

CREDIT OPINION

23 October 2017

Update

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SIAS - Societa Iniziative Autostrad.

Update to credit analysis

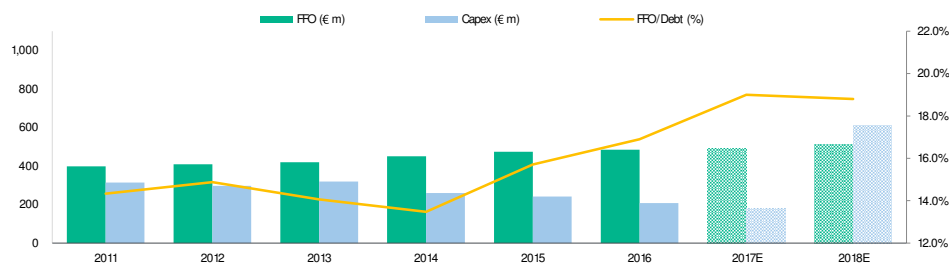
Summary

SIAS - Società Iniziative Autostradali e Servizi S.p.A. (SIAS)'s Baa2 consolidated credit quality, with stable outlook, reflects (1) the relatively low business risk associated with its toll road operations, comprising a sizeable network of essential transport links located in some of Italy's wealthiest regions; (2) the historically resilient cash flow profile exhibited by the group, despite past tariff freezes and weak traffic volumes in 2008-13; (3) strengthening traffic, in the context of somewhat improving macroeconomic conditions in Italy; (4) the company's moderate leverage, coupled with a strong liquidity position and material cash balances held; and (5) Moody's view that the company's rating could exceed that of the sovereign (currently Baa2 negative), in the event that moderate downward pressure were to materialise on the latter, and provided that a continued strong liquidity position is maintained.

These strengths are partially offset by (1) a regulatory environment historically characterised by some political interference; and (2) the company's relatively material investment plans in the context of a short remaining weighted average life of SIAS's concessions compared with other European operators.

Exhibit 1

Resilient cash flow generation supports SIAS's credit metrics and investment needs



Notes: (i) This represents Moody's forward view, not the view of the issuer. 2018 investments include cash outflow related to ACP acquisition; (ii) Based on 'Adjusted' financial data incorporating Moody's Global Standard Adjustments for Non-Financial Corporations.

Source: Company, Moody's Investors Service

Credit Strengths

- » Resilient cash flow profile of sizeable motorway network
- » Strengthening traffic trends after prolonged macro-driven slump
- » Strong liquidity position and moderate leverage

Credit Challenges

- » Regulatory environment characterised by some political interference
- » Relatively short weighted average concession life vs. other European peers
- » Some pressures at the sovereign level as reflected in the negative outlook associated with the Baa2 Italian rating

Rating Outlook

The outlook is stable, reflecting Moody's view that SIAS's rating could potentially exceed that of the sovereign (currently Baa2 negative), likely within the limit of one notch, in the event that moderate downward pressure were to materialise on the latter. The rating outlook also reflects the expectation that the company will continue to exhibit a financial profile in line with the current rating, with Funds From Operations (FFO)/Debt at least in the mid-teens and trending towards the high-teens as the remaining concession life shortens. Our guidance in respect of such ratio 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.

Factors that Could Lead to an Upgrade

In addition to an improvement in the Italian sovereign and macroeconomic environment, a material strengthening of SIAS's key credit metrics from current levels (i.e. FFO/Debt sustainably above 20%), coupled with a continued improvement in traffic trends and a consistent and timely application of tariff and regulatory principles, allowing for full recovery of past tariff deficits and any residual value at concession maturity, would be needed to exert upward pressure on SIAS's rating.

Factors that Could Lead to a Downgrade

SIAS's rating could come under downward pressure as a result of (1) a material deterioration of the sovereign and macroeconomic environment in Italy; (2) a weakening in the group's financial profile (i.e. FFO/Debt below the mid-teens on a sustained basis); (3) a deterioration in the company's liquidity position or a material reduction of cash balances held; (4) 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; or (5) an aggressive growth strategy resulting, for example, from large-scale, debt-funded acquisitions, investments in activities other than motorway concessions and/or in motorway activities exhibiting a higher risk profile.

