

**RATING ACTION COMMENTARY**

Fitch Takes Rating Actions on Brazilian Fleet and Auto Rental Companies

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Fitch Ratings - Rio de Janeiro - 17 Apr 2020: Fitch has conducted a portfolio review of Brazilian fleet leasing and auto rental companies. As a result of this review, the Local Currency (LC) and Foreign Currency (FC) Issuer Default Ratings (IDRs) of JSL S.A. (JSL) and the LC IDR of Localiza Rent a Car S.A. (Localiza) have been downgraded one notch, while the FC IDR of Localiza and the LC and FC IDRs of Ouro Verde Locacao e Servico S.A. (Ouro Verde) have been affirmed.

In conjunction these international rating actions, the National Scale Ratings of JSL and Vamos Locacao de Caminhões, Maquinas e Equipamentos S.A. (Vamos) have been downgraded one notch, while the National Scale Ratings of Localiza, Localiza Fleet S.A.; Ouro Verde; Companhia de Locacao das Americas - LOCOAMERICA and Unidas S.A. (collectively Unidas); Movida Participacoes S.A. (Movida); and LM Transportes Interestaduais Servicos e Comercio S.A. (LM Frotas) have been affirmed. A full list with all rating actions, including Outlooks, is presented below.

The coronavirus outbreak containment measures, such as social distancing and mobility restrictions, are severely impacting the rent-a-car (RaC) business and used car sales. Fitch forecasts revenue in these segments to drop on average between 70% and 90%, respectively, during the second quarter of 2020. Fleet leasing should be relatively less exposed to short-term volatility, as revenue streams are based on long-term contracts with medium to large corporate clients.

The impact of lockdown measures on operating cash flow will be significant, as Fitch projects 45% of total cash costs, on average, to be fixed for RaC business. Sales of used cars will limit downward pressure on FCF, however. At this point, EBITDA is expected to decline between 15%

and 25% in 2020. If the outbreak containment is longer than one quarter and the ability to rent and sell used vehicles remains challenged, EBITDA will drop more significantly and FCF will become pressured.

The downgrades of JSL's and Localiza's IDRs reflect Fitch's view that the fall in demand, and its effects in cash flow generation, will pressure both companies' capital structure in the medium term, delaying the agency's expectations that they would reach or keep leverage ratios aligned with their previous rating categories. Localiza's National Scale Rating was affirmed as it is still consistent with the lower LC IDR. In the case of JSL, its National Scale Rating was downgraded along with its LC IDR. The ratings affirmations for the other issuers reflect Fitch's opinion that fleet leasing and auto rental companies have enough flexibility, in different levels, to face at least one quarter of very weak activity without materially affecting their business profile or debt service capacity in 2020, and that they will have the ability to adjust capex and their fleet to an environment of lower demand.

The Negative Outlooks reflect the challenges the companies will face to strengthen their financial profiles to previous levels by the end of 2021. They also reflect the increasing uncertainties about the duration of the coronavirus outbreak and the companies' ability to absorb a longer period of significant drop in demand. The speed with which demand recovers and the companies' ability to recoup lost revenue, adjust their costs and fleet size, and manage liquidity will be critical in Fitch's assessment of the need for further rating actions.

KEY RATING DRIVERS

JSL S.A.: Frustration on Deleverage Pressured Ratings

JSL had very limited rating headroom before the outbreak. Its leverage is now expected to remain above 4.0x in the medium term. Fitch believes that its liquidity position at the end of March 2020, ex-Movida, was above average. On a consolidated basis, JSL's cash to short-term debt ratio should be higher than 3.0x and at around 1.5x when trade payables to original equipment manufacturer (OEM) are added to the company's short-term debt.

Fitch expects mixed results among JSL's main lines of business. Movida, with 33% of group EBITDA, will be the most affected by social-distancing and mobility-restriction measures. RaC revenue may fall around 70% during 2Q20. The logistics and fleet rentals businesses, JSL Logistic (26% of EBITDA), Vamos (26% EBITDA) and CS Brasil (13% of EBITDA), should be relatively less exposed to short-term volatility, as revenue streams are based on long-term contracts mainly with medium to large corporate clients. In these segments, 2Q20 revenue declines should be at around 25%.

