FITCH AFFIRMS SIAS AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-Milan/London-22 April 2016: 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 available at the end of this Rating Action Commentary.

The rating affirmation reflects solid traffic performance on the group's network, moderate leverage and a robust, although complex, debt structure. Sias' limited name recognition on capital markets is compensated for by a well-established relationship with a diversified network of national and international banks and a strong liquidity position, which mitigate refinancing risk.

The ongoing negotiations with the grantor on a potential extension of Sias' short-dated concessions result in uncertainties about tariff rises. However, our sensitivities and breakeven indicate that even if tariffs were frozen for most of its concessions over the next three years, the group would still be able to keep its leverage under control. We will monitor the situation and will reassess Sias' credit profile should additional regulatory uncertainties affect group cash flow generation.

KEY RATING DRIVERS
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. Its traffic was resilient through the 2008-2011 crisis (maximum 1.2% decline), but fell sharply in 2012 (7.7% like-for-like drop) due to a collapse of domestic consumption in response to austerity measures. Traffic also moderately contracted in 2013 (by 2.2%) but returned to growth in 2014 (0.88%) and 2015 (3.2%).

Under Fitch's updated rating case, traffic will be almost flat in 2016, due to maintenance works on a key motorway stretch and remain subdued thereafter. Downside risk mainly stems from the performance of the Italian economy and its impact on traffic dynamics. We do not expect reduction of overall traffic as a result of the expiry of three concessions by 2021 to result in greater volatility of traffic performance for the remaining network compared with the status quo.

Price Risk - Midrange
In 2015 the grantor capped 2015 tariff rises to 1.5% pending the EU "green light" on a new government infrastructure plan implying higher investments for Sias in exchange for, mainly, a concession extension. We understand that discussions with the grantor are still ongoing. Meanwhile, pending regulator approval of most of Sias' concessions business plan, the grantor has frozen tariff rises in 2016.

There is limited visibility on progress of the negotiations but we expect the parties to take a cooperative approach and that a satisfactory solution will eventually be found. However, evidence of long and unfruitful negotiations might have a negative impact on the rating.

In Fitch's updated rating case, we prudentially assume zero tariff increase until 2018 for all Sias' concessions, except for the A4 Turin-Milan stretch, whose regulatory business plan was approved and tariff regularly increased this year.

Infrastructure Development and Renewal: Stronger
Under the concessionaires' currently proposed business plans, Sias is expected to deliver a capex programme of EUR0.9bn in 2016-2018. Sias has long-standing experience and in-house expertise in delivering investment on its network and this supports the "Stronger" infrastructure development assessment.

In May 2015, a consortium comprising Sias' Satap (70%) and associated company Itinera (30%) was awarded a new 88km stretch of motorway, Centro Padane, in north Italy. We expect the transaction to close by June 2016. This modestly sized acquisition should not materially change the group's overall credit profile.

Jointly with Intesa Sanpaolo (BBB+/Stable), Sias is also involved in the management of TE and Brebemi, two large toll-road projects in the Milan area, recently opened to traffic. Both are financed with non-recourse debt under project finance schemes. Both projects have to cope with ramp-up phases in the coming years, which may require higher-than-expected financial support from shareholders. Under our rating case, we assumed a further EUR100m will be injected as equity/subordinated loans.

Debt Structure: Midrange

Sias' debt is a balanced mix of amortising (44%) and bullet (56%) instruments, mostly at fixed rates (84%). Sias is not a frequent issuer in the capital market but has well-established relationships with a diversified network of national and international banks, including the European Investment Bank. Refinancing risk is mitigated by a sound liquidity position, which under Fitch rating case covers debt maturities until 2019.

Debt is split between the holding company (Sias, 70%) and operating companies (30%), although the centralisation of the group funding structure is ongoing.

To this end, in 2010 Sias established a EUR2bn EMTN programme. The documentation contains a negative pledge at Sias and subsidiary levels (with carve-outs) and put event (with carve-outs) for concession events or a reduced stake in a material subsidiary. The EMTN programme does not include financial covenants, although bondholders indirectly benefit from default covenants included in a diversified pool of bank loans contracted by Sias and operating companies. Fitch gives limited credit to the bank covenants as the bank loans may be prepaid.

Bonds under the EMTN programme can be unsecured or secured. The unsecured notes constitute direct, general and unconditional obligations of the issuer, which at all times rank pari passu among themselves and at least pari passu with all other present and future unsecured obligations of the issuer.

Senior secured notes benefit from first-ranking security over the intercompany loans. In a pre-enforcement scenario, payments under these intercompany loans may be used to service Sias' secured and unsecured debt. The programme also contains a provision that gives Sias the option to convert secured bonds into unsecured when 85% of group consolidated debt is at the holding company level. Secured and unsecured notes both have the benefit of cross-default/cross-acceleration clauses (with a EUR50m threshold) with Sias' other debt and debt raised at operating company level.