Key Indicators

Exhibit 2

	31/12/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012
Cash Interest Coverage	5.2x	4.9x	4.6x	4.7x	4.9x
FFO / Debt	16.9%	15.7%	13.5%	14.1%	14.9%
Moody's Debt Service Coverage Ratio	1.3x	1.3x	1.2x	1.3x	1.3x
RCF / Capex	1.9x	1.6x	1.3x	0.6x	0.9x
Concession Life Coverage Ratio	1.4x	1.4x	1.3x	1.5x	1.5x

Note: All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#)

Source: Moody's Financial Metrics

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 www.moody's.com for the most updated credit rating action information and rating history.

Profile

SIAS is the second-largest toll road operator in Italy. The company's consolidated domestic network currently consists of 913 km of tolled motorways (as well as an additional 104 km currently under construction), operated through eight concessions with maturities ranging from 2017-43. In May 2015, the company was awarded the A21 Piacenza-Cremona-Brescia stretch, which will bring SIAS's Italian consolidated network length to 1,001 km, upon financial close. In addition, through their combined indirect 46.7% stake in Ecorodovias, SIAS and its holding company ASTM-Autostrada Torino Milano S.p.A. (ASTM, unrated) are also involved in the management of approximately 1,800 km of toll roads in Brazil. Gruppo Gavio is SIAS's main shareholder, owning a stake of approximately 70%, mostly through its holding company ASTM (61.7%).

Detailed Credit Considerations

Business profile underpinned by size and location of the network

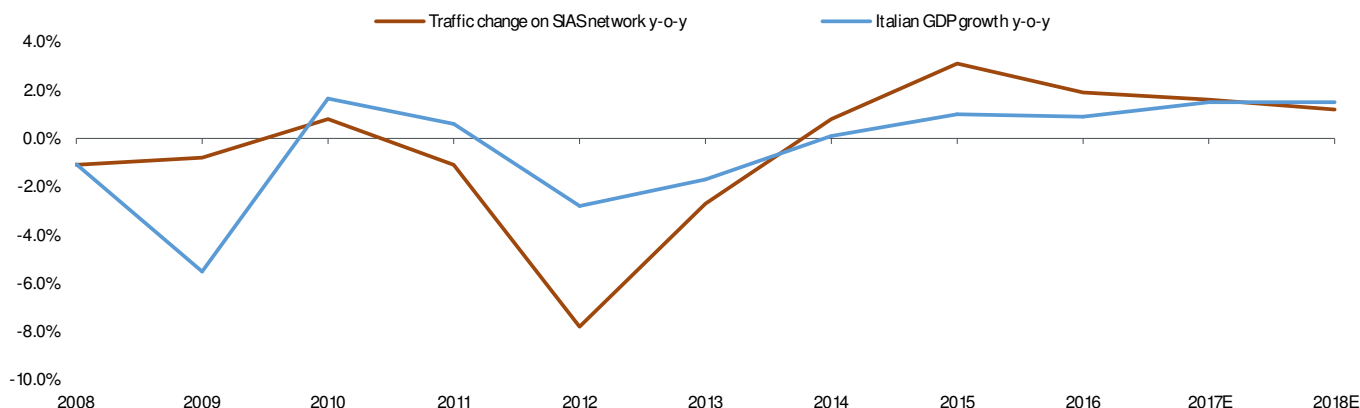
SIAS's consolidated network currently consists of 913 km of tolled motorways in Italy, corresponding to approximately 17% of Italy's motorways, and comprising several essential transport links, mainly located in the north-west of Italy, connecting major cities within the area and providing access between provincial and rural areas. In May 2015, SIAS was also awarded the concession for the motorway A21 Piacenza-Cremona-Brescia (ACP) and the junction to Fiorenzuola D'Arda (PC). The 88.6 km 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, and will bring SIAS's consolidated network length to 1,001 km. The new 25-year concession agreement related to ACP was finalised in May 2017 and SIAS is expected to formally start operating the asset in early 2018.

