FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms ASTM at 'BBB'; Outlook Stable

Tue 15 Dec, 2020 - 12:55 PM ET

Fitch Ratings - Madrid - 15 Dec 2020: Fitch Ratings has affirmed ASTM S.p.A.'s Long-Term Issuer Default Rating (IDR) at 'BBB'. The Outlook is Stable. A full list of rating actions is below.

RATING RATIONALE

The affirmation considers the expected rebound in group traffic after the 2020 pandemic-related shock, ASTM's solid liquidity position, and expected moderate leverage of around 4.0x over 2021-2024 period, a level that we view as commensurate with the rating.

ASTM's Fitch-calculated average concessions tenor of eight years (including Società Italiana per il Traforo Autostradale del Fréjus S.p.A.; SITAF) is short, but will materially increase to 14 years once the group closes the EcoRodovias Infraestrutura e Logistica S.A. (EIL) transaction and the award of A21+ ATIVA and A10 + A12. At this point, we will likely revise up the current leverage guidance for the 'BBB' rating. However, the group is acquisitive and this limits the visibility of the future capital structure.

The outbreak of coronavirus and related government containment measures worldwide create an uncertain global environment for the transportation sector. While ASTM's most recent performance data indicated in our view a short-term impairment, material changes in revenue and cost profile are occurring across the road transportation sector and will continue to evolve as economic activity and government restrictions respond to the ongoing pandemic. Fitch's ratings are forward-looking in nature, and we will monitor developments in the sector as a result of the coronavirus outbreak for their severity and duration, and incorporate revised base- and rating-case qualitative and quantitative inputs based on expectations for future performance and assessment of key risks.

KEY RATING DRIVERS

Large Network, Moderate Volatility - Revenue Risk (Volume): Midrange

ASTM is the second-largest Italian toll road operator, managing a network of around 1,400km that is critical for the mobility of wealthy north-west Italy. Traffic is 74% light vehicles and 26% heavy vehicles (HV; one of the highest portions in Fitch's EMEA toll road portfolio) covering a mix of short and medium distances. Traffic in vehicle km experienced a peak to trough of 12% in 2012-2013 as austerity measures led to a collapse in domestic consumption. This was broadly similar to that for Autostrade per l'Italia (ASPI, -11%).

Inflation and Capex Linked Tariff - Revenue Risk (Price): Midrange

Following the application of the Transport Authority (ART) tariff mechanism, ASTM will rely on the approval of a new tariff every five years in order to get a tariff increase subject to the new guidelines. The framework is still robust as it links tariff hikes to investment execution and partially to inflation de-linking cash flow generation from negative traffic performance.

Experienced Operator, Low Complexity - Infrastructure Development and Renewal: Stronger

The network capex plan for the Italian motorways under its current perimeter is EUR1.9 billion until 2029. This has increased from previous reviews following the agreement on the A4-A33 cross-financing (around EUR350 million of additional capex on top of the EUR240 million already spent up to 2014. The agreement will come with a tariff increase to finance the expansion) and additional works agreed with the grantor under some of ASTM's concessions.

The plan also conservatively includes investments in 2020- 2021 in the maturing concessions as well investments at SITAF, which will be fully consolidated from 2021. The overall plan has low complexity and could be reduced if necessary.

Corporate-Type Debt Structure: Debt Structure - Midrange

ASTM's group debt is predominantly (64%) bullet, with 70% at fixed rate and with no material structural protections. ASTM is not a frequent issuer in the capital markets but has well-established relationships with a diversified network of national and international banks, including the European Investment Bank. A strong liquidity position, covering debt maturities well beyond 24 months under the updated Fitch rating case (FRC), mitigates refinancing risk.

As at December 2019, group debt was split between the holding company (ASTM; 79%), and operating companies (21%). Bonds under the issuer's EMTN programmes can be unsecured or secured over the intercompany loans to its subsidiaries. We equalise the ratings of the unsecured notes and the secured notes due to the cross-default clause in the EMTN programmes, which results in the same probability of default between the notes. To date, the company has issued only senior secured notes. The EMTN programmes includes the option of converting secured notes into unsecured notes when holding company debt is at least 85% of consolidated debt.

Robust Liquidity in FRC

In October 2020, cash and committed credit facilities was over EUR2.2 billion, which already factored in the repayment of the EUR0.5 billion bond that matured on 26 October. The FRC estimates that it will cover debt maturities until 2023.

