

## CREDIT OPINION

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### Update

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## SIAS - Societa Iniziative Autostrad.

Update following rating affirmation

### Summary Rating Rationale

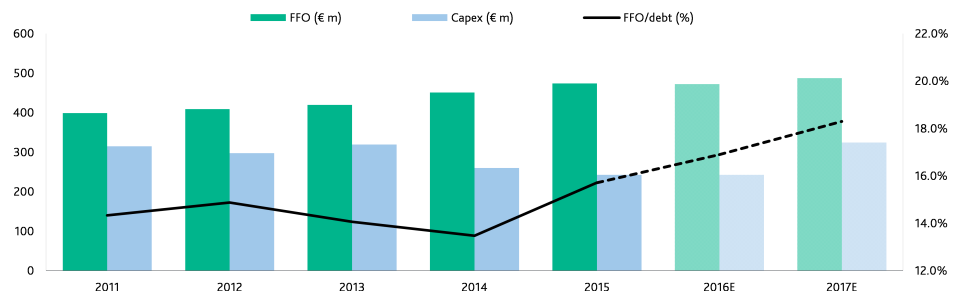
SIAS - Società Iniziative Autostradali e Servizi S.p.A.'s (SIAS) Baa2 consolidated credit quality, with stable outlook, reflects (1) the relatively low business risk associated with its toll road operations, comprising a sizeable network of essential transport links located in some of Italy's wealthiest regions; (2) the historically resilient cash flow profile exhibited by the group, despite past tariffs freezes and weak traffic volumes in 2008-13; (3) the strengthening traffic trends, in the context of recovering, albeit still somewhat fragile, 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.

These strengths are partially offset by (1) a relatively weak regulatory environment characterised by some political interference resulting in uncertainty on future tariff levels, given the pending approval of most of SIAS's economic and financial plans; and (2) the fairly short remaining weighted average life of SIAS's concessions compared with other European operators (less than nine years as of year-end 2015).

The ratings also reflect the limited impact on credit metrics and business risk profile of SIAS's acquisition of a minority stake in the Brazilian toll road operator Ecorodovias Infraestrutura e Logística S.A. (Ecorodovias, Ba3 negative), completed in 2016, which resulted in a cash outflow of approximately €200 million.

Exhibit 1

#### Resilient cash flow generation supports credit metrics and investments



Notes: (i) This represents Moody's forward view, not the view of the issuer; (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
- » Reduced visibility on applicable tariff levels due to delays in the approval of financial plans
- » 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 or investments in activities other than motorway concessions.

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## Key Indicators

Exhibit 2

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

## Detailed Rating Considerations

### Business profile underpinned by size and location of the network

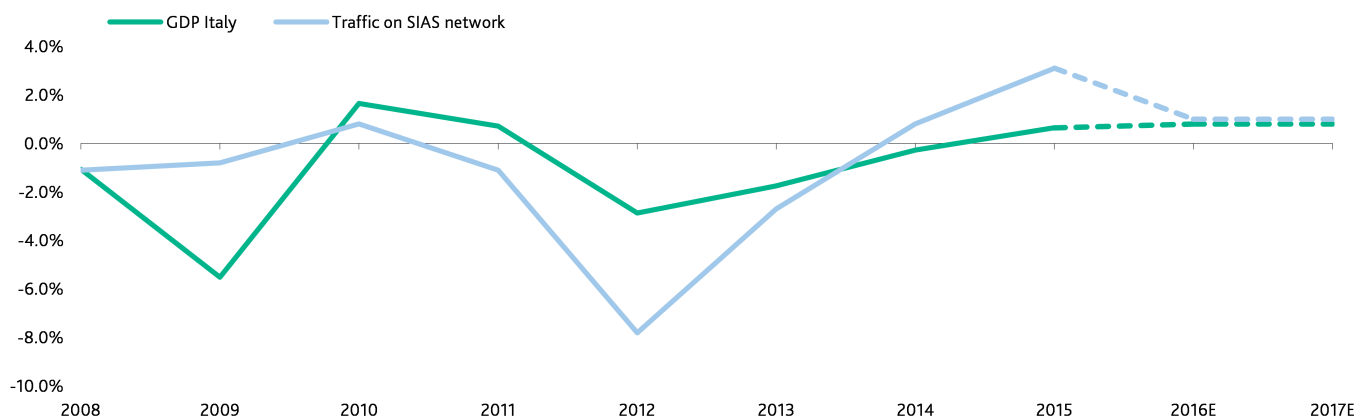
SIAS's consolidated network currently consists of 913 km of tolled motorways in Italy, corresponding to approximately 17% of Italy's motorways, and comprising several essential transport links, mainly located in the north-west of Italy, connecting major cities within the area and providing access between 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 upon financial close.

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 +1.9% for the first nine months of 2016, which also benefitted from an additional day's traffic due to the 2016 leap year effect. The recent trends reflect the recovery of traffic volumes in Italy, on the back of somewhat improved macroeconomic conditions and business sentiment. 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, albeit still fragile, macroeconomic environment**

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 2015, 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 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. 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.

#### Low visibility on tariffs determination pending approval of updated financial plans

SIAS operates its Italian motorway network under eight concession agreements. The company will also start operating the ACP motorway stretch upon financial close (not expected before 2017). 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). As of December 2016, the revised concession plans have yet to receive formal approval by the MIT, thus resulting in a somewhat limited visibility on future applicable toll levels.