The fundamentals of the service area and the competitive environment are favourable as SIAS provides essential transport services to some 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.

Resilient cash flow profile and improving traffic performance after prolonged macro-driven slump

In common with other rated European toll road operators, SIAS reported falling traffic volumes vs. its 2007 peaks, experiencing material declines, mostly concentrated between the end of 2011 and 2012, on the back of an increasingly difficult domestic macroeconomic environment. In 2014, after a cumulated 10.5% contraction in 2012-13, traffic picked up with a small +0.8% increase year-on-year. In 2015, SIAS reported a +3.1% in traffic, confirming the positive trend, followed by a +1.8% in 2016, which also benefitted from an additional day's traffic due to the 2016 leap year effect. More recently, for the first six months of 2017, SIAS reported a traffic increase of 2.8%, reflecting somewhat improved macroeconomic conditions and business sentiment. Overall, traffic on SIAS's network remains almost 8% below peak pre-crisis levels. Despite the past weak traffic performance, SIAS exhibited a relatively resilient cash flow profile, as demonstrated by the trend in FFO/Debt metrics.

Exhibit 3

Strengthening traffic trends on the back of an improved macroeconomic environment

Note: Excluding AT-CN concession

Source: Company, Moody's Investors Service

The traffic profile of SIAS's service area is robust as its managed network exhibits a generally diversified traffic base, with a mixture of commuter and leisure traffic, long-distance journeys and commercial traffic. We see the varied users' profile as a supporting feature of the company's credit positioning. On a group level, in 2016, heavy goods vehicles accounted for approximately 24% of total traffic. 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 2016. The second-largest contributor is SALT (A12 Livorno Sestri, A11 Viareggio Lucca and A15 Fornarola-La Spezia), accounting for approximately 20% of overall traffic. 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 is mitigated by the fact that SIAS's stretches are characterised by diversified traffic and limited competition.

Some history of political interference but finalisation of updated financial plans nears resolution

SIAS operates its Italian motorway network under eight concession agreements. The company is also expected to formally start operating its ninth concession, for the ACP motorway stretch, in early 2018. 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 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 generally supportive regulatory framework, the latter was first affected by unfavourable political intervention in 2014, when approved tariffs on some of SIAS's concessions (SATAP A21, SAV and ATIVA) were capped to a nominal 5%/6% rate. Similarly, the government limited SIAS's 2015 tariffs increases at 1.5%, in the context of broader discussions related to 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, in exchange of higher investments, which might have benefitted SIAS, whose current average remaining concession life is shorter compared to its peers.

The continued delays and uncertainties related to the discussions around the aggregation plan resulted in the submission, in June 2015, of updated financial plans by SIAS which did not incorporate any aggregation scenario but, in line with indications received by the Italian Government and the Grantor (Ministry of Transport and Infrastructure, MIT) reflected a limitation of toll increases (and therefore investments), but also included the recovery of unearned past tariff increases.

Pending the approval of updated financial plans, the 2016 increase in applicable tolls on the majority of SIAS's concessions were suspended (except for the SATAP A4 Torino Milano for which the financial plan was previously approved and the tariff increase was +6.5% as of 1 January 2016).

In 2017, the SATAP A4 stretch was awarded a toll increase of 4.6% from 1 January, generally in line with the applicable formula and the approved updated financial plan associated with the concession. The SATAP A21 concession was awarded a 0.85% toll adjustment, while for the ATS and CISA concessions approved tariff increases stood at 2.46% and 0.24% from 1 January 2017, respectively. On the remaining concessions managed by SIAS (AT-CN, ADF, SALT and SAV), tolls remained unchanged vs. 2016. While for the AT-CN stretch the unchanged toll levels reflected the applicable regulatory formula, for the remaining concessions managed by SIAS some uncertainties remained as to the specific parameters considered in the 2017 toll increases (or lack of, for some concessions), also in light of the pending approval of updated financial plans.