Financial Summary

The updated FRC assumes a loss of EBITDA from Fitch's assumptions for expiring concessions by the end of 2021. Although the four assets expiring account for more than half of the group's 2019 EBITDA, the financial impact on the group's balance sheet will be largely offset by the EUR0.8 billion of terminal value received at concession maturity as well as by the consolidation of SITAF. We also note that ASTM has opex, capex and dividend flexibility. No dividends were paid in 2020. The FRC does not consider the award of these assets to ASTM.

PEER GROUP

The most comparable peers with ASTM in Fitch's EMEA rating portfolio are ASPI S.p.A. (BB+/Rating Watch Evolving), Abertis Infraestructuras SA (BBB/Negative), and Brisa Concessao Rodoviaria S.A (BCR; A-/Stable). ASTM performed in line with ASPI in terms of traffic performance during the 2008 global financial crisis and better than Abertis and BCR. However, the current short-term maturity of ASTM's portfolio of concessions before the award of the new tenders, its somewhat complex group structure and its limited (although increasing) name recognition in capital markets weigh on its credit profile.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- We could upgrade ASTM's rating if we expect Fitch-adjusted leverage to be sustained below 3.4x over the next three to five years and there was positive rating action on Italy.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- We could downgrade the rating if we expect Fitch-adjusted leverage to be sustained above 4.3x over the next three to five years. Fitch may re-assess this ratio trigger and associated debt capacity if the mix of concession and construction businesses adversely changes.

- A sustained move toward debt-funded acquisitions of higher-risk assets.

- Material extraordinary support or a change in governance to non-recourse assets, or a sustained move towards large-scale, debt-funded acquisitions, due to the resulting business risk profile.

- A material adverse change in the creditor-protective Italian regulatory framework or in the terms and conditions of ASTM's key concessions.

- Negative rating action on the Italian sovereign (BBB-/Stable)

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579].

CREDIT UPDATE

Rating Above Sovereign

ASTM can be rated above the sovereign as its rating does not currently factor in material elements of central government support. The maximum one-notch difference with the sovereign's rating reflects ASTM's exposure to the domestic economy and the group's growing but still infrequent issuance on capital markets. In April 2020, Fitch downgraded ASTM's IDR to 'BBB'/Stable from 'BBB+'. The downgrade followed the downgrade of Italy's sovereign rating. Fitch subsequently affirmed Italy's sovereign rating at 'BBB-'/Stable on 4 December 2020.

New Tenders in Italy

In October ASTM obtained the highest score offer for two separate 11.5-year road concession agreements covering A21 +ATIVA (one concession) and A12+ADF (second concession) and in November, the government announced the definitive award of the new tenders. For A21 + ATIVA there are only pending legal and administrative processes due in the upcoming months.

The new tenders in Italy and the inclusion of EcoRodovias will increase the Fitch-calculated remaining average life up to around 14 years. The transaction will entail only a modest increase in ASTM's consolidated debt as the cash out will be mostly mitigated by the receipt of a sizable terminal value (TV) in 2022. The award smooths ASTM's EBITDA profile and increases the predictability and stability of cash flow generation. The FRC does not consider the award of these assets to ASTM.

PERFORMANCE UPDATE

Financials

In 2019, traffic was flat vs prior year (+0.2% on a like for like basis), reflecting weakening in Italian consumption and industrial production feeding into marginal traffic growth in the year. The average tariff increase of 0.5% in 2020 is below the inflationary trend since 2015, but this is broadly in line with company's expectations amid delay in the roll-out of capex plan and the mature nature of some of ASTM's concessions. 2019 Fitch-adjusted net debt/EBITDA was 2.7x at YE19, up from 2.4x last year (mainly explained by the merger between SIAS and ASTM) and slightly better than our expectations due to lower capex.

Coronavirus Affecting Demand

Road motorway traffic 9M20 (yoy) fell by 28% on a like-for-like basis (lfl). The trend is similar to that for the other two Italian operators (ASPI: 25% and BBM: 27%) within Fitch's EMEA toll road portfolio. ASTM mitigated the impact through opex reduction and capex delays to maintain some financial flexibility. Lfl 9M20 toll revenue decline is -24%. ASTM did not approve any dividends for 2020.

