

## FITCH RATES SIAS 'BBB+'; OUTLOOK STABLE

Fitch Ratings-Milan/London-09 May 2014: Fitch Ratings has assigned Italian toll road operator Sias S.p.A. (Sias) a Long-term Issuer Default Rating (IDR) of 'BBB+' with a Stable Outlook. Fitch has also assigned the following ratings to SIAS's euro medium-term notes (EMTN) programme and notes:

EMTN programme of EUR2bn (senior secured notes): 'BBB+'; Outlook Stable

EMTN programme of EUR2bn (senior unsecured notes): 'BBB'; Outlook Stable

EUR500m senior secured notes due October 2020: 'BBB+'; Outlook Stable

EUR500m senior secured notes due February 2024: 'BBB+'; Outlook Stable

The rating reflects a combination of a Midrange asset (resistant and large toll road network benefitting from a generally protective concession framework), robust although complex debt structure and moderate leverage (maximum 4x, Fitch calculation).

### KEY RATING DRIVERS

Sias is the second-largest Italian toll road operator managing a network of 1,175 km (20% nationally), which is critical for the mobility of the wealthy north-west region of Italy (GDP per capita around 18% above the national/EU average). Traffic was resistant through the 2008-2011 crisis (maximum 1.2% decline) but experienced a shock in 2012 (-7.7%) due to the decrease of domestic consumption as a response to austerity measures. Traffic moderately contracted again in 2013 (-2.2% like for like) but 1Q14 figures shows sign of stabilisation.

Under Fitch's rating case, traffic will drop by 1.6% in 2014 and remain subdued thereafter. Downside risk mainly stems from the still evolving Italian economy and its impact on traffic dynamics. The reduction in overall traffic as a result of the expiry of three concessions by 2021 is not expected to result in greater volatility of its traffic performance for the residual network compared to the status quo. Volume Risk is assessed as Midrange.

Tariff hikes of 4.6% (like for like) in 2014 are expected to largely outpace the assumed traffic decline. The concession framework is robust as it links tariff hikes to capex execution thus partially de-linking group cash flow generation from negative traffic performances. However, some uncertainty remains around the possible political response to the sharp toll increases that the capex plan, if realised, would trigger (especially for those concessions with a short maturity). The balance gives a midrange assessment for Price Risk.

Sias will face an ambitious capex programme (of EUR1.6bn in 2014-2017) as required by the updated concessionaries business plans, once approved. The execution of these plans remains a major driver for achieving yield on investments that will significantly increase tariffs. Sias has long-standing experience and in-house expertise in delivering investment on its network and this supports a Stronger assessment for the infrastructure development and renewal risk factor.

Sias is involved jointly with Banca Intesa (BBB+/Negative) in the development of Tangenziale Esterna (TE) and Brebemi, two large greenfields toll road projects in the Milan area. Both are financed with non-recourse debt under project finance schemes. Brebemi is at an advanced stage of execution while TE will be delivered in two different stages (mid-2014 and 2015). This results in some execution risk that may imply higher than expected financial support from shareholders. Under the rating case, EUR100m was added to the equity/subordinated loans Sias has already committed to inject in Tangenziale Est Esterna di Milano and in TE (EUR125m already included in 2013 Fitch adjusted leverage).

Sias should be able to substantially self-finance its direct and indirect 2014-2017 investment plan. Under Fitch's rating case, which uses lower assumptions on traffic, opex, cost of debt and dividends compared with the sponsor's case, leverage of 3.9x is forecast to progressively reduce to 3.5x by 2016 and further decrease thereafter. Since three key group concessions (accounting for 50% of EBITDA) mature by 2021, Fitch also ran a longer forecast exercise up to 2022. Under this extended rating case, which also assumes that the terminal value of expiring concessions will be distributed to shareholders, leverage calculated on the residual EBITDA is expected to remain below 4x in 2022. Under this scenario, weaker traffic performance or higher than expected operating costs could be absorbed by the reduction of dividend distribution, which Fitch assumed at a level that is on average 2.3x above the historical ordinary group dividend distribution (EUR70m). In addition, if tariffs do not increase as expected, the capex plan could be adjusted downwards.

Sias's debt consists of a balanced mix of amortising (46%) and bullet (54%) instruments mostly at fixed rates (82%). Sias is not a frequent issuer in the capital market (three bonds are outstanding, one of which is convertible) but has well-established relationships with a diversified network of national and international banks (including EIB). Refinancing risk is mitigated by a sound liquidity position, which under Fitch's rating case covers debt maturities until 2017. Debt structure is assessed as Midrange.

