



Fitch Affirms Rumo; Outlook Revised to Positive

Fitch Ratings-Rio de Janeiro-21 June 2017: Fitch Ratings has affirmed at 'BB-' the Long-Term (LT) Foreign Currency (FC) and Local Currency (LC) Issuer Default Ratings (IDRs) of Rumo S.A. (Rumo) and the rating of its USD750 million of unsecured global notes, due in 2024, issued by Rumo Luxembourg S.a.r.l, a whole-owned subsidiary of Rumo. Fitch has also affirmed at 'A(bra)' the National Scale Long-Term ratings of Rumo, its subsidiaries and all of their related unsecured debentures. At the same time, Fitch has assigned 'A(bra)' to the 9th debentures issuance of the subsidiary Rumo Malha Norte S.A (Rumo Malha Norte). The debentures total BRL2,375 million and is due in 2023. Fitch has also withdrawn the rating of Rumo Logistica Operadora Multimodal S.A. (Rumo Logistica). The Rating Outlook for corporate ratings has been revised to Positive from Stable. A full list of ratings actions follows at the end of this press release.

The rating incorporates Rumo's leveraged capital structure, offset by the high predictability of its cash flow generation under adverse economic conditions through several cycles, and its solid business position as a railroad and logistic operator in the Brazilian infrastructure industry. Fitch sees as a credit positive Rumo's affiliation with the Cosan Group (Cosan Limited; FC LT IDR 'BB'/Stable Outlook), which provides reasonable financial flexibility to the company. The substantial capex plan for expansion and negative free cash flows (FCF) expected for the next two years constrain the ratings.

The revision of the Outlook to Positive from Stable reflects Fitch's expectation of fast deleverage trends following the company's ongoing gains of scale and improving operating profitability. According to Fitch's base case, Rumo's FCF is likely to become neutral to positive as from 2019, when the aggressive investment plans get matured. The company still has the challenge to consistently capture increasing volumes, strengthen its business position and improve operating cash flow generation in order to reduce leverage on a sustainable basis. Positive rating actions also depend on Rumo's ability to maintain its strong liquidity by financing its expansion with long-term debt lines and improve FFO margins to levels closer to 25%.

Fitch has withdrawn Rumo Logistica's ratings as the entity no longer exists.

KEY RATING DRIVERS

High Leverage Expected to Decline: Fitch expects Rumo's net adjusted leverage to rapidly decline to levels below 4.0x in 2018, reaching a ratio close to 2.5x in 2020, when the aggressive investment program matures. The deleverage process is supported by consistent EBITDAR expansion, thanks to the increasing capacity and improved cost structure allowed by the past investments. The company's pro forma net adjusted debt/EBITDAR ratio reached 4.5x as of the LTM ended March 31, 2017, in line with 2016. This ratio compares to 5.2x in 2015.

Challenging Operating Performance Improvement: The company still faces challenges to capture increasing load volumes and raise its business operations profitability from 2017 onwards following the conclusion of the measures taken to improve its operating and financial profile in 2016. The businesses are strongly exposed to Brazil's agricultural performance, which led volumes to slightly decline during 2016. Rumo's business model is highly dependent on increased railroad volumes going forward, in order to benefit from operating margins expansion as consequence of operational efficiencies unleashed by its capex program.

Pressured FCF: The sizeable capex plan is expected to lead to negative free cash flows up to 2018, but Fitch's base case forecasts FCF to become neutral to slightly positive as of 2019. Rumo is expected to invest about BRL7.0 billion up to 2020, which should result in volume increases of above 10% per year up to 2018, according to Fitch's assumptions. The company is expected to finance investment with long-term debt mostly.

Business Profile Remains Strong: Rumo enjoys a solid business position as the sole railroad transportation operator in the South and Mid-Western regions of Brazil, areas with high growth potential due to stable demand for grains worldwide. Rumo's businesses rely on four rail concessions to operate railway lines that extend over approximately 12 thousand kilometres within Brazil, with access to three main Brazilian ports. Due to its cost structure, Rumo's businesses enjoy solid competitive advantages over the truck services. This factor enhances its consistent demand and limits volume volatilities over the cycles. The company will continue to expand its businesses within the industry by putting an aggressive capex plan to add capacity to its operations over the next four years.

DERIVATION SUMMARY

Rumo enjoys strong business profile. Its operations are geographically concentrated in Brazil, but predominantly linked with the country exports of grains, which enjoys positive perspectives. Brazilian railroads coverage region are well-defined and distinct,

which limits the competition among them. The company's business model is enhanced by its important market share in the ports the company serves, compared with the high-cost truck service.

The rating incorporates Rumo's leveraged capital structure, offset by the high predictability of its cash flow generation under adverse economic conditions through several cycles. The substantial capex plan for expansion and negative free cash flows (FCF) expected for the next years constrain the ratings. Fitch sees as credit positive Rumo's affiliation with the Cosan Group (Cosan Limited; FC LT IDR 'BB'/Stable Outlook), which provides reasonable financial flexibility to the company.