Regulatory

The regulatory framework remains stable overall, notwithstanding challenges in Italy in the aftermath of the Genoa bridge collapse. Tariffs increased by 0.5% on average, which is below 2019 inflation and compares well with flat tariff on the majority of the Italian toll road network.

Cross financing of SATAP A4- ATCN A33 was approved in May. In November ASTM signed two new additional deeds to the respective concession agreements with the Ministry of Infrastructure and Transport. Its terms were in line with what we expected in our last annual review. The changes should be substantially neutral on a net present value basis. A significant TV will be paid by the end of the respective concession maturities (December 2026 for SATAP A-4 and December 2031 for ATCN A33). We view TV scheme as untested in Italy.

Expired concessions are still being managed in "prorogatio" and will continue to be so until 2022, when we expect the closing of the transaction to take place.

SITAF

On 23 July 2020, ASTM announced the award of the public tender to acquire an additional 19% stake in SITAF. This will increase ASTM's stake to 67% (from 48%) and mean it controls consolidates the asset. We expect ASTM to consolidate the asset in 1Q21. The total consideration is close to EUR270 million. At end-2019 SITAF had around EUR100 million EBITDA and EUR260 million of third-party debt.

EcoRodovias

On 31 July 2020, ASTM announced an agreement to increase its stake in EIL to 51% from its current 49% stake, leading to a line-by-line consolidation in its accounts.

The transaction will close by 1Q21 and will result in a cash outflow from ASTM of BRL2 billion (around EUR300 million), which would add to the BRL2.5 billion (EUR550 million) paid since 2016 to build the current stake. However, from a consolidated perspective, this cash outflow will be limited. Fitch proportionally consolidates EIL into the ASTM group, which implies that the cash outflow and equity injection will be expressed on a 51% basis (for further detail on EcoRodovias Concessoes e Servicos S.A see our latest rating action commentary at www.fitchratings.com).

Asset Description

ASTM is the second-largest Italian toll road operator, managing around 20% of the national network as well as a large infrastructure engineering and construction player. It operates a portfolio of 10 majority/fully-owned and fully consolidated concessions. The group's operations are predominantly focused on Italy. ASTM is ultimately owned via its holding company by the Italian Gavio family (60%) and since September 2018 by Ardian Infrastruture (40%).

FINANCIAL ANALYSIS

Fitch Cases

The Fitch base case (FBC) assumes a 26% traffic drop in 2020, which then rebounds by 28% in 2021 and recovers to 2019 levels in early 2022. The FRC expects the same traffic decline in 2020 followed by a rebound of 19% in 2021; 2019 levels to be recovered by 2023.

We expect inflationary like tariff adjustments to lead to an average 1.5%-1.9% yoy growth in tariffs from 2022-2025. The capex plan includes additional capex related to the cross-financing (already approved) as well as capex on some of ASTM concessions in 2019.

Under these assumptions, Fitch-adjusted net debt/EBITDA should peak above 4.0x in 2022, as i) we assume some ASTM concessions will mature in 2021; ii) most of the capex plan is rolled out between 2020 and 2024; and iii) SITAF and EcoRodovias will be consolidated in 2021.

Sensitivity Analysis

We have also prepared a sensitivity in which we assume the award of new tenders to ASTM group. As such both A21+Ativa and A12+ADF will be operated until mid-2032.

This transaction should provide more long-term visibility of group cash flows. ASTM will pay an upfront fee to the government in 2022, mostly funded with the sizable TV from these assets. Under this scenario, Fitch net debt/EBITDA will average 4.0x from 2021-2025. However, as the average maturity of group portfolio of concession will be significantly longer (14 years) under this scenario, we will likely revise upward the current guidance for the 'BBB' rating.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
ASTM S.p.A.	LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
• ASTM S.p.A./Debt/1 LT	LT	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
• ASTM S.p.A./Debt/2 LT	LT	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Francisco Rojo
Associate Director
Primary Rating Analyst
+34 91 076 1983
Fitch Ratings Spain - Madrid
Paseo de la Castellana 31 9°B Madrid 28046

Paolo Alessi
Senior Director
Secondary Rating Analyst
+39 02 879087 299

Danilo Quattromani
Managing Director
Committee Chairperson
+39 02 879087 275

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 26 Jun 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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ASTM S.p.A.	EU Office

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Infrastructure and Project Finance Europe Italy