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Research Update:

French Car Park Operator Indigo Group Downgraded To 'BBB-' On COVID-19 Volumes Drop; Outlook Negative

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Rating Action Overview

- Car park operators are facing an unprecedented drop in volumes due to government restrictions on movement amid the COVID-19 pandemic.
- We forecast a material drop in earnings for global car park operator Indigo Group SAS (Indigo)--a 35%-40% decline in S&P Global Ratings-adjusted EBITDA, followed by a two-year recovery.
- Specifically, we forecast funds from operations (FFO) to debt of below 10% and debt to EBITDA of about 10x in 2020. These levels are not commensurate with a 'BBB' rating.
- We are therefore lowering our long-term issuer credit and issue ratings on Indigo to 'BBB-' from 'BBB'.
- The negative outlook reflects that we could lower the ratings by one notch if we think the group is unable to maintain its average FFO to debt above 9% or if its financial leverage increases significantly above 6.5x on average, which we may not see as commensurate with an investment grade rating.

Rating Action Rationale

Government initiatives and social-distancing measures across Europe will significantly weaken Indigo's credit metrics compared with our previous forecast. Since mid-March 2020, government measures to contain the spread of the pandemic have severely affected car park utilization. Therefore, we forecast a 20%-25% reduction in volumes in 2020, before a rebound in the following 24 months. While we expect Indigo to proactively manage costs, we believe the present situation will consume its ratings headroom. Under our current base case, we now think S&P Global Ratings-adjusted FFO to debt could drop to below 7.0% in 2020, from 11.8% in fiscal 2019 and our previous forecast of 11.9%, followed by a 10%-12% recovery in 2021-2022. We also expect adjusted debt to EBITDA to increase significantly to about 10x in 2020, compared to 6.4x in fiscal 2019, followed by a bounce back to 6x-7x in 2021-2022.

Financial flexibility is key to the rating. Although the full effects of the pandemic remain highly uncertain, the extent of the temporary dip and the recovery of Indigo's credit metrics depend on the mitigating actions it takes to offset COVID-19 disruptions. Our forecast assumes Indigo will reduce its shareholder distribution to €35 million from €70 million in 2020 before distributing €70 million annually in 2021 and 2022. We also anticipate the group may complete acquisitions totaling €400 million over the next three years (2020-2022), of which about €70 million has already been spent or committed in the first quarter of 2020, supported by the strong liquidity position. We understand that Indigo may take advantage of investment opportunities under current market conditions. The European parking market remains highly fragmented, with many smaller operators with a local focus and limited scale. These entities may be severely affected by COVID-19-related restrictions and therefore offer portfolio growth opportunities to larger operators such as Indigo. Indigo could target such transactions to consolidate its local presence in France and continue expanding its global geographical footprint. We understand from Indigo that it may take further mitigating actions to maintain its credit rating, notably via its flexibility to reduce capital expenditure (capex) and dividends.

We expect volume decline to reduce Indigo's revenues by about 20%-25% in 2020, followed by a two-year recovery. We assume two months of lockdown during which utilization is down 90%-95% for off-street facilities, as well as for on-street parking contracts where municipalities have directly imposed the halting of activities. Subscription revenues (about 25%-30% of total revenues on Indigo) have been more resilient (down 10%), thanks to low cancellation rates on seasonal tickets. Finally, management contracts, which typically are not exposed to demand risk, make a small contribution to overall EBITDA.

Compared with more-affected infrastructure assets such as airports, we expect car park volumes to recover faster overall, similar to what we anticipate for toll road operators. We assume final users will privilege the use of private transport over public alternatives and we note that Indigo's car parks are primarily in city centers or close to shopping malls--rather than depending on travel demand by being close to airports or railway stations. That said, the speed of recovery once lockdown measures are lifted remains uncertain. The expected global recession and its effects on unemployment, customers' propensity to pay, and potential changes in working habits will influence how long it takes for car park volumes to recover.

While ongoing discussions with municipalities might lead to some compensation in the long term, we expect limited cost flexibility will depress S&P Global Ratings-adjusted EBITDA margin below 40% in 2020, from 47.9% last year. Personnel expenses represent Indigo's largest cost item (50% of total operating costs in 2019) and in our base case we reflect some staff-cost reductions from temporary layoffs and partial compensation measures offered by governments. Indigo could also achieve certain savings from reduced cash-collection and outsourced cleaning activities, as well as lower energy consumption. All this considered, we forecast the group's S&P Global Ratings-adjusted EBITDA will decline by 35%-40% in 2020, from €344 million in 2019. We also factor in its exposure to Brazilian real depreciation (4% of reported EBITDA).

In line with peers, Indigo is discussing with municipalities potential rebalancing measures under its concessions framework, whereas agreements with private landlords offer fewer protections. We believe these discussions could result in an extension of concession terms or reduced fixed concession fees, but we see direct cash compensation or agreed tariff adjustments as less likely. This is because such steps would be difficult to implement in the current challenging environment where retaining and attracting demand is key. Therefore, pending any agreements or visibility on timing, we are not currently including any changes in concessions terms and conditions in our forecasts.

S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Environmental, social, and governance (ESG) factors relevant to the rating action:

- Health and safety

Outlook

The negative outlook reflects that the volume declines at Indigo's assets due to the pandemic, combined with uncertainties regarding acquisition opportunities and the recovery trajectory, could see credit ratios weaken to below investment grade. Specifically, FFO to debt above 9% on average in 2020-2022 and debt to EBITDA lower than 6.5x aligns with an investment grade rating.

