

Research Update:

# France-Based Indigo Group Outlook Revised To Positive On Stronger Balance Sheet; 'BBB-' Ratings Affirmed

July 7, 2022

## Rating Action Overview

- Indigo Group's car park business continues to execute its strategic plans to strengthen its balance sheet and optimize its portfolio, which we expect, along with consolidating revenue from growth investments, could sustain funds from operations (FFO) to debt comfortably above 10% in the next 12-18 months, from 12.1% in 2021.
- We believe ongoing recovery in car park occupancy and inflation-linked tariffs should mitigate pressure on operating margins and, if our base-case materializes, it would enable S&P Global Ratings-adjusted debt to EBITDA to remain at 6.0x-6.5x on average in the next 12-18 months, which is better than our previous forecast of 6.5x-7.0x, although with only slim headroom in 2023.
- The planned merger of Indigo's Brazilian activities with the third-largest car park operator in Brazil, PareBem (announced on June 28), does not change our view of Indigo's strong business quality, since we expect the group will continue to generate about 75% of its EBITDA in Europe.
- We therefore revised our outlook on Indigo to positive from stable and affirmed our 'BBB-' rating.
- The positive outlook reflects that we could raise the rating by one notch if we believe the group will maintain adjusted weighted-average FFO to debt above 10% and debt to EBITDA below 6.5x while executing its strategic plan, supported by a prudent financial policy.

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## Rating Action Rationale

**The outlook revision reflects our view that Indigo's strategic initiatives and its prudent financial policy will likely support FFO to debt of above 10% in the next 12-18 months, from 12.1% in 2021.** Indigo completed a few disposals as part of its portfolio review exercise (mainly including the sale of its 50% stake in LAZ Karp Associates LLC in the U.S. on Dec. 30, 2021, for about an €180 million positive cash impact). This boosted the FFO to debt ratio toward 12% in 2021 and the

group used the proceeds to repay €121.5 million of its €650 million bonds maturing 2025 in May 2022. Indigo is pursuing disposals of nonstrategic assets to focus on countries where it can have a leading market position. We assume Indigo will continue to use resources from these strategic initiatives to finance its robust development program rather than upstream them as dividends, in line with its commitment to an investment-grade rating. Given that about 50% on average of Indigo's investment program is uncommitted, it has flexibility to defer investments to preserve cash in a weaker operating environment. We assume the group will undertake capital expenditure (capex) of about €140 million-€160 million in 2022, followed by €210 million-€230 million in 2023, with almost 80% of it directed toward new development of brownfield concessions projects and car park ownership. We also factor in that the group either has contractual protection against consumer price inflation increases on most of its committed capex or benefits from contractual tariff increase clauses that can mitigate a potential increase in capex.

**We think positive trends in occupancy rates, combined with largely inflation-linked tariffs under Indigo's favorable concession structures, should mitigate inflationary pressure.** We assume Indigo's revenue will recover to 95%-100% of 2019 levels in 2022, from about 80% in 2021, and surpass 2019 levels in 2023. This is mainly driven by revenue from capex development and acquisitions completed in the past few years. These factors will offset the expiry of the La Défense concession at the end of 2021 (about 5% of the group's revenue), as will the strong recovery at a constant perimeter in the group's key markets. We expect volumes will remain below 2019 levels in 2022, with geographies where restrictions have been lifted late, such as Canada, taking longer to recover, followed by a full recovery in 2023.

Moreover, we anticipate a limited impact from inflationary pressures on the group's margins, reflecting general indexation clauses included in concession contracts that would allow it to pass on most of the inflation (5.1% under our macroeconomic assumptions for France in 2022) through tariff increases. For instance, a significant part of EBITDA generated in France comes from concessions that benefit from an automatic indexation mechanism, most of the remainder being subject to agreement with municipalities. Similar mechanisms exist in Belgium, Brazil, and Spain. That said, we assume margins will decrease to 43%-45% in 2023, from about 49%-51% in 2022, reflecting several combined effects: the increased contribution from lower margin countries, such as Brazil or Canada; materially higher electricity costs (less than 3% of revenue on average); and easing cost savings as car park occupancy recovers. As such, we forecast S&P Global Ratings-adjusted debt leverage will likely remain at 6.0x-6.5x on average over 2022-2023, from 6.1x in 2021, which is better than our previous forecast of 6.5x-7.0x, although with limited headroom for underperformance in 2023. Higher fuel costs could affect volumes, although this would be mitigated by the French government's plan to limit the impact on final consumers and the group's ongoing investment in electric vehicle (EV) charging stations.