Under this structure, if there were acceleration/default at parent/material subsidiary levels, Sias' 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' secured creditors (bondholders and other secured creditors).

Intercompany loans are reasonably well spread among all group subsidiaries, so this mechanism gives Sias' secured creditors access to asset and cash flows of all the group's operating subsidiaries. This structure results in Sias' secured creditors ranking pari passu with the senior unsecured creditors of operating companies and supports a rating of the senior secured notes in line with our assessment of the group's consolidated financial profile.

Conversely, senior unsecured notes that could be issued under the EUR2bn EMTN programme will be rated one notch below the group's consolidated financial profile because the lack of pledge over the intercompany loans makes the unsecured notes contractually subordinated to Sias' senior secured creditors and structurally subordinated to creditors of operating companies.

Debt Service
Fitch-adjusted net debt/EBITDA was 2.9x in 2015, while pro forma leverage, including the effects of the Ecorodovias and Centro Padane acquisitions was 3.5x. Under our updated rating case, which uses conservative assumptions on traffic, tariffs, opex and dividends compared with the sponsor's case, Fitch-adjusted leverage is expected to average 3.6x until 2018.

We have also run a longer forecast up to 2024 because three key group concessions, accounting for around 50% of 2015 EBITDA, mature in 2021. Under this extended rating case, which also assumes most of the terminal value of expiring concessions will be distributed to shareholders, leverage calculated with residual EBITDA will remain below 4x in 2022.

Under this scenario, any worse-than-expected traffic or opex developments could be absorbed by a reduction of dividend distribution, which we assume at an average level of 40% above the 2015 distribution (EUR90m, including minorities). Should tariffs not increase as expected, capex could be lowered, preserving the group's free cash flow generation.

Peer Group
The best comparators to Sias in Fitch's EMEA rating portfolio are Atlantia (A-/Stable), Abertis (BBB+/Stable), Milano Serravalle Milano Tangenziali (MSMT; BB+/Negative) and Brisa (BBB/Stable). Sias has performed in line with its Italian peers (Atlantia and MSMT) in terms of traffic performance and better than its international peers (Abertis and Brisa), but its credit profile is weighed down by the fairly short-term maturity of its portfolio of concessions (as is Abertis'), its somewhat complex group and debt structure, and its limited name recognition on capital markets.

Recent Non-Recourse Acquisition
In December 2015 Sias and its parent company ASTM agreed with CR Almeida S.A. Engenharia e Costrucoes to jointly control and co-manage a controlling stake in Brazilian toll road concessionaire Ecorodovias Infraestrutura & Logistica S.A. We expect the transaction to close by June 2016.

Sias' stake in Ecorodvias (16% beneficial ownership) is relatively modest (EUR208m). We also understand from Sias' management that this is a non-recourse investment that does not envisage additional financial support from sponsors in the short to medium term. Any change that implied Sias had direct or indirect responsibility for Ecorodovias' debt could be rating negative.

RATING SENSITIVITIES
The rating could be downgraded if financial performance deteriorates, with Fitch-adjusted leverage expected to consistently exceed 4.5x over a three-year horizon.

Adverse decisions made by the Italian government, such as a change in taxation, a prolonged freeze in toll rate increases or any other measure materially affecting group cash flow generation, if not compensated for, could adversely affect Sias' credit profile.

Current debt at TE/Brebemi, and that at Ecorodovias, is without recourse to Sias. Any change to this that implied Sias' direct or indirect responsibility for this debt could be rating negative.

If debt at holding company level reaches 85% of consolidated debt and the secured notes under the EMTN are converted into unsecured notes, the contractual and structural subordination of unsecured notes would no longer exist and Fitch may therefore equalise the senior unsecured ratings with the Long-term IDR.

Financial over-performance could trigger an upgrade if projected leverage is sustainably around 3x under Fitch's rating case. However, in the absence of a tangible simplification of the group's current structure, financial over-performance would not in itself be sufficient to warrant an upgrade to 'A-'.

The rating actions on are as follows:

Long-term IDR: affirmed at 'BBB+'; Outlook Stable
EMTN programme of EUR2bn (senior secured notes): affirmed at 'BBB+'; Outlook Stable
EMTN programme of EUR2bn (senior unsecured notes): affirmed at 'BBB'; Outlook Stable
EUR500m senior secured notes due October 2020: affirmed at 'BBB+'; Outlook Stable
EUR500m senior secured notes due February 2024: affirmed at 'BBB+'; Outlook Stable

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Applicable Criteria
Parent and Subsidiary Rating Linkage (pub. 10 Aug 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869363
Rating Criteria for Infrastructure and Project Finance (pub. 28 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=870967
Rating Criteria for Toll Roads, Bridges and Tunnels (pub. 29 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=870170
Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers (pub. 05 Apr 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879564