MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms ASTM's Baa2 ratings; stable outlook

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Madrid, April 08, 2020 -- Moody's Investors Service (Moody's) has today affirmed the Baa2 senior secured rating and the (P)Baa2 senior secured and senior unsecured MTN ratings of ASTM S.p.A. (ASTM), the second-largest toll road operator in Italy. The outlook remains stable.

RATINGS RATIONALE

The rapid and widening spread of the coronavirus (COVID-19) outbreak, the deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. In particular, the toll road sector has been significantly affected by the shock given its exposure to travel restrictions and sensitivity to consumer demand. Moody´s regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. As a result of the pandemic, already existing trends of lifestyle changes may accelerate, such as increase in remote working and teleconferences that could negatively impact traffic volumes and reduce profits for toll roads.

In response to the coronavirus outbreak, since 23 February, the Italian government imposed a series of restrictive measures and travel bans. The unprecedented public health measures aimed to contain the wider spread of coronavirus will be in place for an unknown period of time. The restrictions on movements resulted in sharp declines in traffic on the network operated by ASTM. Whilst this is expected to result in weaker credit metrics in 2020 compared with those in 2019, and potentially below the levels considered commensurate with the Baa2 rating, Moody's expects the group to firmly rebound to within ratio guidance following the lifting of travel restrictions. These considerations, in addition to the current strong liquidity profile, support ASTM's Baa2 rating and stable outlook.

Nevertheless, unlike previous negative shocks, the prospects for traffic rebound is more uncertain in this case because (1) governments may choose to keep some form of restrictions or travel bans even if the spread of the virus seems contained; and (2) the deteriorating economic conditions could slow down the recovery in traffic and consumer spending, even if travel restrictions are eased. As events continue to unfold rapidly, there is a higher than usual degree of uncertainty around the duration of travel restrictions and drop in consumer demand. Hence, it is difficult to predict the overall traffic volumes for 2020. Given the current minimal levels of traffic and assuming a rebound in the second half of the year, Moody´s expects traffic on the network operated by ASTM to decline by at least 25% in 2020.

Notwithstanding the significantly reduced cash flow over at least the next few weeks, ASTM remains an important infrastructure provider in Italy, with a potential for recovery once the coronavirus outbreak and its effects have been contained.

More generally, ASTM's Baa2 rating remains supported by (1) the size of ASTM's motorway network, comprising essential transport links located in some of Italy's wealthiest regions; (2) the resilient cash flow profile of its toll roads operations; (3) the group's balanced financial policy, also reflected in a moderate leverage position, strong liquidity profile and lack of material funding and refinancing needs; and (4) the commitment to a prudent development of activities outside core motorway operations. These strengths are however partially offset by (1) a regulatory environment and tariff framework related to motorway activities characterised by some political interference; (2) the relatively material investment needs associated with toll road operations; (3) the short remaining weighted average life of ASTM's motorway concessions of approximately six years as of YE 2019; and (4) the exposure to higher risk construction and engineering activities, although the evolution of their contribution to the overall group will be mainly a function of future growth targets, as well as investment needs in ASTM's motorway concessions.

LIQUIDITY AND DEBT COVENANTS

ASTM's rating is further supported by its strong liquidity profile. As of March 2020, the company had EUR1.7 billion of cash and cash equivalents. In addition, ASTM has a EUR50 million committed revolving credit facility expiring in 2021 and EUR350 million available term loan maturing in 2026. The group has also recently obtained a EUR200 million additional committed credit line, expiring in 2023. ASTM has around EUR850 million debt maturating this year. However, ASTM's cash balances would allow the company to cover all cash requirements, including debt repayments, even if the group were to earn no revenue during the remaining part of 2020.

Given the detrimental impact on earnings stemming from the current travel restrictions, Moody's expects some reduction in the headroom against the financial covenants that are in some of ASTM's bank debt documents. Nevertheless, Moody's currently expects ASTM to continue to maintain adequate headroom against its default covenants in the next 12 months. In addition, Moody's notes that the majority of ASTM group's debt is not subject to any financial covenant.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

In light of the current travel restrictions linked to the coronavirus outbreak, upward rating pressure on ASTM's rating is unlikely in the near future. Following a return to normal traffic performance, an improvement in the Italian sovereign rating in conjunction with a material strengthening of key credit metrics from current levels, such that Funds From Operations (FFO)/Debt were to be positioned in the high twenties in percentage terms, would be needed to exert upward pressure on ASTM's rating.

Downward rating pressure could develop as a result of (1) a downgrade of the Government of Italy's rating; (2) an increased likelihood that the coronavirus outbreak had medium to longer term impact on ASTM traffic performance, either because of extended travel restrictions or a significant weaknesses in the macroeconomic environment; (3) a weakening in the group's financial profile such that FFO/Debt would likely remain below 20% on a sustained basis; (4) a deterioration in the group's liquidity position or material reduction of cash balances held; (5) a material change in the terms and conditions of ASTM's concessions or any public intervention that would negatively affect the overall group's business or financial profile; or (6) a growth strategy resulting, for example, in large-scale debt-funded acquisitions, significant investments in activities other than motorway concessions and/or material exposure to businesses exhibiting a higher risk profile.

The principal methodology used in these ratings was Privately Managed Toll Roads published in October 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1096736. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

ASTM's consolidated domestic network is comprised of 10 different concessions, mostly located in the North-West of Italy, with a total length of almost 1,200 km. The group also holds stakes in three additional motorway concessions in Italy and a 49% stake in Ecorodovias Infraestrutura e Logistica S.A., the parent company of Ecorodovias Concessoes e Servicos S.A. (Ba2 stable), which manages 3,087 km of toll roads through 11 concessions in the South-West of Brazil. ASTM is also involved in construction, engineering and technology operations.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to one of the credit rating outcomes announced and described above.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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