Exhibit 4

Historical toll increases by concession vs. requested by SIAS in accordance with financial plans

	2015	2016	2017
SATAP A4	1.50%	6.50%	4.60%
SATAP A21	1.50%	0.00%	0.85%
SALT	1.50%	0.00%	0.00%
CISA	1.50%	0.00%	0.24%
ADF	1.50%	0.00%	0.00%
ATS	1.50%	0.00%	2.46%
SAV	1.50%	0.00%	0.00%
Weighted average requested toll increases	4.80%	5.38%	6.54%
Weighted average actual toll increases	1.50%	1.48%	1.42%

Note: Excluding AT-CN concession for which no toll increases were due

Source: Company, Moody's Investors Service

In September 2017, SIAS announced it had signed additional deeds to the existing agreements related to the concessionaires ADF, CISA, SALT, ATS and SAV, covering the 2014-18 regulatory period, which finalise the approval of updated financial plans and rate of return levels (WACC) for the period. The effectiveness of the additional deeds is subject to approval by the MIT and the Ministry of Economics and Finance via Interministerial Decree, and subsequent registration by the Court of Auditors. Whilst no specific details are available at this stage, Moody's understands that approved WACC levels for the regulatory period are lower than the initial plans submitted by the company. This mainly reflects the updated approach in respect of the relevant WACC calculation methodology, which takes as reference for the calculation of the risk-free rate used in the WACC formula, the 12 months preceding the submission of financial plans to CIPE by MIT, rather than the 12 months preceding the submission of such plans to MIT by the company, as included in the previous CIPE Resolutions for the industry. Moody's also understands that the approved financial plans provide for the recovery of unearned toll revenues resulting from the limitation of past due toll increases.

In addition to the above, SIAS also recently indicated that a preliminary agreement has been reached in respect of the rebalancing of the financial plan related to the AT-CN concession. Moody's understands that SIAS would complete investments on the AT-CN stretch (EUR350 million), partially financed and remunerated through a four-year extension of the SATAP A4 concession maturity to 2030. Toll increases on the SATAP A4 concession will be fixed at annual projected inflation plus a spread of 0.5% until the end of the concession. The unamortised balance of the AT-CN investment at the end of the concession (2030) will be recovered through a terminal value recognised on the SATAP A4 concession (capped at a multiple of 1.6x of 2030 cumulative EBITDA related to the SATAP A4 and AT-CN concessions). In order to become effective, this agreement would need to be formally approved by the European Commission, with additional deeds related to the concessions subject to approval by the MIT and the Ministry of Economics and Finance via Interministerial Decree, and subsequent registration by the Court of Auditors.

Whilst acknowledging that recent developments finally provide enhanced clarity in respect of updated financial plans and applicable WACC and toll levels, also extending the life of some of SIAS's most profitable concessions (SATAP A4), we note some residual risks related to the formal implementation due to pending approval processes. Moody's also notes that the agreements, while having the objective of limiting toll increases in future years, result in an increased significance of delayed compensation for SIAS through terminal value (TV) payments, which Moody's sees negatively. A very limited track record exists in Italy in respect of timely monetisation of terminal values and agreement around actual levels of such due payments, which could impact the ability of the concessionaire to raise

funds to refinance maturing debt or support investments, particularly where such funding relies on the monetisation of TVs in later years.

Exhibit 5

Overview of SIAS's concession maturities assuming finalisation of additional concession deeds and AT-CN/SATAP A4 cross financing agreement

Concession	Maturity (+ likely extension)	2016 EBITDA (€ m)	Estimated TV (€ m)
SATAP A4	Dec-26 + 4 years	169.6	TBC - potentially significant
SATAP A21	Jun-17 + 2 years	117.1	102
SALT	Jul-19	122.5	290
ADF	Nov-21	94.1	99
CISA	Dec-31	55.2	-
SAV	Dec-32	41.6	-
ATS	Dec-38	32.8	-
AT-CN	Dec-30	2.3	-
ACP	Dec-43	32.0	-

Note: Concession maturities for SATAP A21 and AT-CN reflect preliminary cross-financing agreement. Expired SATAP A21 expected to be managed by two more years *in prorogatio*. ACP concession expected to be operated by SIAS from early 2018 and included above for illustrative purposes. TV amounts reflect company's estimates as of 31 August 2017.

