FITCH AFFIRMS SIAS AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-Milan/London-29 April 2015: Fitch Ratings has affirmed Italian toll road operator Sias S.p.A.'s (Sias) 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 traffic stabilisation on the group's network, moderate leverage as well as robust but complex debt structure. Sias's limited name recognition on capital markets is compensated by a well-established relationship with a diversified network of national and international banks and a strong liquidity position, which mitigates refinancing risk.

KEY RATING DRIVERS

Volume Risk - Midrange
Sias is the 2nd-largest Italian toll road operator, managing a network of 1,244 km (20% of national one) which is critical for the mobility of the wealthy Italian north-west region. Its traffic has been resilient through the 2008-2011 crisis (maximum 1.2% decline), but experienced a shock in 2012 (-7.7% yoy like-for-like) due to a collapse of domestic consumption in response to austerity measures. Traffic moderately contracted also in 2013 (-2.2%) but returned to growth in 2014 (0.88%).

Under Fitch updated rating case, traffic will moderately grow in 2015 (+1%), sustained by Milan Expo, and remain subdued thereafter. Downside risk mainly stems from the still evolving Italian economy and its impact on traffic dynamics. Reduction of 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 remaining network compared with the status quo.

Price Risk - Midrange

Volume growth and tariff hikes of 4.7% supported revenue growth in 2014. In 2015 Sias and the government agreed to cap tariff hikes to 1.5%, pending the EU "green light" on a new government infrastructural plan, implying higher investments for Sias Group and other Italian concessionaires. Tariff shortfall will be recovered if the plan is not approved. Under the proposed plan Sias would invest an additional EUR5.2bn in its network with tariff hikes capped at government-budgeted inflation (1.5%) in exchange for 16 years of concession maturity extension (until 2043).

The plan also envisages a material simplification of the current group structure, with the existing 8 Sias concessions merged under a single umbrella. The overall plan, in our view, is still under development as EU stance on the proposed changes remains unclear at this stage. Therefore, the updated 2015 Fitch rating case still assumes the current group structure and existing capex plan. Fitch will reassess Sias' credit profile if the new plan is approved.

Infrastructure Renewal - Stronger
Irrespective of the approval of proposed larger plan, Sias has to deliver a capex programme of EUR1.6bn in 2015-2018 as required by the updated concessionaries business plans, once approved. The execution of these plans will significantly increase tariffs as the current concession framework (if not amended as proposed) links tariff hikes to capex execution. Sias has long-standing experience and in-house expertise in delivering investment on its network and this supports a Stronger infrastructure development attribute.

Sias is also involved - jointly with Banca Intesa ('BBB+/Stable) - in the development of TE and Brebemi, two large greenfields toll road projects in the Milan area. Both are financed with nonrecourse debt, under project finance schemes. Brebemi was opened in mid-2014 while TE should be completed during 2015 (a first stretch was opened in 2014). Both projects have to cope with ramp-up phases in the next three-to-five years, which may imply higher-than-expected financial support from shareholders. Under our rating case, EUR100m were added to the equity/subordinated loans Sias has already committed to injecting in TEM/TE (EUR125m already included in 2014 Fitch-adjusted leverage).

Debt Structure - Midrange

Sias's debt consists of a balanced mix of amortising (48%) and bullet (52%) instruments mostly at fixed rates (81%). 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 2019. Debt structure is assessed as Midrange.

Debt is split between holdco (Sias 70%) and opcos (30%) although the centralisation and diversification of the 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 subsidiary 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-opco 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 a EUR50m threshold) with Sias's other debt and debt raised at opco 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.

Projected Moderate Leverage

Sias should manage to self-finance its direct and indirect 2015-2018 investment plan. Under Fitch rating case, which uses conservative assumptions on traffic, inflation, opex and dividends compared with the sponsor's case, Fitch-adjusted leverage of 3.5x should progressively decline to around 3x by 2018 and further decrease thereafter.

Sias's credit profile should not be materially altered, if the group is awarded with centropadane stretch (A21) - a recently tendered small (88km) concession. A consortium comprising Sias's Satap (70% stake of the temporary consortium) and the associated companyItinera (30% of the temporary consortium) were recently named as the preferred bidder for this project.

Since three key group concessions (accounting for around 50% of EBITDA) mature within 2021, we have also run a longer forecast up to 2023. Under this extended rating case, that also assumes the terminal value (paid by next concessionaire or by grantor) of expiring concessions will be distributed to shareholders, leverage calculated with residual EBITDA will remain well below 4x in 2022. Under this scenario, any deeper-than-expected negative development on traffic or opex could be absorbed by a reduction of dividend distribution, which we assume at a level that is, on average, 45% above the 2014 distribution (EUR102m, including minorities). Also, should tariffs not increase as expected, capex plan should be adjusted downward, thus preserving the group's free cash flow generation.

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

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.

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.

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-'.

SUMMARY OF THE CREDIT
Sias is the second largest Italian toll road operator with 1,244 kilometres (around 20%) of the national network under its management. It operates a portfolio of eight majority-owned concessions (fully consolidated) and has minority equity interests in five toll road concessions/joint ventures accounted under the equity method. Group operations are almost entirely focused on Italy.

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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Additional information is available on www.fitchratings.com

Applicable criteria, "Rating Criteria for Infrastructure and Project Finance" dated 11 July 2012, "Rating Criteria for Toll Roads, Bridges and Tunnels" dated 20 August 2014, "Parent and Subsidiary Rating Linkage" dated 28 May 2014, and "Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers" dated 18 November 2014 are available at 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
Rating Criteria for Toll Roads, Bridges and Tunnels
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=758708
Parent and Subsidiary Rating Linkage Fitch’s Approach to Rating Entities within a Corporate Group Structure
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=714476
Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=813588

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