The revision of the Outlook to Positive from Stable reflects Rumo's fast deleverage trends following the ongoing gains of scale and improving operating profitability, while the ambitious investment plans mature. The company has the challenge to consistently capture increasing volumes, strengthen its business position and improve operating cash flow generation in order to reduce leverage on a sustainable basis. Positive rating actions rely on Rumo's ability to maintain its strong liquidity and financial flexibility while financing its expansion.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:

- 10% to 15% of volume increases per year in 2017 and 2018; mid-single digit volume growth from 2019 to 2020;
- Tariff increase of 4.5% in 2017 and 5.0% in 2018;
- EBITDAR of BRL2.5 billion in 2017, BRL2.8 billion in 2018 and BRL3.2 billion in 2019;
- BRL2.2 billion capex in 2017 and BRL4.8 billion capex from 2018 to 2020;
- Adjusted net debt to EBITDA, according to Fitch' calculation, close to 4.0x in 2017 and at the range of 3.8x-3.2x in 2018 and 2019.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Net adjusted leverage trends below 4.0x, considering only financial debt, in a sustainable basis;
- Maintenance of strong liquidity and positive debt refinancing schedule;
- FFO margin closer to 25%.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Inability to finance capex with long-term and low cost debt, putting pressure on debt amortization schedule;
- Substantial weakening of current EBITDA margins.

LIQUIDITY

Sound Liquidity: The capital injection of BRL2.6 billion and the extension of medium-term debt, during 2016, combined with the seven-year bond issuance during 1Q17 strengthened Rumo's liquidity significantly. As of March 31, 2017, the company reported cash position of BRL3.1 billion, which covered short-term debt of BRL2.3 billion by 1.4x. This coverage ratio improves to 1.8x when the CFFO is added to cash. Fitch understands Rumo's liquidity is adequate and sustainable in the long term, considering the financial flexibility the company has presented to finance part of its aggressive capex plan. The company is expected to use part of its cash and operating cash flow generation to finance the ongoing investments, while proceeds from the already framed BRL3.5 billion long-term debt from Banco Nacional de Desenvolvimento Economico e Social (BNDES) are not received. Fitch expects part of proceeds from BNDES to be received during 2017.

FULL LIST OF RATING ACTIONS

Fitch has affirmed the following ratings:

Rumo S.A.

- FC and LC IDR at 'BB-' ;
- National Scale Rating at 'A(bra)' ;
- BRL750 million 10th debentures issuance maturing in 2017 at 'A(bra)' .

Rumo Luxembourg S.a.r.l.

- the USD750 million unsecured global notes due in 2024 at 'BB-'.

Rumo Malha Norte S.A.

- National Scale Rating at 'A(bra)' ;
- BRL166.67 million 6th debentures issuance maturing in 2018 at 'A(bra)';

--BRL160 million 8th debentures issuance maturing in 2020 at 'A(bra)'..

Rumo Malha Sul S.A.

--National Scale Rating at 'A(bra)' ;

--BRL166.67 million 3rd debentures issuance maturing in 2018 at 'A(bra)'.

Rumo Malha Paulista S.A.

--National Scale Rating at 'A(bra)' ;

--BRL166.67 million 1st debentures issuance maturing in 2018 at 'A(bra)'.

The Outlook on corporate ratings has been revised to Positive From Stable.

Fitch has assigned the following rating:

Rumo Malha Norte S.A.

-- BRL2,375 million 9th debentures issuance maturing in 2023 'A(bra)'.

Fitch has withdrawn the following ratings:

Rumo Logistica Operadora Multimodal S.A.

--'BB-' Foreign and Local Currency IDR;

--'A(bra)' National Scale Rating.

Contact:

Primary Analyst

Gisele Paolino

Director

+55-21-4503-2624

Fitch Ratings Brasil LTDA

Praca XV de Novembro, 20 / 401-B

Rio de Janeiro, RJ 20010-010

Secondary Analyst

Claudio Miori

Associate Director

+455-11-45042207

Committee Chairperson

Ricardo Carvalho

Senior Director

+55-21-4503-2627

Summary of Financial Statement Adjustments - Financial statement adjustments that depart materially from those contained in the published financial statements of the relevant rated entity or obligor must be disclosed (in bullet points). Analysts should refer to the relevant section of the Data Control Form and discuss and agree the proposed disclosure at the rating committee. This disclosure should appear after the analyst contact information.

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

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Applicable Criteria

Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017) (<https://www.fitchratings.com/site/re/895493>)

National Scale Ratings Criteria (pub. 07 Mar 2017) (<https://www.fitchratings.com/site/re/895106>)

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