

## **FITCH AFFIRMS SIAS AT 'BBB+'; OUTLOOK STABLE**

Fitch Ratings-Milan/London-05 April 2018: 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.

### **KEY RATING DRIVERS**

The rating reflects solid traffic performance on the group's network and moderate leverage, which we expect to remain below 4x, a level commensurate with the rating in the context of the portfolio's short average concession tenor of below 10 years. SIAS's strong liquidity position and well-established relationships with a diversified network of national and international banks mitigate refinancing risk.

Regulatory risk has receded, which gives us more visibility of tariff evolution. We also view positively the possible extension of the A4 Turin-Milan concession - 30% of consolidated EBITDA - as it slightly increases the average maturity of group concessions.

### **Large Network, Moderate Volatility - Revenue Risk (Volume): Midrange**

SIAS is the second-largest Italian toll road operator, managing a network of 1,358km that is critical for the mobility of wealthy north-west 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 (ABVP, -8%).

### **Inflation and Capex Linked Tariff - Revenue Risk (Price): 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 tariff suspension or cap in 2015-2017 was settled in the context of the recent approval of regulatory business plans.

### **Experienced Operator, Low Complexity - Infrastructure Development and Renewal: Stronger**

The EUR1.4 billion network capex plan until the end of the concession is moderate in size, low complexity and with limited flexibility. We believe SIAS is well equipped and sufficiently experienced to deliver its predominantly self-funded capex plan.

### **Corporate-type Debt Structure - Debt Structure: Midrange**

SIAS's group debt is predominantly bullet - 66% - fixed rate - 83% - and with no material structural protections. 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 robust liquidity position, covering debt maturities beyond 2020 under the updated Fitch Rating Case (FRC), mitigates refinancing risk.

Group debt is split between the holding company (SIAS; 77%), and operating companies (23%).

Bonds under SIAS's EUR2 billion EMTN programme can be unsecured or secured over the intercompany loans to SIAS subsidiaries. We equalise the ratings of unsecured notes with those of secured notes due to the presence of a cross-default clause in the EMTN programme which results in the same probability of default between the notes. To date the company has issued only senior secured notes.

### **Financial Profile**

Under the updated FRC, Fitch-adjusted net debt/EBITDA will average 3.2x until 2022, peaking at 3.7x in 2020 and 2022 and decreasing thereafter. The minimum project life coverage ratio (PLCR) is 1.7x. This is broadly aligned with last year's review and commensurate with the rating in the context of the portfolio's relatively short average concession tenor.

## PEER GROUP

The best comparators to SIAS in Fitch's EMEA rating portfolio are ASPI (A-/RWN), Abertis Infraestructuras SA (Abertis; BBB+/RWN), and Brisa Concessao Rodoviaria (BCR; BBB+/Stable). SIAS has performed in line with ASPI in terms of traffic performance and better than Abertis and BCR. However, the fairly short-term maturity of SIAS's portfolio of concessions like Abertis, its somewhat complex group structure and its limited name recognition in capital markets weigh on SIAS's credit profile.

## RATING SENSITIVITIES

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

- We could downgrade the rating if expected Fitch-adjusted leverage is sustainably above 4.0x over three to five years.
- Material extraordinary support to non-recourse assets, or deterioration in the average concession life.
- Although there is no formal credit link between SIAS's ratings and those of the sovereign (BBB/Stable), SIAS's exposure to the domestic economy could give rise to correlated movements in their ratings.

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

- Financial over-performance could trigger an upgrade if projected leverage was sustainably below 3x under the FRC. However, in the absence of a tangible lengthening of its average concession life and geographical diversification in developed countries with a well-established concession framework, financial over-performance would not in itself be sufficient to warrant an upgrade to 'A-'.

## CREDIT UPDATE

Performance Update: Financials

Recovery in Italian consumption and industrial production drove 2017 traffic, up 1.9% vs 2016. Average tariffs increased in 2018 by 3.0%, broadly in line with company's expectations. 2017 Fitch-adjusted net debt/EBITDA is 2.5x at YE2017, down from 2.9x last year and in line with our expectations.

In February 2018 SIAS Group took over the A21 Piacenza-Cremona-Brescia motorway concession, an 89km stretch of motorway in north-west Italy, ending a long-delayed process since concession was provisionally awarded in May 2015. SIAS will shortly open up the new concessionaire capital to a minority investor. The overall transaction will have modest impact on leverage with pro forma 2017 Fitch-adjusted net debt/EBITDA of 2.7x.

Performance Update: Regulatory

Regulatory risks have receded compared with last year indicating the supportive regulatory framework of the Italian toll road concessions. Signature of the additional deeds to the existing agreements with the Ministry of Infrastructure and Transport at the end of 2017 has simultaneously allowed the recovery of the past tariff shortfalls. This is better than we expected and provides visibility of future tariff paths.

We also understand that the Italian government and the European Commission are making substantial steps towards a convergent interpretation of a roadmap leading to the A4 Turin-Milan concession extension, in exchange for higher capex on the A33 Asti-Cuneo concession (Cross Financing). This would also provide further clarity on future tariffs.

## Fitch Cases

The Fitch base case (FBC) assumes traffic growth will stabilise at 1.3% on average until 2022. We expect 2.0% yoy growth in tariff, against a 1.5% average CPI. Capex plan is aligned to the financial plans agreed with the grantor and includes the additional capex related to the cross financing. This is a conservative assumption over the five-year horizon, when the additional capex would be rolled out. Under these assumptions, average Fitch-adjusted net debt/EBITDA is 2.9x until 2022, peaking at 3.3x in 2020. Minimum PLCR is 1.8x.

The FRC haircuts traffic and tariff growth by about 20% compared with FBC, while the EBITDA margin is capped at the actual FY17 level of 61%. Compared with the FBC, the FRC also includes conservative assumptions on capex, cost of new debt and additional equity injections into non-recourse assets.

Sensitivities are robust. The group could withstand only a 0.5% yoy growth in traffic and tariff or, similarly, a 12% traffic shock in 2018 followed by a three-year linear recovery for leverage to remain within the 4x rating trigger.

## Asset Description

SIAS is the second-largest Italian toll road operator managing around 20% of the national network. It operates a portfolio of nine majority/fully-owned and 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.

## Short Concession Tenor

The average concession tenor of around 8 years, weighted by EBITDA, is short. This is little changed if we assume to convert the terminal value embedded in some concessions into longer tenor. We factor this in through tighter leverage guidance compared with other EMEA toll road peers with longer concession tenor. Nonetheless, we also note that Italian toll road concessionaires tend to manage the assets even after the formal concession maturity, until take-over from incumbent concessionaire takes place, ultimately resulting in a de facto extension of the concession. This is the case of the A21 Turin-Piacenza concession which formally expired in June 2017.

## Non-recourse Assets

SIAS is also involved in the management of some non-consolidated non-recourse projects/assets, mainly Tangenziale Esterna in Italy and Ecorodovias in Brazil. The former is a large toll-road project in ramp-up in the Milan area, which is financed under project finance scheme. Ecorodovias is the third-largest and expanding Brazilian toll road operator managing a network of around 2,600 km under several long-term concession agreements. We assume no dividends upstream from these assets and we expect that these assets should not require material financial support 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): upgraded to 'BBB+' from 'BBB'; Outlook Stable

Senior secured notes: affirmed at 'BBB+'; Outlook Stable

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### Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017)

<https://www.fitchratings.com/site/re/902689>

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 22 Feb 2018)

<https://www.fitchratings.com/site/re/10021263>

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