**The planned acquisition of Brazil's third-largest car park operator does not change our view of Indigo's business strengths.** Brazil's contribution to total EBITDA will likely remain limited and the group will continue to generate about 75% in Europe. The country accounted for 4%-5% of Indigo's EBITDA in 2021 and we expect the PareBem acquisition to increase this to about 10% in 2022, pro forma. The transaction would require limited cash payments because Indigo is contributing 100% of its Indigo Brazil business, which, merged with PareBem into a new holding company (MergerCo), would give Indigo a controlling stake in MergerCo. In our view, the merger will improve Indigo's competitive position in Brazil and enable operating synergies. Nevertheless, it increases Indigo's exposure to lower-margin on-street parking services. We will continue to monitor the group's exposure to Latin America, given possible higher volatility in earnings because of currency risk and high inflation (10.6% in Brazil for 2022 according to our latest estimates).

Indigo is currently the second-largest player in the Brazilian market, where it operates mainly through long-term lease contracts. The company expects the transaction, which is subject to customary and applicable approvals, to close before the end of 2022.

## **Outlook**

The positive outlook reflects our view that Indigo could maintain FFO to debt well above 10% and adjusted leverage of 6.0x-6.5x in the next 12-18 months, on the back of volume recovery and tariff increases, revenue from acquisitions, and a balanced financial policy.

## **Upside scenario**

We could raise our rating if Indigo performs in line with our base-case assumptions, maintaining FFO to debt well above 10% and debt to EBITDA of 6.0x-6.5x in the next 12-18 months. This could occur if Indigo sustains its volume growth from recovery in car park occupancy and revenue from the acquisitions and development plan, despite higher fuel costs in its core markets, while mitigating inflationary pressures through timely price increases. Under this scenario, the company would also maintain a disciplined financial policy and smoothly integrate the Brazilian assets into its network.

## **Downside scenario**

We could revise our outlook to stable if we do not expect Indigo to maintain adjusted weighted-average FFO to debt above 10% and debt to EBITDA of about 6.0x-6.5x on a sustainable basis. This could occur if:

- Profitability deteriorates due to a lengthier recovery in occupancy rates, 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 impact on volumes from higher fuel costs;
- The company's financial policy becomes more aggressive; or
- 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 the predictability of cash flows and increase country or currency risk. This would likely cause adjusted EBITDA margins to fall below 30% and so weaken our view of the group's business risk profile, although we see this as unlikely at this stage.

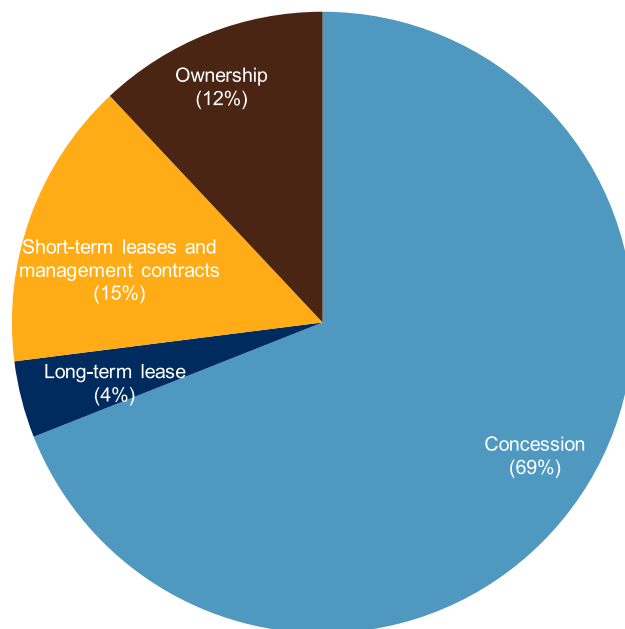
## **Company Description**

Indigo is a holding company based in France. It manages more than 1.2 million parking spaces in 11 countries worldwide, including Canada and Brazil, although France remains the core market, where the group generates more than 75% of its International Financial Reporting Standard EBITDA as of Dec. 31, 2021. 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.

### Global Proportionate EBITDA Split By Type Of Contract As Of Dec. 31, 2021

About 85% of global proportionate EBITDA is generated by infrastructure business (concession, long-term lease, and ownership)



Source: S&P Global Ratings.

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## Our Base-Case Scenario

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 consolidated group ratios by adding any additional debt or cash flows at the parent company, Infra Foch. We do not treat Infra Foch's convertible bond as debt and Infra Foch has no external financial debt or other operations at present. We applied a tax consolidation adjustment of €19.9 million in 2021 (this is higher than for 2020, at €6.2 million, due to one-off effects)

## Assumptions

- French GDP growth of 2.7% in 2022 and about 1.8%-1.9% over 2023-2024.
- French consumer price index growth of 5.1% in 2022, 2.5% in 2023, and 2.1% in 2024.
- Revenue growth of about 19%-20% in 2022, driven by recovery in occupancy rates and the contributions of new businesses, mainly in France, that will offset the nonrenewal of the La

Défense contract. In 2023, we assume revenue growth of about 18%-19%, supported by the full-year contribution of PareBem, as well as other new developments in Europe and Brazil, and continued traffic recovery.