Source: Company, Moody's Investors Service

Cash flow generation and strong liquidity position support capex

We expect that the cash flow generation resulting from the positive traffic performance will support SIAS's relatively sizeable capital expenditure (capex) requirements and enable the company to continue to exhibit a financial profile consistent with the current rating. The company's 2018-20 investment plan assumes, on average, in excess of €350 million of annual capex. The acquisition of the A21 Piacenza-Cremona-Brescia motorway stretch, which we expect to reach financial close in early 2018, will result in an additional outflow of approximately €300 million. Investments are mostly directed towards the SATAP A4, CISA and AT-CN concessions. Capex requirements compare with a historical FFO in the range of €420-480 million range over the period 2013-16 and a fixed assets base of approximately €4.5 billion (as of year-end 2016).

SIAS has historically maintained large cash balances on balance sheet, partly due to the pre-funding strategy implemented by the company in the context of its capex plan, but also reflecting good cash flow generation and SIAS's balanced financial policy. We consider SIAS's strong cash position as a credit positive feature which supports the current rating positioning. SIAS reported FFO/Debt of 16.9% as of year-end 2016 but, on a net debt basis, the metric would be a much stronger 22.9%.

Exposure to Ecorodovias and Tangenziale Esterna through minority stakes credit neutral for now

In May 2016, ASTM and SIAS closed the transaction, with CR Almeida Engenharia e Construcões (CR Almeida, unrated), for the acquisition of a 64.1% share in a newly created special purpose vehicle owning a 64% share in Ecorodovias (a Brazilian industrial group focused on motorway concessions) and a 55% share in VEM ABC (VEM, unrated, a greenfield project to build and operate a monorail system in Brazil). The initial acquisition was followed, in May 2017, by a further increase in the stake held. As a result of the transactions, ASTM and SIAS currently indirectly control some 46.7% of Ecorodovias's capital. Ecorodovias manages almost 1,800 km of toll roads in Brazil. Ecorodovias Concessões e Serviços S.A., the holding company for the group, is rated Ba2, negative.

The amount cumulatively disbursed by SIAS for its share of the acquisition is in excess of €200 million. The relatively small investment in Ecorodovias does not materially impact SIAS's leverage position and key credit metrics, but absorbed part of its cash availability and financial flexibility. The investment is currently classified as an equity participation and is not expected to result in additional cash contributions from SIAS or produce material dividend flows over the medium term. Whilst the investment in Ecorodovias remains relatively small, we caution that material additional exposure to Brazilian operations and commitments resulting in additional cash outflows for SIAS could put pressure on the company's credit quality.

In July 2017, SIAS announced to have signed an agreement with the Italian bank Intesa Sanpaolo to swap their respective stakes in the concessionaires Tangenziale Esterna di Milano and BreBeMi. As a result of the transaction, expected to be finalised by December 2018,

SIAS's stake in Tangenziale Esterna di Milano (TE) will reach almost 62%. Opened in 2015, TE is the second ring road surrounding the city of Milan, built to alleviate congestion on the city's existing ring road. Due to sizeable investments and traffic levels significantly lower than initially anticipated, coupled with a heavily leveraged financial profile and material interest costs, TE is currently loss making. Net debt/EBITDA was in excess of 42 times as of YE 2016. Moody's sees the credit profile of TE as materially weaker than SIAS's currently managed concessions. While SIAS intends to implement further shareholding reorganisations in the future to reach a joint control arrangement in respect of TE with potentially interested parties, Moody's notes the risks around the implementation of such plans in light of TE's weak credit profile. As such, Moody's cautions that increased financial commitments linked to TE and, more generally, increased risks deriving from exposure to TE could impact SIAS's credit quality.

