MOODY'S
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Credit Opinion: SIAS - Societa Iniziative Autostrad.

Global Credit Research - 13 Oct 2015

Turin, Italy

Ratings

Category	Moody's Rating
Outlook	Negative
Senior Secured -Dom Curr	Baa2
Senior Unsecured MTN -Dom Curr	(P)Baa3

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Key Indicators

[1]**SIAS - Societa Iniziative Autostrad.**

	12/31/2014	12/31/2013	12/31/2012	12/31/2011
Cash Interest Coverage	**4.6x**	**4.7x**	**4.9x**	**4.6x**
FFO / Debt	**13.6%**	**14.1%**	**14.9%**	**14.3%**
Moody's Debt Service Coverage Ratio	**1.2x**	**1.3x**	**1.3x**	**1.4x**
RCF / Capex	**1.3x**	**0.6x**	**0.9x**	**1.0x**
Concession Life Coverage Ratio	**1.4x**	**1.5x**	**1.5x**	**1.6x**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Resilient cash flow profile of sizeable motorway network and positive traffic trends after prolonged macro-driven slump

Low visibility on tariffs determination pending approval of concessions' updated plans

Material investment plan may slow down deleveraging efforts

Corporate Profile

SIAS - Società Iniziative Autostradali e Servizi S.p.A. (SIAS, Secured EMTN Baa2, Unsecured EMTN Baa3 negative) is the second-largest toll road operator in Italy. The company's consolidated network currently consists of 913 km of tolled motorways (as well as additional 104 km currently under construction), operated through eight concessions with maturities ranging from 2017-43. From 2016 onwards, SIAS's consolidated network will increase to 1,001 km to include the recently awarded A21 Piacenza -Cremona- Brescia stretch. Gruppo Gavio is SIAS's main shareholder, owning a stake of approximately 70%, mostly through its holding company ASTM (61.7%). Other shareholders include Lazard AM (5%) and Assicurazioni Generali (3.6%).

SUMMARY RATING RATIONALE

SIAS's Baa2 consolidated rating quality reflects (1) the low-to-moderate business risk associated with SIAS's toll roads operations, comprising a sizeable network of essential transport links; (2) a weakened regulatory environment and the uncertainty on future tariff levels given past government decisions to cap tariff growth and the still pending approval of updated concession plans; (3) recent positive traffic trends in the context of recovering, but still weak, macroeconomic conditions in Italy; (4) SIAS's material capital programme under the motorway concessions operated by its subsidiaries, which will slow down the group's deleveraging efforts; (5) the fairly short remaining life of its concessions compared with other European operators; and (6) the company's strong liquidity position and moderate leverage.

DETAILED RATING CONSIDERATIONS

RESILIENT CASH FLOW PROFILE OF SIZEABLE MOTORWAY NETWORK AND POSITIVE TRAFFIC TRENDS AFTER PROLONGED MACRO-DRIVEN SLUMP

SIAS's consolidated network currently consists of 913 km of tolled motorway, corresponding to approximately 16% of Italy's motorways, and comprising several essential transport links, mainly located in the north-west of Italy, connecting major cities within the area and providing access between provincial and rural areas. In May 2015, SIAS was awarded the motorway A21 Piacenza-Cremona-Brescia and the junction to Fiorenzuola D'Arda (PC) of 88.6 km. The stretch has a significant strategic importance for SIAS, being the continuation of the motorway stretch Torino-Alessandria - Piacenza, currently operated by its subsidiary SATAP S.p.A.

The main contributor to traffic volumes is SATAP, concessionaire for the A21 Turin-Alessandria-Piacenza and A4 Turin-Milan motorways, accounting for 44% of SIAS's overall traffic volumes in 2014 (46% in June 2015). The second-largest contributor is SALT (A12 Livorno Sestri, A11 Viareggio Lucca and A15 Fornarola-La Spezia), accounting for approximately 20% of overall traffic (19% in June 2015). SIAS's traffic concentration on some corridors reduces the degree of diversification that is normally a credit positive feature of large motorway networks, but this credit negative concentration is mitigated by the fact that SIAS's stretches are characterised by diversified traffic and limited competition.