Vamos Locação de Caminhões S.A.: Strong Linkage with JSL

Vamos' rating and Outlook reflect the company's strong legal, operational and strategic links as a wholly owned subsidiary of JSL, according to Fitch's parent and subsidiary rating linkage criteria, which equalizes the ratings of the two companies. In addition to full ownership, JSL guarantees some debt of Vamos, reinforcing the legal tie between them. JSL also has a tracking record of capital increases at Vamos, between assets and cash, to support its growth, which shows great commitment to Vamos. Operational and strategic links are also strong. Companies benefit from important commercial synergies, such as greater bargaining power when buying vehicles and negotiating with customers. Vamos has been a growth arm of the JSL group. On a standalone basis, Vamos' business profile should be more resilient to the effects of the coronavirus outbreak.

Localiza Rent a Car S.A.: Downgrade Due to Higher Leverage

Fitch expects Localiza's net leverage to be higher than 3.5x in the short to medium term, which is above previous downgrade thresholds. Positively, liquidity is robust and the strongest in the sector. Fitch estimates as of March 2020 Localiza would have enough cash on hand to meet six months of all of its operating costs plus its OEM trade payments and its 2020 debt service without the need to borrow or generate additional cash.

Fitch forecasts revenue for RaC and used car sales within Brazil to drop substantially in 2Q20 or while social-distancing measures persist; those segments represented approximately 30% and 61%, respectively, of Localiza's net revenue in 2019. The effects of plummeting sales and rentals will be relevant, as Fitch projects 45% of total cash costs to be fixed. Fleet leasing, representing 9% of Localiza's net revenue, should be in a better position to face short-term volatility. Fitch does not expect the company to be a net cash burner in 2Q20 or to face unmanageable working capital needs. Localiza should also be able to keep its strong business position and competitive advantages within the sector.

Companhia de Locação das Americas S.A. (Unidas): Stronger Fleet Leasing Business Mitigate RaC Exposure

Fitch forecasts marginal deterioration of Unidas' credit metrics, as the company's capital structure was strengthened by a BRL1.2 billion follow-on in December 2019, and capex should be materially lower in 2020. Leverage should be around 3.5x in the medium term. By the end of March 2020, liquidity should be solid, with the ratio of cash to short-term debt plus trade payables to OEM at around 1.5x. Fitch does not foresee the company to be a net cash burner in 2Q20.

Fleet leasing represents approximately 27% of Unidas' net revenue, and should be relatively less exposed to short-term volatility. RaC and used car sales segments represented around 21% and 51%, respectively, of Unidas' net revenue in 2019 and will be more exposed to deterioration on the 2Q20 or while social-distancing measures persist. The effects of plummeting sales and rentals will be relevant, as Fitch estimates that almost 40% of Unidas' total cash costs are fixed.

Movida Participações S.A.: Relevant RaC Exposure is Challenging

Fitch foresees leverage to spike in 2020, reaching close to 4.0x, and then to decline to below 3.5x in 2021, considering an expected material capex reduction in 2020 and 2021. The ratio of cash to short-term debt was forecast at around 3.0x by the end of March 2020. However, liquidity seems less robust when including trade payables to OEM in the company's short-term debt, which should make this ratio lower than 1.0x. Normally for RaC players, trade payables to OEM are met with the proceeds of used car sales, which should recover in the second half of the year.

RaC and used car sales segments represented approximately 30% and 58%, respectively, of Movida's net revenue in 2019 and should suffer during the 2Q20 or while social-distancing measures persist. The effects of plummeting sales and rentals will be relevant, as Fitch projects 45% of total cash costs to be fixed. Fleet leasing, representing 12% of Movida's net revenue, should be relatively less affected.

Ouro Verde Locação e Serviço S.A.: None-RaC Exposure is Positive

Ouro Verde's financial profile was strengthened at mid-year 2019 following Brookfield's acquisition of 100% of the company's shares and a BRL500 million capital injection, along with the completion of a debt restructuring. Fitch believes Ouro Verde to have a robust liquidity position as of March 2020, with estimated cash coverage of over 3.0x, no foreign exchange risk, and a well-spread debt amortization profile. Refinancing risk is considered limited.

