

FITCH AFFIRMS SIAS AT 'BBB+'; OUTLOOK NEGATIVE

Fitch Ratings-Milan/London-02 April 2019: Fitch Ratings has affirmed Italian toll road operator SIAS S.p.A.'s (SIAS) Long-Term Issuer Default Rating (IDR) at 'BBB+'. The Outlook is Negative. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

The ratings reflect stable traffic performance on the group's network and moderate leverage, which we expect to remain below 4x, a level that is commensurate with the rating given 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.

The Negative Outlook reflects that on Italy's Long-Term-Foreign-and Local-Currency IDRs.

SIAS's average concession tenor of seven years, weighted by 2018 EBITDA, is short. We factor this in through tighter leverage guidance compared with other EMEA toll road peers with longer concession tenors. While SIAS's maturing concessions are entitled to receive a sizeable terminal value (TV) payment at concessions' maturity, we remain cautious to additional reduction in average concession life, which may limit debt capacity at the 'BBB+' rating.

We expect 2022 EBITDA to shrink by around 40% compared with 2018, which results in a steep leverage profile peaking at 3.4x in 2022 from 2.3x in 2018 under the updated Fitch rating case (FRC), assuming the group is not successful in being re-awarded its expired 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 to the mobility of wealthy north-west Italy. Traffic is 74% light vehicles covering a mix of short and medium distances. Traffic in vehicle km experienced a peak to trough of 12% decrease 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 worse 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 cash flow generation from negative traffic performance. The tariff suspension or cap in 2015-2017 was settled in the recent approval of SIAS's regulatory business plans.

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

We expect the capex plan of EUR0.8 billion related to SIAS's existing concessions to increase following the potential agreement on the A4-A33 cross-financing (whose terms are still under discussion) and additional works to be agreed with grantor under some of SIAS's concessions - Salt, Cisa, Adf, Ats, Sav. The overall plain-vanilla capex plan is 90%-concentrated in 2019-2023 and has limited flexibility, putting some pressure on free cash flow (FCF) generation. Nevertheless 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 debt is predominantly (68%) bullet, with 80% at fixed rate and no material structural protection. SIAS is not a frequent issuer on the capital market but has well-established relationships with a diversified network of national and international banks, including the European

Investment Bank. A strong liquidity position, covering debt maturities well beyond 24 months under the updated FRC, mitigates refinancing risk.

Debt is split between the holding company (SIAS; 81%), and operating companies (19%). Bonds under SIAS's EUR2 billion EMTN programme can be unsecured or secured over the inter-company 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 SIAS has issued only senior secured notes and its EMTN programme includes an option to convert the secured notes into unsecured notes when holding company debt is at least 85% of consolidated debt.

Financial Profile

The updated FRC shows that the loss of around 40% of EBITDA from 2018 to 2022 is not expected to substantially impair SIAS's credit profile, on the key assumption that the sizeable EUR0.5 billion TV on expiring concessions (Satap A21, Salt, Adf) is not up-streamed as dividend distribution. Net debt/EBITDA is likely to increase to 3.4x in 2022 from 1.9x in 2020, but should remain below our 4x downgrade trigger.

PEER GROUP

The best comparisons to SIAS in Fitch's EMEA rating portfolio are ASPI (BBB+/Negative), Abertis Infraestructuras SA (Abertis; BBB/Stable), and Brisa Concessao Rodoviaria (BCR; A-/Stable). SIAS has performed in line with ASPI in traffic growth and better than BCR and the Spanish concessions of Abertis. However, the short-term maturity of concessions, somewhat complex group structure and 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:

- Negative rating action on the sovereign (BBB/Negative)
- We could downgrade the rating if Fitch-adjusted leverage is expected to be sustainably above 4x over the next three to five years. We may re-assess this ratio guidance and associated debt capacity, should the average remaining concession life further decrease
- Material extraordinary support to or a change in ownership to majority control of non-recourse assets, or a sustained move towards large-scale, debt-funded acquisitions, all of which may lead to a worsened business risk profile
- A material adverse change in creditor-protective Italian regulatory framework or in the terms and conditions of SIAS's key concessions

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

- A revision of Italy's Outlook to Stable could lead to a similar action on SIAS, assuming that both its standalone credit profile and its rating notching above the Italian sovereign, remain unchanged.

CREDIT UPDATE

Rating above Sovereign

SIAS can be rated above the sovereign as its rating does not currently factor in material central government support. The maximum one-notch difference with the sovereign's rating reflects SIAS's exposure to the domestic economy and growing albeit infrequent issuance on capital markets.

Strategic Partnership Brings Acquisitive Profile

In September 2018, Aurelia, the financial holding company of the Gavio family, and Ardian Infrastructure signed an agreement to develop a strategic partnership aimed at strengthening the

ASTM/SIAS group in the infrastructure sector, focusing on growth in Italy and international expansion in Brazil and the US.