The fundamentals of the service area and the competitive environment are favourable as SIAS provides essential transport services to one of Italy's most economically active regions. Road transportation is dominant in the area, as it is better suited to meet the mobility requirements of a country with a widespread population gravitating around small- and medium-sized provincial centres, a fragmented commercial and industrial structure and many regions with mountainous/hilly terrain. Car ownership in Italy is the highest in Europe and close to US levels.

The traffic profile of SIAS's service area is robust as its managed network exhibits a generally varied traffic base, with a mixture of passengers cars, but also light and heavy goods vehicles. On a group level in 2014, heavy goods vehicles accounted for approximately 24% of total traffic (25% in June 2015).

In common with other rated European toll road operators, SIAS suffered falling traffic volumes since its 2007 peaks, experiencing 10%-15% cumulated declines, mostly concentrated between the end of 2011 and 2012, associated with the increasingly difficult domestic macroeconomic environment. However, after a cumulated -10% drop in 2012-13, 2014 showed a reversion in traffic trends, with a 0.9% year-on-year increase. The positive progression of traffic was confirmed during the first half of 2015 with a +2.3% year-on-year growth on SIAS's network. We understand that the positive traffic trends continued in Q3 2015.

Overall, we see SIAS's toll road network's maturity and diverse user profile as supporting features of its credit positioning. We positively factor into our analysis the latest traffic trends, which in our view mitigate the company's unresolved exposure to the recent regulatory uncertainty (see next section).

LOW VISIBILITY ON TARIFFS DETERMINATION PENDING APPROVAL OF CONCESSIONS' UPDATED PLANS

SIAS operates its Italian motorway network under eight concession agreements. Starting from 2016, the company will also operate the A21 Piacenza-Cremona-Brescia concession, which also includes the construction of the junction to Fiorenzuola D'Arda (PC), subject to the final signing of the concession agreement with the grantor. The tariff mechanisms on SIAS's concessions follow a cost recovery plus capital remuneration principle, with tariffs reflecting a regulated rate of return on new investments and, in some concessions, on the existing capital base. To avoid tariff discontinuities, tariff increases originating from capital remuneration factors are smoothed over the relevant tariff period under a financial neutrality principle. Traffic risk, i.e., the prospective difference between the planned traffic curve on which tariffs are calculated and the actual traffic level, is however entirely borne by the concessionaire during each five-year tariff period.

Whilst SIAS benefits from a supportive regulatory framework, the latter was recently affected by unfavorable political intervention. In particular, the approved tariffs for 2014 on some of SIAS's concessions (SATAP A21, SAV and ATIVA) were significantly lower than those resulting from the application of the formulae set out in the concession agreements, as a result of government's intervention to limit annual toll tariff increases to a nominal 5%/6% rate. However, with the "Sblocca Italia" decree published in September 2014, the government suggested the extension of motorway concession agreements through the aggregation of different stretches in exchange for higher private investments and tariffs increases smoothed over a longer time period. In December 2014, the government limited SIAS's 2015 tariffs increases at 1.5%. The government's decision was implemented in the context of an integration plan of SIAS's concessions submitted to the EU authorities. The aggregated plan provided for a lengthening of the new aggregated concession maturity, which might have benefitted SIAS, whose current average remaining concession life is relatively shorter compared to its peers. The plan still needs to be approved by the Italian Ministry of Infrastructure, MIT, and EU authorities. In June 2015, the government requested a revision of SIAS's stand-alone concessions' plans to reduce investments to a level consistent with increases in tariffs broadly in line with inflation. Accordingly, in June 2015, SIAS presented new plans, which provide for the recovery of unearned past tariff increases. As of September 2015, the approval of such revised concession plans is still pending.