### 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 2016-18 investment plan assumes, on average, approximately €300 million of annual capex. In addition, the acquisition of the A21 Piacenza-Cremona-Brescia motorway stretch, which we expect to reach financial close in 2017, will result in an additional outflow of approximately €300 million. Investments are mostly directed towards the SATAP A4 and CISA concessions (approximately 55% of total capex). Capex requirements compare with a historical FFO in the range of €420-470 million range over the period 2013-15 and a fixed assets base of approximately €4.4 billion (as of year-end 2015).

SIAS has historically maintained large cash balances on balance sheet (more than €900 million of cash and cash equivalents as of September 2016), 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 15.7% as of year-end 2015 but, on a net debt basis, the metric would be a much stronger 23%.

### Acquisition of a minority stake in Ecorodovias reduces financial flexibility but is credit neutral

On 4 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). As a result of the transaction, ASTM and SIAS indirectly control some 41% of Ecorodovias's capital and 35% of VEM ABC's share capital. Ecorodovias manages approximately 1,860 km of toll roads in Brazil.

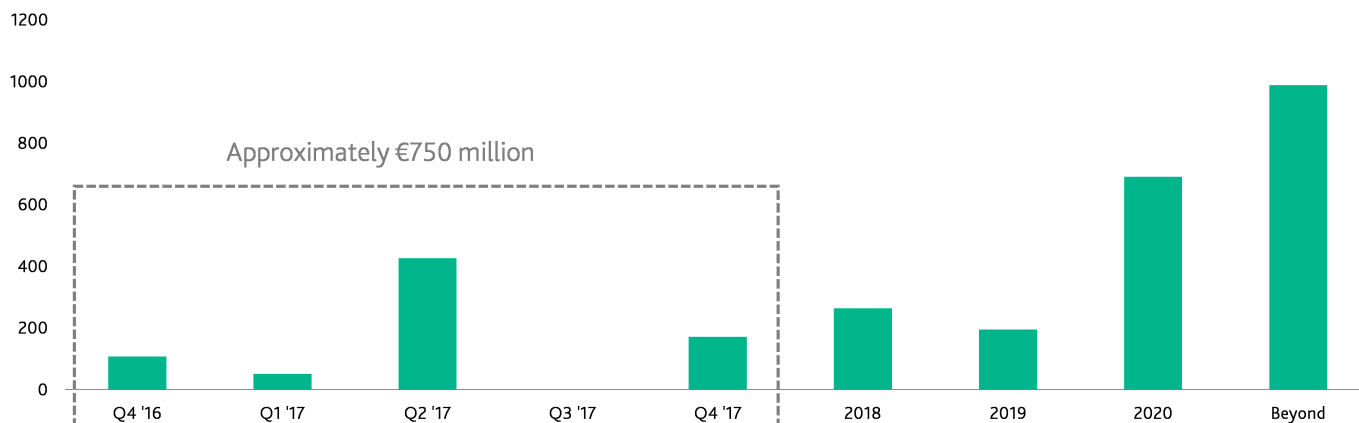
The price paid for the acquisition amounted to approximately €476 million, of which approximately €200 million was disbursed by SIAS. The relatively small investment in PRIMAV does not materially impact SIAS's leverage position and key credit metrics, but absorbed part of its cash availability and financial flexibility. The investment will be 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 commitments resulting in increasing outflows for SIAS could put pressure on the company's credit quality.

### Liquidity Analysis

SIAS's liquidity position is strong. At the end of September 2016, SIAS reported more than €900 million of cash and cash equivalents. The company's liquidity is also backed by €350 million of available term loans to finance the company's capex plan and €336 million available 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.

Of the approximately €2.9 billion of SIAS's gross debt, some 63% will mature beyond 2018. The next bond-related maturity refers to a €335 million convertible bond due in June 2017 (assuming that bondholders will exercise the repayment option). 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 4

**SIAS's debt maturity profile (as of September 2016)**

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 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 71% as of June 2016). 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.

## Corporate 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 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 41% 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 1,860 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%). Other shareholders include Lazard AM (5%) and Assicurazioni Generali S.p.A. (3.6%).

## 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](http://www.moody's.com)). The grid-indicated outcome under the methodology grid for SIAS is Baa2, as summarised in the table below.

Exhibit 5

## Rating Methodology Grid

Privately Managed Toll Roads Industry Grid [1][2]			Current FY 31/12/2015	Moody's 12-18 Month Forward View As of December 2016 [3]
Factor 1 : Asset Type and Service Area (25%)	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	4.9x	A	5-6.x	A
b) FFO / Debt	15.7%	A	16.5%-18.5%	A
c) Moody's Debt Service Coverage Ratio	1.3x	B	1.3x-1.4x	Ba
d) RCF / CAPEX [4]	1.6x	A	1.2-1.6x	Baa/A
e) Concession Life Coverage Ratio	1.4x	B	1.4-1.6x	B
Rating:				
Indicated Rating from Grid Factors 1-5		Baa2		Baa2
Rating Lift				
a) Indicated Rating from Grid		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 12/31/2015; [3] This represents Moody's forward view; not the view of the issuer; [4] RCF/CAPEX excludes 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 6

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

Source: Moody's Investors Service

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