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Research Update:

Indigo Group S.A. Upgraded To 'BBB' On Resilient Forecast Earnings And Prudent Financial Policy; Outlook Stable

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Rating Action Overview

- We anticipate that French car park operator Indigo Group S.A. (Indigo) will maintain resilient operating performance in 2023-2024, thanks to further tariff and volume growth, as well as a continued strategic focus on infrastructure businesses (about 88% of 2022 EBITDA), mostly concentrated in Continental Europe.
- This will mitigate expanding, but still limited, exposure to soft currency or higher-risk countries, such as Brazil (which could contribute about 10% of the group's EBITDA in 2023), and the weaker macroeconomic environment.
- Furthermore, we believe the company's track record of financial discipline and commitment to a prudent and flexible financial policy will enable it to pursue the large growth capital expenditure (capex) plan while maintaining funds from operations (FFO) to debt at 11%-12% and S&P Global Ratings-adjusted debt to EBITDA at about 6.0x in the next 12-24 months.
- We therefore raised our long-term issuer credit and issue ratings on Indigo and its debt to 'BBB' from 'BBB-'.
- The stable outlook reflects our view that the company can maintain weighted-average FFO to debt of 11%-12% and debt to EBITDA of about 6.0x in 2023-2025 via revenue growth, cost optimization, and its prudent financial policy, which provides a good degree of rating headroom.

Rating Action Rationale

The upgrade reflects our view that Indigo will maintain solid credit metrics of FFO to debt of 11%-12% and debt to EBITDA of about 6.0x, supported by resilient operating performance over the next two years. We assume resilient operating performance in 2023-2025, mainly supported by largely inflation-linked tariffs in its concession contracts--with a significant part of EBITDA in France from concessions that benefit from automatic indexation mechanisms--and our expectations of successful negotiations with municipalities for further tariff increases considering

higher inflation. Moreover, we anticipate a continued recovery in car park occupancy rates and key contract renewals--including for Lille, which was renewed in 2022 until December 2027--will mitigate permanent volume losses due to remote working practices and lost contracts. We view Indigo's sound portfolio diversification, with the top-10 infrastructure contracts ending before 2026 representing less than 10% of revenue, as a supportive factor for earnings stability. At year-end 2022, like-for-like volumes were still 10% below 2019 levels, affected by the refinery and pension reform strikes in France (73% of 2022 EBITDA). However, we assume potential growth of a low-single-digit percentage in 2023-2024, considering higher fuel costs and the weaker macroeconomic environment. This will support resilient margins of 44%-46% over the next few years, from a very strong level of 51.4% in 2022, despite the contribution from lower-margin countries and materially higher electricity costs. We assume the latter could increase more than 70% in 2023, although this will be partly mitigated by the company's targeted electricity-saving measures.

We expect cash flow from operations to be sufficient to support the planned capex without materially increasing adjusted debt to EBITDA. Our base-case scenario considers significant capex over 2023-2024 totaling €390 million-€410 million, after €158 million in 2022 (as reported by the company, on a net basis) mainly for new developments and renewals, which should fuel adequate future cash flow growth. Therefore, we assume S&P Global Ratings-adjusted debt will remain contained at €2.4 billion-€2.6 billion over 2023-2025 despite the expansion phase and higher financing costs amid the current environment, including the refinancing of €528.5 million of debt maturing in 2025 (about 25% of 2022 total gross debt). We include in our adjusted debt the additional concession liabilities, given the new concessions awarded. We do not factor further proceeds from asset disposals after the sale of the stake in LAZ in 2021, as well as Hoboken and its joint venture shares in China in 2022, since we believe the group has successfully achieved its geographical refocus. This should translate into credit metrics declining slightly in 2023, after a record level in 2022, and remaining stable thereafter, at approximately 11%-12% FFO to debt and 6x debt to EBITDA over 2023-2025 (from 13.4% and 5.6x respectively in 2022).