Downside scenario

We could lower our rating on Indigo by one notch if FFO to debt falls below 9% on average. This could stem, for example, from a worse-than-expected volume decline or a lengthier recovery as a result of the challenging operating environment. At the same time, weakening credit metrics and an increase in leverage could result from Indigo completing acquisitions not compensated by adequate earnings growth.

Although less likely at this stage, we could also consider a downgrade if the group significantly changed its business mix so that exposure to non-infrastructure business--such as management contracts and short-term leases--increased to about 30% of EBITDA. This would likely cause adjusted EBITDA margins to fall below 30% and so weaken our view of the group's business risk profile.

Upside scenario

We could revise the outlook to stable if Indigo looks likely to maintain FFO to debt comfortably above 9% on average over 2020-2022, along with sustainable financial leverage of typically not higher than 6.5x for this rating level. This will require visibility on recovery volumes as well as financial policy in terms of acquisitions and leverage appetite.

We could raise the rating by one notch if the company is able to restore FFO to debt well above 10%, supported by strong volume recovery, while reducing debt to EBITDA to at or below 6.0x-6.5x on a sustainable basis.

Company Description

Indigo Group is a France-based holding company operating more than 2.4 million parking spaces globally. After the disposal of operations in some noncore European markets, the group is present in 12 countries worldwide, including Canada, the U.S. and Brazil. Nevertheless, France remains a core market, where the group generates about 75% of its global proportionate EBITDA.

The business model focuses on off-street concession-type parking (particularly in France, Spain, and Belgium) that generates high profitability. It has entered emerging markets typically via short-term and no-demand-risk contracts that require low investment, but generate low margins.

The group's ultimate parent is Infra Foch TopCo, which is owned by Crédit Agricole Assurances (47.2%), Vauban Infrastructure Partners (32.9%), and MEAG (14.2%).

For fiscal 2019, Indigo Group reported adjusted revenue and adjusted EBITDA of €717 million and €344 million, down 4.0% and up 1.6% respectively year-on-year. The revenue drop was due to the disposal of a portfolio of assets to Saba Infraestructuras, which is located in the U.K., Slovakia, Germany, and the Czech Republic. The disposal had a modest effect on EBITDA because it involved mostly low-margin contracts, and was also offset by new acquisitions such as the Spie Batignolles' parking business and major new lease contracts in Brazil.

Our Base-Case Scenario

Assumptions

- Revenues in 2020 to decrease 20%-25% as a result of significant declines in volumes due to lockdown measures. We anticipate positive revenue growth in 2021 of around 25% from volumes recovery and contributions from new business. However, we do not expect revenues to return to 2019 levels until 2022.
- Adjusted EBITDA margins declining toward 40% in 2020 because we do not think cost-cutting measures and government support initiatives will fully offset the decline in revenues.
- Annual total capex of about €180 million-€250 million in 2020, mostly reflecting investments related to new developments, of which €70 million committed so far.
- Additional concession fee liabilities of €30 million in 2020 and €60 million-€80 million going forward. Under International Financial Reporting Interpretations Committee (IFRIC) 12, the fixed concession fee liabilities are included in the reported debt. They are difficult to predict as they are subject to the awarding of new concessions.
- We forecast annual dividends of about €40 million in 2020, followed by €70 million in 2021, broadly in line with the past.

Based on these assumptions, we arrive at the following credit

metrics:

Key metrics

Indigo Group SAS Key Metrics* (fiscal year-ended Dec. 31)

(Mil. €)	2018a	2019a	2020e	2021f	2022f
Revenue	747	717	500-550	650-700	750-800
EBITDA	339	344	200-230	310-340	350-380
EBITDA margin (%)	45.3	47.9	38.0-40.0	46.0-48.0	47.0-49.0
Capital expenditure	194	216	180-250	150-220	130-200
Debt§	1,824	2,191	2,300	2,380	2,400
Debt to EBITDA (x)	5.4	6.4	10.0-10.5	7.0-7.5	6.0-6.5
FFO to debt (%)	13.1	11.8	6.0-7.0	10.0-11.0	11.0-12.0

*All figures adjusted by S&P Global Ratings. §2019 year-end debt consists of net financial debt of €1,547 million with key adjustments being €437 million in concession fees liabilities, and €180 million in leases. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Indigo's liquidity as strong because we expect sources will cover uses by more than 1.5x in the 12 months to March 31, 2021, despite our forecast of EBITDA decline.

We anticipate that the group would be able to sustain high-impact low-probability events without the need for refinancing, reflecting abundant liquidity available and no refinancing needs before April 2025, when a €650 million bond expires. Our assessment is further supported by its solid relationships with banks and generally prudent risk management.

We expect principal liquidity sources for the 12 months to March 31, 2021 will include:

- €308 million of unrestricted cash and cash equivalents;
- €300 million undrawn committed revolving credit facility, maturing in October 2023; and
- Cash FFO of about €130 million-€140 million net of finance lease payments.

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

- Debt maturities of about €114 million, of which the majority attributable to payments of fixed concession fees;
- Capex of about €180 million-€250 million, reflecting maintenance for existing contracts and investments in new developments;
- Expected working capital outflow of about €15 million due to potential delayed collections; and
- Reduced dividends of about €35 million.

Covenants

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

Issue Ratings - Subordination Risk Analysis

Indigo's capital structure comprises about €1.9 billion senior unsecured debt. The 'BBB-' issue rating reflects that all the notes are senior unsecured and the amount of debt at subsidiaries is limited (about €37 million).

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Negative/--

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)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bbb-

Related Criteria

- 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

- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry, 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

Related Research

- Indigo Group S.A.S., Sep. 20, 2019

Ratings List

Downgraded; Outlook Action

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