion.
- As a result, the total gross recovery value for Simpar is of R$9.6 billion

Simulated default assumptions

- Year of default: 2024
- Jurisdiction: Brazil

Simplified waterfall

- Net enterprise value (after 5% administrative costs): R$9.2 billion
- Debt position and minority interest at subsidiaries: R$7.8 billion
- Amount available to Simpar's senior unsecured creditors: R$1.4 billion
- Senior unsecured debt at Simpar: R$3.8 billion (considering the 2024 bond and local market debentures)
- Recovery expectations: 30%#50% (rounded estimate: 35%)

Note: All debt amounts include six months of prepetition interest.

Ratings Score Snapshot

Simpar S.A.

Issuer credit rating:

- Global scale: BB-/Negative/--
- National scale: brAA+/Negative/--

Business risk: Fair

- Country risk: Moderately High
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone Credit Profile: bb-

JSL S.A.

Issuer credit rating:

- Global scale: B+/Negative/--
- National scale: brAA-/Negative/--

Business risk: Fair

- Country risk: Moderately High
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Highly Leveraged

- Cash flow/Leverage: Highly Leveraged

Anchor: b

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone Credit Profile: b

Final rating, post group support (+1 notch): B+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- 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

- Criteria | Corporates | Industrials: Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Cyclical Industry, Feb. 12, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

*** * * * * * * * * * * * * * * * JSL S.A. * * * * * * * * * * * * * * * ***		
Downgraded; CreditWatch/Outlook Action		
	To	**From**
JSL S.A.		
Issuer Credit Rating	B+/Negative/--	BB-/Watch Neg/--
Brazil National Scale	brAA-/Negative/--	brAA+/Watch Neg/--
JSL S.A.		
Senior Unsecured		
8th Debentures issuance due 2021	brAA-	brAA+/Watch Neg
Recovery Rating	3(65%)	3(60%)
*** * * * * * * * * * * * * * * Simpar S.A. * * * * * * * * * * * * * * ***		
New Rating; CreditWatch/Outlook Action		
Simpar S.A.		
Issuer Credit Rating	BB-/Negative/--	
Brazil National Scale	brAA+/Negative/--	
Ratings Affirmed		
Simpar S.A.		
Senior Unsecured		
13th Debentures issuance due 2024 and 2026	brAA+	
Recovery Rating	4(35%)	3(60%)
Simpar S.A.		
Senior Unsecured	BB-	
Recovery Rating	4(35%)	3(60%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.