

FITCH AFFIRMS SIAS AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-Milan/London-11 April 2017: Fitch Ratings has affirmed Italian toll road operator SIAS S.p.A.'s Long-Term Issuer Default Rating (IDR) at 'BBB+'. The Outlook is Stable. A full list of rating actions is at the end of this rating action commentary.

The rating reflects solid traffic performance on the group's network, moderate leverage at 2.9x in 2016, the short average concession life of eight years and a robust, although complex, debt structure. SIAS's strong liquidity position and well-established relationship with a diversified network of national and international banks mitigate refinancing risk.

There is limited visibility on the approval of the current regulatory business plans which is holding up tariffs on most of SIAS's concessions. Fitch's updated rating case (FRC) which factors in a two-year tariff freeze and no shortfall recovery shows that leverage will peak at 3.6x in 2020, below our rating trigger of 4.0x. We will monitor the situation and will reassess SIAS's credit profile if regulatory uncertainties unfold.

OPERATIONAL UPDATE

In 2016 light and heavy vehicles contributed to 1.8% growth in vehicle km from the previous year, reflecting eurozone consumption growth in 2016 from growing employment and real incomes. Average tariffs increased in 2017 by 1.4% and the last three years' average tariff increase was 1.5%, compared with average Italian CPI of 0.1% over the same period. The capex plan slowed compared with 2015, mainly due to the near finalisation of works on the A4 Turin-Milan stretch. Fitch-adjusted net debt/EBITDA, pro-forma to account for Centro Padane acquisition, is 3.2x, down from 3.5x last year.

FRC

The FRC assumes subdued traffic growth of 0.6% on average until 2021. We assume no shortfall recovery on top of zero tariff increases until 2019 for all SIAS's concessions, except for the A4 Turin-Milan stretch, whose regulatory business plan was approved and tariff increased accordingly this year. Compared with the sponsor's case, the FRC also includes conservative assumptions on opex, capex and additional equity injections into non-recourse assets.

We expect the closing of Centro Padane in 2017, following some delay in the finalisation of the acquisition. Centro Padane is a 88km stretch of motorway in north Italy awarded to a consortium comprising SIAS's Satap (70%) and associated company Itinera (30%).

KEY RATING DRIVERS

Large Network, Moderate Volatility: Volume Risk - Midrange

SIAS is the second-largest Italian toll road operator, managing a network of 1,269km that is critical for the mobility of the wealthy north-west of Italy. Traffic is 76% light vehicles covering a mix of short and medium distances. Traffic in vehicle km experienced a peak to trough of 12% in 2012-2013 as austerity measures led to a collapse in domestic consumption. This is broadly similar to Autostrade per l'Italia (ASPI, -11%) but weaker than Autostrada Brescia Verona Vicenza Padova (-8%).

Inflation and Capex Linked Tariff: Price Risk - Midrange

The concession framework is robust as it links tariff hikes to inflation and capex execution, partially de-linking group cash flow generation from negative traffic performances. The recent tariff suspension or cap in 2015-2017 indicates some political interference but the grantor appears

to be committed to allowing SIAS's concessions to recover the tariff shortfall when the updated business plan is approved.

Experienced Operator, Low Complexity: Infrastructure Development and Renewal - Stronger
The EUR1.1 billion network capex until the end of the concession is small scale, low complexity and with limited flexibility. We believe SIAS is well equipped and sufficiently experienced to deliver its predominantly self-funded capex plan.

Sound Albeit Complex Structure: Debt Structure - Midrange

SIAS's debt is a balanced mix of amortising (41%) and bullet (59%) instruments, 86% of which is at fixed rates. SIAS is not a frequent issuer in the capital markets but has well-established relationships with a diversified network of national and international banks, including the European Investment Bank. A sound liquidity position, covering debt maturities until 2019 under the updated FRC, mitigates refinancing risk.

Group debt is split between the holding company (SIAS, 71%) and operating companies (OpCos, 29%). Bonds under SIAS's EUR2 billion EMTN programme can be unsecured or secured over the intercompany loans. Under the secured structure, if there were acceleration/default at parent/material subsidiary levels, SIAS's secured creditors would be entitled to enforce their security and directly collect receivables arising from the pledged intercompany loans. An inter-creditor agreement ensures that enforcement proceeds are shared pro quota and pari passu among all SIAS's secured creditors.