We assume that Indigo's focus on infrastructure contracts in Europe mitigates expanding, but still limited, exposure to higher risk countries such as Brazil. We do not foresee a change in the group's long-term strategy following the appointment of the new CEO in April 2023. We assume Indigo will continue to focus on higher-margin concession and ownership businesses in Europe, mitigating the exposure to currency risk, high inflation, and lower margins in Brazil, which could contribute about 10% of the group's EBITDA in 2023, including the full-year contribution of the country's third largest car park operator, PareBem. Indigo exited both the U.S. and Chinese markets recently as part of its portfolio review, and we assume the group will continue to expand its activities in South America, although prudently and mainly through joint ventures or partnerships with local partners and entering contracts that carry no market risk, as experimented previously. Therefore, we assume that the group will continue to generate about 80% of EBITDA from Europe, including its core market France, supported by more than 65%-70% of its total planned growth capex being directed toward the region. The group also continues to develop urban mobility solutions, including more electric vehicle (EV) charging stations, although the contribution to total revenue is currently negligible.

The track record of financial discipline and commitment to its financial policy support the 'BBB' rating, despite the large growth capex plan in the next two to three years. We believe that Indigo has the discipline to commit to its financial policy and will continue to manage its dividend payments and capex to support leverage commensurate with the rating. In our view, the company

has flexibility to defer investments to preserve cash in a weaker operating environment, since a significant part of its investment program is uncommitted for 2023-2025. Moreover, we assume the group will remain selective regarding opportunities to replenish cash flows and renewals, which would only be pursued if commercially favorable terms are agreed. Our base case includes increased dividends in 2023-2025 compared to our previous forecasts, reflecting Indigo's stronger-than-expected performance in 2022, after dividends were cut in 2020 (when leverage peaked at 9.5x) and 2021. In our view, dividend payments would remain flexible and depend on business conditions, enabling the group to keep sufficient headroom under our rating thresholds.

Outlook

The stable outlook indicates that we expect Indigo to maintain adjusted FFO to debt of about 11%-12% and debt to EBITDA of about 6x in 2023-2025 on the back of further tariff increases, prudent execution of its growth strategy, and a balanced financial policy.

Downside scenario

We could lower the rating if, in our view, Indigo is unable to maintain FFO to debt comfortably above 10% and debt to EBITDA comfortably below 6.5x in the next 12-18 months. This could occur if:

- Profitability deteriorates due to failure to achieve forecast growth from the large development capex plan, higher-than-anticipated inflationary pressures not mitigated by price increases, or a stronger-than-anticipated effect on volumes from higher fuel costs and the weaker macroeconomic environment.
- Higher-than-expected shareholder distributions, or the capex growth strategy, are not supported by adequate EBITDA growth.
- The group significantly changes its business mix so that exposure to noninfrastructure, such as management contracts and short-term leases, increases to about 30% of EBITDA, or its exposure to a less stable market increases materially, which could hamper cash flow predictability and increase country or currency risk. At the same time, if adjusted EBITDA margins fell below 30%, this could weaken our view of the group's business risk profile, although we see this as unlikely at this stage.

Upside scenario

We see a positive rating action as unlikely given the relatively high leverage, as measured by the group's debt to EBITDA, and its large, planned growth capex plan. For us to consider a positive rating action on Indigo, we would need the company to commit to a material reduction in debt to EBITDA, backed by a predictable financial policy, translating in FFO to debt sustainably above 13%.