- EBITDA margins remain strong at 49%-51% in 2022, compared with 52.6% in 2021, supported by tariff increases and lower electricity costs mitigating inflationary pressures. In 2023, we assume margins will decrease to 43%-45%, due to the increased contribution from lower-margin countries, materially higher electricity costs, and the easing off of cost savings benefits as recovery accelerates.
- Total capex of about €510 million-€530 million over 2022-2024, reflecting investments in maintenance, renewal, and new developments, the latter totaling €120 million-€130 million this year.
- Acquisitions of €35 million-€40 million in 2022, followed by €15 million-€20 million in 2023, reflecting payments in relation to the parking activities of Transdev and the Covivio acquisitions in France.
- Annual dividends to Infra Foch TopCo of about €100 million in 2022-2024.
- S&P Global Ratings-adjusted debt of about €2.2 billion in 2022, increasing to €2.4 billion-€2.5 billion in 2023-2024, as available cash is consumed by the large growth capex plan. Our debt figure includes additional fixed concession fees of about €40 million-€70 million and €30 million-€50 million of lease liabilities in 2022-2024 as a result of new concessions and leases signed and factoring the impact of higher inflation.
- Our main adjustments to Indigo's reported debt relate to €14 million of pension obligations and €15 million of cash that we consider inaccessible. We exclude the convertible bonds from our leverage calculations, reflecting our view of shareholders as long-term infrastructure investors, rather than financial sponsors, and the provisions of the subordination agreement.

## Key metrics

### Indigo Group S.A.--Key Metrics\*

Mil. €	2020e	2021e	2022f	2023f	2024f
Revenue	527	585	670-720	800-850	880-930
EBITDA	228	308	330-360	350-380	375-405
EBITDA margin (%)	43	53	49-51	43-45	42-44
Capital expenditure	233	154	140-160	210-230	135-155
Dividends	1	57	100	100	100
Debt	2,165	1,892	About 2,200	About 2,400	About 2,500
Debt to EBITDA (x)	9.5	6.1	6.0-6.5	About 6.5	6.0-6.5
FFO to debt (%)	8.1	12.1	11.0-12.0	About 11	11.0-12.0

\*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations.

## Liquidity

We assess Indigo's liquidity as strong, based on our expectation that liquidity sources for the next 12 months will cover uses by 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 relationship with banks, generally prudent risk management, and its ability to weather high-impact, low-probability events without the need for refinancing, 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, 2023, will include:

- €410 million of unrestricted cash and cash equivalents.
- A €300 million undrawn committed revolving credit facility, maturing in October 2023.
- Cash FFO of €170 million-€180 million.

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

- Debt maturities of about €87 million, the majority attributable to payment of fixed concession fees.
- Working capital outflows of €40 million-€50 million reflecting mainly the recovery of volumes.
- Cash outflows of €19 million for recently performed acquisitions in France.
- Capex of about €170 million, reflecting maintenance for existing contracts and investments in new developments.
- Dividend distributions to Infra Foch TopCo of about €100 million, which cover both the dividends 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: E-2, S-3, G-2

Social factors are a moderately negative consideration in our credit rating analysis of Indigo. During the COVID-19-related lockdowns, car park occupancy dropped significantly, translating into a 26% revenue decrease in 2020.

Although revenue reached close to 2019 levels during the third quarter of 2021, we expect recovery to pre-pandemic levels by 2022 at the earliest, hampering cash flow. 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 by Indigo's almost full exposure to off-street parking. Also, we note Indigo's October 2021 announcement of plans to install more than 10,000 chargers for EVs in Europe by 2025 (from 1,350 at end-2019).

## Issue Ratings - Subordination Risk Analysis

### Capital structure

Indigo's capital structure comprises about €1.8 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 €65 million and €30 million-€40 million more at PareBem after transaction close).

### Ratings Score Snapshot

Issuer Credit Rating	BBB-/Positive/--
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	Negative (-1 notch)
Stand-alone credit profile:	bbb-
Group credit profile	bbb-
Entity status within group	Core

### 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
- 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: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

## Related Research

- Indigo Group's Solid 2021 Results Are Set To Restore Rating Headroom, March 30, 2022

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>Indigo Group S.A.</b>		
<b>Indigo Infra S.A.S.</b>		
Issuer Credit Rating	BBB-/Positive/--	BBB-/Stable/--
<b>Ratings Affirmed</b>		
<b>Indigo Group S.A.</b>		
Senior Unsecured	BBB-	

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