We understand that the government's approval of either SIAS's aggregated concession plans or updated individual concession plans is due by the end of 2015. Nevertheless, this adds further uncertainty to SIAS's regulatory framework and partially reduces visibility on the company's operating profile. Failure to get to an approval of the revised financial plans either on a standalone or aggregated basis, in a form that fully preserves the financial neutrality of any tariff rebalancing would likely reflect negatively on SIAS's rating.

MATERIAL INVESTMENT PLAN MAY SLOW DOWN DELEVERAGING EFFORTS

SIAS investment plan allows for almost EUR300 million average annual capex between 2015-19 mostly directed towards SATAP A4 and CISA concessions (the calculation, however, excludes EUR260 million residual value payment for the award of the A21 Piacenza-Cremona-Brescia in 2016). This compares with a historical FFO in the EUR400-450 million range (2012-14) and a fixed assets base of around EUR4.4 billion (2014).

Whilst this sizeable capex poses a funding and execution risk, we note that given a complex and generally delayed public approval process on investments, the actual spending is often below the original plans as a result of reasons that are outside the company's control. Also, SIAS has recently revised downward its investment plan upon request of the government to maintain tariffs changes broadly in line with inflation.

Investment needs are balanced by the group's moderate leverage level, which is reflected in a 13.6% fund from operation (FFO)/debt ratio as of 2014 (14.1% in 2013). We note that the FFO/debt ratio would have resulted in a much stronger 20.1% on a net debt basis (vs. 18.9% in 2013), as a result of SIAS's large cash balance (EUR1 billion as of December 2014). We consider SIAS's positive cash balance as a credit positive feature, although it is at least partially due to the pre-funding strategy implemented by the company in the context of its sizeable capex plan. A material reduction in cash balances as a result of a more aggressive strategy may result in downward pressure on SIAS's credit quality.

Liquidity Profile

SIAS's liquidity position is strong. At the end of June 2015, SIAS had approximately EUR1.2 billion of cash and marketable securities. The company's liquidity is also backed by EUR350 million of available term loans to finance the company's capex plan.

Approximately 82% of SIAS's total debt is fixed and its average cost of debt is 3.5%. Short-term refinancing risk is very low as only 15% of the debt will mature in the next 18 months and approximately 60% will expire beyond 2018. The implied average duration of SIAS's debt is 4.65 years. The first material bullet maturity will be in June 2017 when a EUR335 million of convertible bond is due for repayment in addition to some EUR250 million of bank debt maturing in the same year. The EUR1 billion notes issued within the company's EUR2 billion EMTN program will expire beyond 2018.

Structural Considerations

Under its EMTN programme, launched in 2010, SIAS has the option to issue either secured or unsecured notes. Secured notes benefit from a first-ranking security interest over the intercompany loans that will be used by SIAS to downstream the proceeds of the secured notes to its operating subsidiaries, depending on their specific requirements. Also, the company requires secured lenders providing funds to SIAS to become part of an inter-creditor agreement, applying in case of a default and assuring that the proceeds arising from the enforcement of each pledged intercompany loan is shared pro rata and pari passu among all the holders of secured notes and the other classes of secured creditors of SIAS.

We believe that the secured notes issued under SIAS EMTN program effectively rank pari passu with creditors at the operating subsidiaries level, thus avoiding structural subordination issues associated with the group's current funding structure. As a result, we maintain a Baa2 rating on SIAS's EMTN senior secured notes, which is in line with our assessment of the group's consolidated credit strength. In contrast, we assign a Baa3 rating to the unsecured notes, one notch lower than the group's consolidated credit assessment, to reflect their structurally and, in respect of secured notes, contractually subordinated position. Nevertheless, we understand that SIAS intends to mainly issue secured notes as part of its funding strategy and that SIAS's EMTN programme includes the option of converting the secured notes into unsecured notes when the ratio of holding company debt-to-consolidated debt reaches at least 85% (it was approximately 70% as of June 2015). We note that in such a scenario the conversion of the secured notes into unsecured notes would be unlikely to trigger a rating downgrade as the amount of debt at the operating companies level would not be regarded as material to justify a notch adjustment for structural subordination.