Company Description

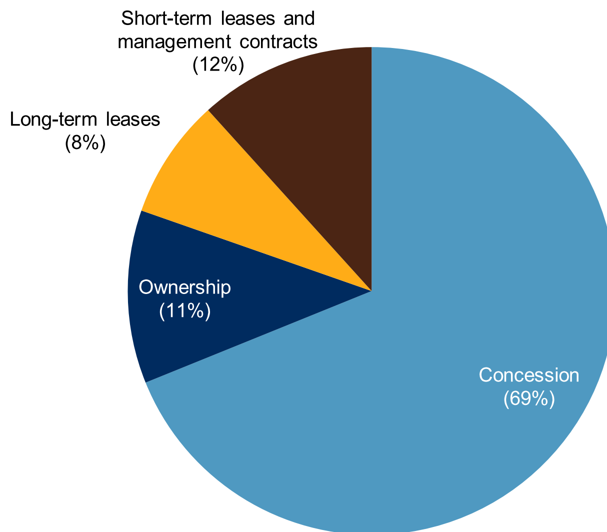
Indigo is a holding company based in France. It manages more than 1.4 million parking spaces in nine countries worldwide, including Canada and Brazil, although France remains the core market, where the group generated more than 70% of its International Financial Reporting Standards

EBITDA at Dec. 31, 2022. The business model focuses on off-street concession-type parking (particularly in France, Spain, and Belgium) that generates strong profitability and it has an average remaining term of 27 years. Indigo enters emerging markets typically via short-term, low-demand-risk contracts that require little investment but also generate low margins.

The company is fully owned by Infra Foch TopCo S.A.S., which is a holding company controlled by Predica (47.8%), Vauban Infrastructure Partners (33.4%), and MEAG (14.4%), with 0.4% held in treasury shares and the remainder by management.

Chart 1

Global proportionate EBITDA split by type of contract at Dec. 31, 2022
About 88% of global proportionate EBITDA is generated by long-term infrastructure businesses



Source: S&P Global Ratings.
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Our Base-Case Scenario

Assumptions

- We analyze Indigo on a consolidated basis with Indigo Infra S.A.S., as core subsidiaries of their ultimate owner, Infra Foch TopCo. We focus on the consolidated group ratios by adding any additional debt or cash flows at the parent company, Infra Foch TopCo. We do not treat Infra Foch TopCo's convertible bond as debt and Infra Foch TopCo has no external financial debt or other operations at present. We applied a tax consolidation adjustment of €17.9 million in 2022.
- Revenue growth of about 16%-18% in 2023, driven mainly by the full-year contribution of

ParеBem in Brazil. In Continental Europe, we assume about 6%-8% revenue growth, supported by further tariff increases and volume growth from new developments and recent contract renewals. In 2024-2025, we assume revenue growth of about 7%-9%, supported by the contributions of new acquisitions and developments and no large contract renewals.

- EBITDA margins of 44%-46% over 2023-2025, from 51.4% in 2022, due to the increased contribution from lower-margin countries, materially higher electricity costs, and the easing of cost-savings benefits as the recovery accelerates.
- Total capex of about €550 million-€560 million over 2023-2025, reflecting investments in maintenance, renewal, and new developments, the latter totaling €230 million-€250 million this year.
- Limited acquisitions of €15 million-€20 million in 2023..
- Annual dividends to Infra Foch TopCo of about €120 million in 2023, increasing to about €135 million-€145 million thereafter.
- S&P Global Ratings-adjusted debt of about €2.4 billion in 2023, increasing to €2.5 billion-€2.6 billion in 2024-2025, as available cash is consumed by the large growth capex plan. Our debt figure includes additional fixed concession fees of about €150 million in 2023 and €30 million-€50 million per year in 2024-2025, as well as €60 million-€70 million of additional lease debt over the period as a result of new concessions and leases signed, and factoring the impact of higher inflation.