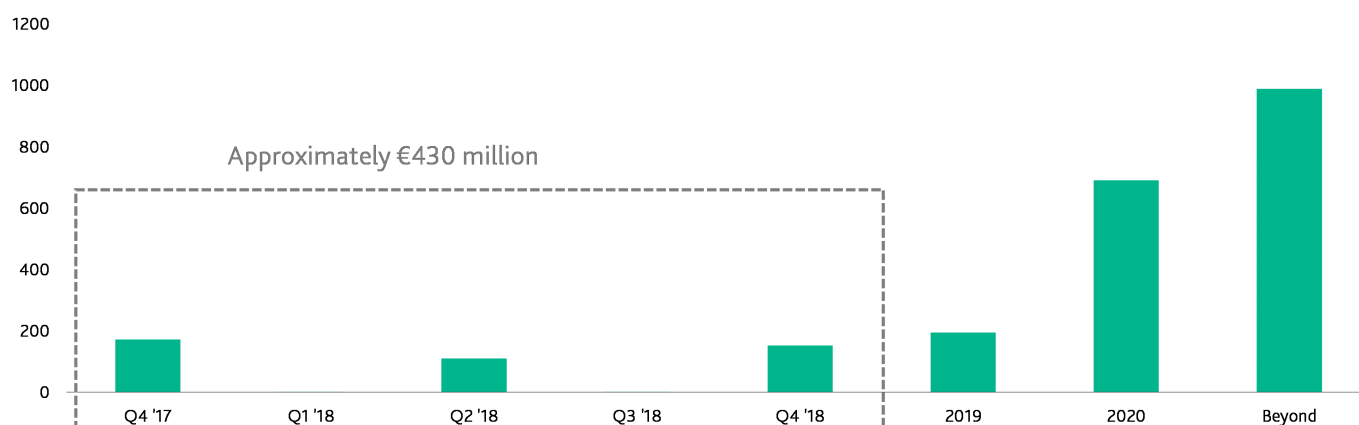
Liquidity Analysis

SIAS's liquidity position is strong. At the end of June 2017, SIAS reported €473 million of cash and cash equivalents (excluding financial investments with longer maturities, mainly insurance policies, amounting to approximately €200 million). SIAS's liquidity is also backed by €150 million of committed facilities, €290 million of available term loans earmarked to finance SATAP's capex plans and €336 million loans available to draw to cover the terminal value payment, associated costs and part of the investments related to the acquisition of the A21 Piacenza-Cremona-Brescia stretch, for which financial close remains pending.

SIAS adopts a prudent financial policy with ample stocks of cash available to cover the upcoming debt maturities, which mitigates refinancing risk. More generally, we estimate that SIAS's cash availability and internal cash flow generation will cover all the company's cash needs over the next 18 months, including investments, debt maturities and dividends, which represent its main cash outflows.

Exhibit 6

SIAS's debt maturity profile



Source: Company, Moody's Investors Services

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 intercreditor 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's 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 63% as of June 2017). 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 Methodology and Scorecard Factors

To assess SIAS's rating, we apply the Operational Toll Roads Methodology (see Credit Policy page on www.moody's.com). The grid-indicated outcome under the methodology grid for SIAS is Baa2, as summarised in the table below.

Exhibit 7

Rating Methodology Grid

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 Tolerated 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) Cash Interest Coverage	5.2x	A	5.5x-6.5x	A
b) FFO / Debt	16.9%	A	18.5%-20.0%	A
c) Moody's Debt Service Coverage Ratio	1.3x	B	1.4x-1.5x	Ba
d) RCF / CAPEX [4]	1.9x	A	0.7-1.0x	Ba
e) Concession Life Coverage Ratio	1.4x	B	1.5-1.6x	B
Rating:				
Indicated Rating from Grid Factors 1-5		Baa2		Baa2
Rating Lift				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		

Notes: [1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 31/12/2016; [3] This represents Moody's forward view; not the view of the issuer; [4] RCF/CAPEX includes approximately €300 million cash outflow for the award of the ACP A21 concession. For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#)

Source: Moody's Financial Metrics

Ratings

Exhibit 8

Category	Moody's Rating
SIAS - SOCIETA INIZIATIVE AUTOSTRAD.	
Outlook	Stable
Senior Secured -Dom Curr	Baa2
Senior Unsecured MTN -Dom Curr	(P)Baa3

Source: Moody's Investors Service

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