Rating Outlook

Our negative outlook takes into consideration (1) the additional regulatory/political risk arising from the still pending approval of the revised financial plans on several concessions, which is necessary to provide for financial rebalancing after the application of tariff caps and new investment plans; and (2) the limited flexibility left at the current rating level as a consequence of lower tariffs and past traffic declines, which translates into short-term pressure on credit metrics, although we expect that the company will be able to remain within its ratio guidance for the current rating barring any negative impact from the aforementioned factors.

To support current ratings, SIAS must achieve FFO interest cover of 4.0x and FFO/debt positioned in the low teens and trending toward the mid-teens over the short to medium term. Our guidance in respect of such parameters is tighter than for some of its peers, reflecting SIAS's shorter weighted average concession life and the associated limitations on the company's debt capacity.

What Could Change the Rating - Up

Given the negative outlook, an upgrade of SIAS's rating is unlikely. A stabilisation of the current negative outlook is conditional upon (1) the approval of the revised financial plans in a form that guarantees a certain and full recovery of tariff deficits within a short timeframe; and (2) a confirmation of the positive traffic trends registered in the first six months of 2015.

What Could Change the Rating - Down

Downward rating pressure could develop in case of (1) a material change in the terms and conditions of key concessions, or other public intervention that negatively affects the overall group's business or financial risk profile; (2) large-scale, debt-funded acquisitions/investments or diversification away from the domestic infrastructure activities; (3) a deterioration of the sovereign and macroeconomic environment in Italy; and (4) failure to maintain the expected minimum financial profile mentioned above (i.e., a ratio of FFO/debt permanently below the low teens and FFO interest cover below 4.0x).

Other Considerations

To assess SIAS's rating, we apply the Operational Toll Roads Methodology (see Credit Policy page on www.moodys.com). The grid-indicated outcome under the methodology grid for SIAS is Baa3, as summarised in the table below. The difference with the final rating is explained by SIAS's stronger financial metrics when on a net debt basis reflecting the availability of large cash balances. SIAS's grid indicated outcome using our forward view (2015-16) reflects the abovementioned limited flexibility left at Baa2 rating.

Rating Factors

SIAS - Societa Iniziative Autostrad.

Privately Managed Toll Roads Industry Grid [1][2]	**Current FY 12/31/2014**		[3]**Moody's 12-18 Month Forward ViewAs of 10/13/2015**	
Factor 1 : Asset Type and Service Area (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Asset Type		Aa		Aa
b) Competing Routes		Aa		Aa
c) Economic Resilience of Service Area		A		A
Factor 2 : Traffic Profile and Performance Trends (15%)				
a) Traffic Profile		A		A
b) Track Record and Stability of Tolled Traffic		Baa		Baa
c) Traffic Density		A		A
Factor 3 : Concession and Regulatory Framework (10%)				
a)Ability and Willingness to Increase Tariffs		Baa		Baa
b) Protection Provided by the Concession and Regulatory Framework		Baa		Baa
Factor 4 : Financial Policy (10%)				
a) Financial Policy		Baa		Baa
Factor 5 : Coverage and Leverage (40%)				
a) FFO Interest Coverage	4.6x	A	~5x	A
b) FFO / Debt	13.6%	Baa	14%-16%	A
c) Moody's Debt Service Coverage Ratio	1.2x	B	1.1x-1.3x	B/Ba
d) RCF / CAPEX	1.3x	Baa	1.0x-1.2x	Baa
e) Concession Life Coverage Ratio	1.4x	B	1.2x-1.4x	B
Rating:				
Indicated Rating from Grid Factors 1-5		Baa3		Baa3/Baa2
Rating Lift		0.0		0.0
a) Indicated Rating from Grid		Baa3		Baa3/Baa2
b) Actual Rating Assigned		Baa2		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2014; Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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