Debt is split between Holdco (Sias 60%) and Opcos (40%) although the centralisation and diversification of group funding structure is ongoing. To this end, in 2010, Sias established a EUR2bn EMTN programme. The programme documentation contains a negative pledge at Sias and subsidiaries levels (with carve outs) and put event (with carve outs) in case of concession events or 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 Opcos. Fitch gives limited credit to the bank covenants since the bank loans may be prepaid.

Bonds under the EMTN programme can be unsecured or secured. The unsecured notes constitute direct, general and unconditional obligation of the issuer, which at all times rank pari passu among themselves and at least pari passu with all other present and future unsecured obligation of the issuer. Senior secured notes benefit from first ranking security over the Holdco-Opcos intercompany loans. In a pre-enforcement scenario, payments under these intercompany loans may be used to service Sias's 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 Holdco level. Secured and unsecured notes both have the benefit of cross-default/cross acceleration clauses (with EUR50m threshold) with other Sias debt and debt raised at Opcos level.

Under this structure, in case of acceleration/default at parent/material subsidiary levels, Sias's secured creditors would be entitled to enforce their security and directly collect receivable 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 (bondholders and other secured creditors).

As intercompany loans are reasonably well spread among all group subsidiaries, the above mechanism gives Sias's secured creditors access to asset and cash flows of all the group's operating subsidiaries. This structure results in Sias's secured creditors ranking pari-passu with the senior unsecured creditors of Opcos 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, which 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's senior secured creditors and structurally subordinated to creditors of Opcos.

The most comparable peers to Sias in Fitch's EMEA rating portfolio are Atlantia (A-/Negative), Abertis (BBB+/Negative), Milano Serravalle (BBB-/Negative) and Brisa (BBB/Negative). Sias has performed in line with its Italian peers and better than its international peers in terms of traffic performances. However, Sias suffers from relatively shorter remaining average concession maturity (similar to Abertis) and more complex group and debt structures

According to our rating criteria, an average DSCR of 1.5x under Fitch's rating case would be compatible with a 'A' category rating for assets with established operating history (i.e. demonstrated resilience) and high tariff flexibility. Sias's 'BBB+' senior secured rating reflects mostly Midrange key rating drivers assessments, average and minimum rating case DSCR of 1.5x and 1.3x, respectively, as calculated up to 2022, and moderate Fitch-adjusted leverage of 3.5x. The credit profile is weighed down by the short concessions maturity and complex group and financial structures.

#### 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.

An austerity related decision made by the Italian government, such as change in taxation, prolonged freeze in toll rate increase or any other measure materially affecting group free cash flow generation, if not compensated, could adversely impact Sias's credit profile.

The short-term horizon of the rating case envisages a 1.6% traffic decline for 2014 and flat (0%) volumes for 2015. A sharper or sustained decline of the Italian economy impacting traffic forecasts could prompt a negative rating action.

Failure to maintain adequate liquidity to cover group investments and debt service requirement needs would prompt a negative rating action as would any extraordinary dividend distribution materially affecting the group's liquidity position or projected debt leverage metrics (net debt/EBITDA).

The current debt at TE/BREBEMI is without recourse to Sias. Any change to this implying Sias's direct or indirect responsibility for this debt could be rating negative.

Sias's ratings are not capped by the sovereign rating of Italy (BBB+/Stable) and would not be automatically affected by a sovereign rating action. However, a material deterioration in the sovereign's credit quality or a sovereign rating action caused by a deterioration of the domestic economic environment could prompt a rating review.

If debt at Holdco 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 (Fitch's calculation) is sustainably around 3x. 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-'.

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Applicable criteria, "Rating Criteria for Infrastructure and Project Finance" dated 11 July 2012, "Rating Criteria for Toll Roads, Bridges and Tunnels" dated 16 October 2013, "Parent and Subsidiary Rating Linkage" dated 5 August 2013, and "Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers" dated 20 November 2013 are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Rating Criteria for Infrastructure and Project Finance

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=682867](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682867)

Rating Criteria for Toll Roads, Bridges and Tunnels

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=720736](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=720736)

Parent and Subsidiary Rating Linkage

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685552](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685552)

Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=721836](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=721836)

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