As intercompany loans are reasonably well spread among all group subsidiaries, this structure ultimately results in SIAS's secured creditors ranking pari passu with the senior unsecured creditors of OpCos and supports a rating on the senior secured notes in line with our assessment of the group's consolidated financial profile. Conversely, senior unsecured notes would be rated one notch below the group's consolidated financial profile as the lack of pledge over the intercompany loans makes them contractually subordinated to SIAS's senior secured creditors and structurally subordinated to creditors of OpCos.

Under the EMTN programme, when 85% of group consolidated debt is at the holding company level, SIAS has the option to convert secured bonds into unsecured. Under this scenario, the contractual and structural subordination of unsecured notes would no longer exist and Fitch could therefore equalise the senior unsecured ratings with the Long-Term IDR.

Debt Service

Under the updated FRC, Fitch-adjusted leverage will average 3.0x until 2021, peaking at 3.6x in 2020 and decreasing thereafter, and a minimum PLCR of 1.6x. This is broadly aligned with last year's review.

Breakeven sensitivities are robust. Tariffs have to consistently decline by 4% yoy before Fitch-adjusted leverage hits 4.0x in 2020.

Peers

The best comparators to SIAS in Fitch's EMEA rating portfolio are ASPI (A-/Stable), Abertis (BBB+/Stable), and Brisa (BBB/Stable). SIAS has performed in line with ASPI, its Italian peer, in terms of traffic performance and better than Abertis and Brisa, its international peers, but the fairly short-term maturity of its portfolio of concessions like Abertis, its somewhat complex group and debt structure and its limited name recognition on capital markets weigh down on SIAS's credit profile.

RATING SENSITIVITIES

Negative

Leverage Driven: We could downgrade the rating if expected Fitch-adjusted leverage consistently exceeds 4.0x over three years. Similarly, a material deterioration in average concession maturity or in minimum PLCR may result in negative rating action. This could come from, among others, financial underperformance, adverse changes to domestic regulatory framework, extraordinary support to non-recourse assets, or inability to increase the average concession life.

Sovereign Driven: Although there is no formal credit link between SIAS's ratings and those of the sovereign (BBB+/Negative), SIAS's exposure to the domestic economy could give rise to correlated movements in the two ratings.

Positive

Leverage Driven: Financial over-performance could trigger an upgrade if projected leverage was sustainably around 3x under the FRC. However, in the absence of a tangible simplification of the group's current structure or a lengthening of its average concession life, financial over-performance would not in itself be sufficient to warrant an upgrade to 'A-'.

SUMMARY OF CREDIT

SIAS is the second-largest Italian toll road operator managing around 20% of the national network. It operates a portfolio of eight majority-owned, fully consolidated, concessions and has minority equity interests in five toll road concessions/joint ventures accounted under the equity method. Group operations are predominantly focused on Italy.

Non-recourse Assets

Sias is also involved in the management of some non-consolidated non-recourse projects/assets, namely Tangenziale Esterna and Brebemi in Italy and Ecorodovias in Brazil. The former are two large toll-road projects in the Milan area, which are ramping-up and are financed under project finance schemes. Ecorodovias is the third-largest Brazilian toll road operator managing a network of around 1,800km under eight long-term concession agreements. We expect these investments should not require additional financial support from sponsors in the short to medium term.

The rating actions are as follows:

Long-Term IDR: affirmed at 'BBB+'; Outlook Stable

EMTN programme of EUR2 billion (senior secured notes): affirmed at 'BBB+'; Outlook Stable

EMTN programme of EUR2 billion (senior unsecured notes): affirmed at 'BBB'; Outlook Stable

EUR500 million senior secured notes due October 2020: affirmed at 'BBB+'; Outlook Stable

EUR500 million senior secured notes due February 2024: affirmed at 'BBB+'; Outlook Stable

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Applicable Criteria

Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016)

<https://www.fitchratings.com/site/re/886557>

Rating Criteria for Infrastructure and Project Finance (pub. 08 Jul 2016)

<https://www.fitchratings.com/site/re/882594>

Rating Criteria for Toll Roads, Bridges and Tunnels (pub. 11 Aug 2016)

<https://www.fitchratings.com/site/re/886038>

Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers (pub. 21 Nov 2016)

<https://www.fitchratings.com/site/re/890199>

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