Key metrics

Indigo Group S.A.--Key Metrics*

	--Fiscal year ended Dec. 31--				
Mil. €	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
French GDP growth	6.8	2.6	0.4	1.2	1.6
French CPI growth	2.1	5.9	5.4	2.3	2.0
Revenue	585.0	719.5	810-860	880-930	950-1,000
EBITDA	307.9	369.9	370-400	390-420	410-440
FFO **	229.1	276.5	260-290	275-305	280-310
EBITDA margin (%)	52.6	51.4	45-47	44-46	43-45
Capital expenditure	154.2	198.1	230-250	150-170	145-165
Dividends	57.1	102.7	115-125	130-140	140-150
Debt	1,892	2,065	2,410-2,460	2,510-2,560	2,570-2,620
Debt to EBITDA (x)	6.1	5.6	6.0-6.5	About 6	About 6
FFO to debt (%)	12.1	13.4	11-12	11-12	11-12

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations. CPI--Consumer price index. **In 2022, our FFO calculation excludes €47 million of tax payments related to the LAZ disposal. Our main adjustments to Indigo's reported debt relate to €13 million of pension obligations and €15 million of cash that we consider inaccessible. We aslo exclude the convertible bonds from our leverage calculations, reflecting our view of the shareholders as long-term infrastructure investors, rather than financial sponsors, and the provisions of the subordination agreement.

Liquidity

We assess Indigo's liquidity as strong, based on our expectation that liquidity sources for the next 12 months started April 1, 2023, will cover uses more than 1.5x, and that coverage will remain above 1.0x for the following year. Our assessment of Indigo's liquidity is supported by its solid relationships with banks, generally prudent risk management, and ability to weather high-impact, low-probability events without the need for refinancing. This is thanks to abundant liquidity and no refinancing needs before April 2025, when its €528.5 million bond expires.

We expect principal liquidity sources for the 12 months to March 31, 2024, will include:

- €225 million of unrestricted cash and cash equivalents.
- A €300 million undrawn committed revolving credit facility, maturing in July 2027.
- Cash FFO of €250 million-€260 million.

We expect principal liquidity uses for the same period will include:

- Debt maturities of about €126 million, linked to payment of fixed concession fees and repayment of the debt in Brazil.
- Working capital outflows of €15 million-€20 million, mainly reflecting the recovery of volumes.
- Capex of about €220 million-€230 million, reflecting maintenance for existing contracts and investments in new developments.
- Dividend distributions to Infra Foch TopCo of about €120 million, which cover both the dividend payments to the ultimate shareholders and the interest on the convertible bonds.

Covenants

There are no financial covenants on existing debt, nor at any subsidiary the group controls.

Environmental, Social, And Governance

ESG credit indicators: To E-2, S-2, G-2; From E-2, S-3, G-2

With a car park occupancy recovery underway, we now see social factors as a neutral consideration for our credit analysis, compared with moderately negative previously. We understand that like-for-like volumes at year-end 2022 were still 10% below 2019 levels, affected by refinery and pension reform strikes in France. This year, we believe further volume recovery will support stronger earnings. Although volume growth could slow in the next 12-18 months, we believe macroeconomic headwinds and new working modes, rather than social risk, will drag on momentum.

We note that in Paris, the group's largest city by EBITDA contribution, green policies are discouraging on-street parking and restricting access to the city center. However, this risk is mitigated thanks to rebalancing mechanisms in the concession contracts and Indigo's almost full exposure to off-street parking. Also, we note Indigo's October 2021 announcement that it plans to install more than 10,000 chargers for EVs in Europe by 2025, from 4,073 at year-end 2022.

Issue Ratings - Subordination Risk Analysis

Capital structure

Indigo's capital structure comprises about €1.9 billion of senior unsecured debt.

Analytical conclusions

The 'BBB' issue rating on Indigo's notes reflects that all the notes are senior unsecured and the amount of debt at the subsidiaries is limited (about €106 million).

Ratings Score Snapshot

Issuer Credit Rating	**BBB/Stable/--**
Business risk:	Strong
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb

Related Criteria

- 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 | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global

Corporate Issuers, Dec. 16, 2014

- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

Upgraded; Outlook Action

	To	From
Indigo Group S.A.		
Indigo Infra S.A.S.		
Issuer Credit Rating	BBB/Stable/--	BBB-/Positive/--
Indigo Group S.A.		
Senior Unsecured	BBB	BBB-

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 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. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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