Ouro Verde's strong presence in heavy vehicles and machinery rentals should make its revenue stream, based on long-term contracts with corporate clients, less exposed to measures such as social distancing and mobility restrictions. Moreover, contracts maturing until the end of 2020 represent, approximately, between 15% and 20% of total revenue - with normalized historical renovation rates over 80%. The company has a higher proportion of fixed costs compared with auto rental companies, a limited scale and a more concentrated client portfolio that may pose a challenge as clients seek to renegotiate terms or extent payments date.

LM Transportes Interestaduais Serviços e Comércio S.A.: Medium-Size Fleet Leasing Player

Fitch projects leverage to spike in 2020, reaching close to 4.0x, and then to decline below 3.5x in 2021, considering an expected material capex reduction in 2020 and 2021. Additionally, Fitch forecasts that liquidity by the end of March 2020 was adequate, with cash to short-term debt at around 1.3x and at around 1.1x when adding trade payables to OEM to the company's short-term debt. While, at this point, the company should not be a net cash burner in 2Q20, working capital needs, which is harder to assess at this early stage of the crisis, may be a challenge as the company has limited scale and a more concentrated client portfolio, which can be problematic as clients may seek to renegotiate terms or extent payments date.

Fleet leasing represents, approximately, 90% of LM Frotas' net revenue, while ride-hailing business accounted for 10% in 2019. Compared with RaC, both segments should be relatively less exposed to short-term volatility, with fleet leasing considerably more resilient. Positively, less than 5% of the company's fleet leasing contracts mature in 2020 - with historical renovation rates over 80%. Used car sales represents a smaller percentage of the group total revenue, less than 40%, as the company's fleet-turnaround ratio is much lower than that of RaC players, leaving LM Frotas more room to better spread its used auto sales along the second half of the year.

DERIVATION SUMMARY

Fitch believes the top-three auto rental players Localiza, Unidas and Movida are, in different levels, better positioned than peers to absorb the shock related to the coronavirus outbreak. They benefit from larger scale and have enough cash positions to accommodate one quarter of very weak demand for auto rental and asset sales without significantly damaging their business positions while taking a manageable hit in their credit profiles, in terms of both leverage and liquidity.

Smaller players, such as LM Frotas and Ouro Verde, have weaker financial profiles but none or very little exposure to RaC-like products. LM Frotas has greater exposure to fleet management, while Ouro Verde is stronger in heavy vehicle and machinery rentals, both of which have revenues based on long-term contracts. On the other hand, both companies carry cash positions relatively lower than those of the big three, while Ouro Verde may benefit from having a stronger shareholder with stronger and proven funding access.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Coronavirus-containment measures to persist only during 2Q20;
- Companies have limited ability to adjust cost structure in the short-term;
- RaC and used car sales demand to drop, on average, 70% and 90%, respectively, in 2Q20;
- Fleet Rental segments to be less exposed to short-term volatility;
- Companies retain access to more expensive new funding, if needed.

RATING SENSITIVITIES**JSL S.A.:**

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

An upgrade on the ratings is not expected on the short-term.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Failure to preserve liquidity and inability to access adequate funding;
- Prolonged decline in demand coupled with company inability to adjust operation, leading to a higher than expected fall in operating cash flow;
- Increase in net adjusted leverage to more than 4.0x beyond 2021;
- Material deterioration on the group's fleet rental and logistics business.

Vamos Locação de Caminhões, Máquinas e Equipamentos S.A.:

Due to the existence of a strong parent and subsidiary linkage between the rating of Vamos and that of its parent company JSL, changes in the rating and Outlook will follow movements on JSL's rating and Outlook.

Localiza Rent a Car S.A.:

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

An upgrade on the LC and FC IDRs is not expected on the short-term. The resolution of the Negative Outlook for the LC IDR and National Scale Rating will depend on the severity of the impact on the issuer's operating cash flow generation in 2020 and 2021, together with the ability to adjust cost, fleet size, and manage leverage and liquidity.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Failure to preserve liquidity and inability to access adequate funding;
- Prolonged decline in demand coupled with company inability to adjust operation, leading to a higher than expected fall in operating cash flow;
- Increase in total adjusted leverage to more than 4.5x and in net adjusted leverage to more than 3.5x on a regular basis;

--A further negative rating action on Brazil's sovereign rating and country ceiling could result in negative rating action for the company's FC IDR.