The acquisition strategy could extend the global footprint of ASTM/SIAS group, contribute to lengthen the average concession maturity of SIAS's portfolio but also limit visibility and predictability on group cash flow generation and capital structure. SIAS has recently increased its dividend policy guidance from 50% to 60% of its consolidated net results.

Performance Update: Financials

In 2018, traffic grew 8.6% in total, boosted by the newly acquired Autovia Padana concession in February 2018. On a like-for-like basis, traffic was flat on prior year, reflecting weakening in Italian consumption and industrial production feeding into negative traffic growth in 4Q18. Average tariff increase of 0.4% in 2019 is below the inflationary trend since 2015, but this is broadly in line with SIAS's expectations amid delay in the roll-out of capex plan and the mature nature of some concessions. SIAS's 2018 Fitch-adjusted net debt/EBITDA was 2.3x at end-2018, down from 2.5x last year and slightly better than our expectations due to lower capex.

Performance Update: Regulatory

The Italian regulatory framework remains stable overall, notwithstanding challenges in the aftermath of the Genoa bridge collapse. 2019 tariffs for SIAS's network increased 0.4% on average which, albeit below 2018 inflation of 1.1% (Source: Eurostat), compares well with flat tariff on 87% of the Italian toll road network.

The planned cross financing A4-A33 (A4 Turin-Milan concession taking over higher capex on the sister concession A33 Asti-Cuneo concession) is likely to slightly change compared with what we had expected last year. The changes should be substantially neutral on a net present value basis although a potentially significant TV payment is envisaged at concession maturity; we view these potential changes as moderately credit-negative as this TV scheme is unusual and broadly untested in Italy.

SIAS continues to manage the Satap A21 concession even after its formal expiry amid delays in the tender process from the Italian Ministry of Infrastructure, which results in continued uncertainty on future evolution of cash flows.

Fitch Cases

The Fitch base case (FBC) assumes traffic growth will average 0.6% per year until 2023. We expect 2.1% yoy growth in tariff, against a 1.7% average CPI. Capex plan includes the additional capex related to the cross financing as well as the still-to-be agreed capex on some of SIAS concessions - Salt, Cisa, Adf, Ats, Sav - under discussion with the grantor for the five-year regulatory period 2019-2023. Under these assumptions, Fitch-adjusted net debt/EBITDA should peak at 3.1x in 2022, when three of SIAS concessions mature and most of the capex plan is rolled-out.

The FRC mainly applies haircuts to traffic growth compared with FBC, while EBITDA margin is capped at the 2018 level of 60%. Compared with the FBC, the FRC also includes conservative assumptions on opex, capex and cost of new debt.

An aggressive growth strategy resulting, for example, from large-scale debt-funded acquisitions, could erode SIAS's flexibility at the current rating; simultaneously, it should provide greater visibility on group cash flows in the long term, partly relieving pressure from the short concession tenor. Fitch will be updating its scenarios as and when we know about any acquisition, including funding structure, concession maturity and business risk profile.

Non-recourse Assets

SIAS is also involved in the management of some non-consolidated non-recourse projects/assets, mainly Tangenziale Esterna (TE) in Italy and Ecorodovias Concessoes e Servicos S.A (ECS) in Brazil. The former is a large toll-road project in ramp-up in the Milan area, which is funded by project finance. ECS is the third-largest and expanding Brazilian toll road operator managing a network of around 2,650 km under several long-term concession agreements. SIAS does not expect these assets to require material financial support in the short- to medium-term, assuming no changes in the existing portfolio. In our Fitch cases, we assume no dividends from these assets.

ECS

In October 2018 Fitch placed ECS (AA(bra)/RWN) on Rating Watch Negative, reflecting uncertainty regarding the outcome of the investigation carried out by the Federal Prosecutor's Office of Parana State against two former managers of two ECS subsidiaries. This is affecting ECS's credit quality amid potential disruptions to the company's continued capital market access, the company's reputation and may lead to penalties.

We understand from management that ECS is currently classified in SIAS accounts as equity participation and control is shared with a Brazilian private investor; also, SIAS does not expect the existing portfolio to result in additional cash injections.

TE

In January 2019, SIAS and Intesa Sanpaolo (BBB/Negative) settled an equity swap involving the respective stakes in TE and BreBemi, another large toll-road project in ramp-up in the Milan area. The transaction allows SIAS to focus only on TE while keeping the JV set-up and debt structure unchanged.

We believe the re-focusing on TE, ongoing favourable traffic ramp-up/mix as well as a recently finalised debt refinancing lift pressure off project cash flows and provide greater visibility on future cash flow evolution. We also take a positive view of SIAS's stated intention to continue manage TE equity investments on a JV and non-recourse basis.

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/JVs accounted under the equity method. Operations are predominantly focused on Italy. SIAS is ultimately owned via its holding company ASTM by the Italian Gavio family (controlling stake) and since September 2018, by Ardian Infrastrutture (minority stake).

The rating actions are as follows:

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

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

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

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

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 27 Jul 2018)

<https://www.fitchratings.com/site/re/10038532>

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 30 Jul 2018)

<https://www.fitchratings.com/site/re/10038900>

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