Localiza Fleet S.A:

Due to the existence of a strong parent and subsidiary linkage between the rating of Localiza Fleet and that of its parent company Localiza, changes in the rating and Outlook will follow movements on Localiza's rating and Outlook.

Movida Participações S.A.:

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

An upgrade on the ratings is not expected on the short-term. The resolution of the Negative Outlook will depend on the severity of the impact on the issuer's operating cash flow generation in 2020 and 2021, together with the ability to adjust cost, fleet size, and manage leverage and liquidity.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

--Failure to preserve liquidity and inability to access adequate funding;

--Prolonged decline in demand coupled with company inability to adjust operation, leading to a higher-than-expected fall in operating cash flow;

--Increase in net adjusted leverage to more than 4.0x on a regular basis;

--Downgrade of JSL's National Long-Term Rating to a level below that of Movida.

Companhia de Locacao das Americas - LOCOAMERICA and Unidas S.A.:

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

An upgrade on the ratings is not expected in the short-term. The resolution of the Negative Outlook will depend on the severity of the impact on the issuer's operating cash flow generation in 2020 and 2021, together with the ability to adjust cost, fleet size, and manage leverage and liquidity.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

--Failure to preserve liquidity and inability to access adequate funding;

--Prolonged decline in demand coupled with company inability to adjust operation, leading to a higher-than-expected fall in operating cash flow;

--Increase in net adjusted leverage to more than 4.0x on a regular basis.

Ouro Verde Locação e Serviço S.A.:

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

An upgrade on the ratings is not expected on the short-term.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

--Failure to preserve liquidity and inability to access adequate funding;

--Perception of lower support from Brookfield;

--Prolonged decline in demand coupled with company inability to adjust operation, leading to a higher-than-expected fall in operating cash flow;

--Material deterioration of the company's capital structure.

LM Transportes Interestaduais Serviços e Comércio S.A.:

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

An upgrade on the ratings is not expected on the short-term. The resolution of the Negative Outlook will depend on the severity of the impact on the issuer's operating cash flow generation in 2020 and 2021, together with the ability to adjust cost, fleet size, and manage leverage and liquidity.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

--Failure to preserve liquidity and inability to access adequate funding;

--Prolonged decline in demand coupled with company inability to adjust operation, leading to a higher-than-expected fall in operating cash flow;

--Increase in net adjusted leverage to more than 3.5x on a regular basis.

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>.

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

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Unidas S.A.	Natl LT	AA+(bra)	Affirmed	AA+(bra)
● senior unsecured	Natl LT	AA+(bra)	Affirmed	AA+(bra)
JSL Europe				
● senior unsecured	LT	BB-	Downgrade	BB
Vamos Locacao de Caminhoes, Maquinas e Equipamentos	Natl LT	AA-(bra)	Downgrade	AA(bra)

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Metodologia de Ratings em Escala Nacional \(pub. 17 Aug 2018\)](#)

[Parent and Subsidiary Rating Linkage \(pub. 27 Sep 2019\)](#)

[Vínculo Entre Ratings de Controladoras e Subsidiárias \(pub. 15 Oct 2019\)](#)

[Corporate Rating Criteria \(pub. 27 Mar 2020\) \(including rating assumption sensitivity\)](#)

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

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ENDORSEMENT STATUS

Companhia de Locacao das Americas - LOCAMERICA	-
JSL Europe	EU Endorsed
JSL S.A.	EU Endorsed
LM Transportes Interestaduais Servicos e Comercio S.A.	-
Localiza Fleet S.A.	-
Localiza Rent a Car S.A.	EU Endorsed
Movida Participacoes S.A.	-
Ouro Verde Locacao e Servico S.A	EU Endorsed
Unidas S.A.	-
Vamos Locacao de Caminhoes, Maquinas e Equipamentos S.A.	-

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Autos Corporate Finance: Middle Markets Corporate Finance Industrials and Transportation

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