

Rating Action: Moody's downgrades ASTM's ratings to Baa3; stable outlook

30 Jun 2021

Madrid, June 30, 2021 -- Moody's Investors Service ("Moody's") has today downgraded the senior secured debt ratings to Baa3 from Baa2 and the senior secured and senior unsecured MTN programme ratings to (P)Baa3 from (P)Baa2 of ASTM S.p.A. (ASTM). The outlook has been changed to stable from ratings under review. This concludes the review for downgrade initiated by Moody's on 26 February 2021.

RATINGS RATIONALE

Today's rating action is driven by the significant additional increase in ASTM's debt leverage as a result of the €1.9 billion debt financed acquisition of all of ASTM's floating shares and the delisting of the company. This transaction follows the recent debt financed consolidation of Ecorodovias Infraestrutura e Logística S.A. (Ecorodovias) completed in June 2021 and acquisitions of controlling shares in Società Italiana Traforo Autostradale del Frejus S.p.A. (SITAF) completed in October 2020. Hence, Moody's expects that ASTM's consolidated financial metrics over the medium term will remain weaker than the parameters previously expected for a Baa2 rating.

On 27 May 2021, NAF 2 S.p.A. (NAF2) announced that the voluntary tender offer for 47.6% of the ordinary shares of ASTM received more than 95% acceptance. As a result, the transaction was completed and ASTM was delisted from 4 June 2021. NAF2 is a company fully owned by Nuova Argo Finanziaria S.p.A. (NAF), which is in turn owned by Aurelia (Gavio family) and the private equity company Ardian. Following the transaction, Aurelia holds an equity interest equal to 50.5% of NAF and ASTM, while Ardian will hold the remaining 49.5% stake. Given that the main shareholders remain the same, Moody's does not anticipate a significant change in the financial policy or governance of the group.

NAF2 financed the transaction with a €1.9 billion bank loan with a final maturity in 2023. Moody's expects that NAF2 and ASTM will merge over the coming months and that ASTM will refinance the acquisition debt, in order to improve its maturity profile. Overall, Moody's estimates that the total amount of gross debt of ASTM group will increase to close to €7.8 billion at the end of 2021, including the additional debt due to the consolidation of Ecorodovias and SITAF, and the liabilities related to the Fondo Centrale di Garanzia.

In terms of operational performance of the group, Moody's assumes that following the easing of restrictive measures imposed by the Italian government since last November, toll road traffic will rebound relatively quickly during the summer period. Moody's anticipates that freight traffic will continue to improve supporting ASTM's revenue, while passenger traffic will recover more gradually throughout the rest of the year. Overall, Moody's expects toll road traffic on ASTM's Italian motorway network to remain, on a like-for-like basis, around 15% below pre-pandemic levels in 2021 and to recover to close to 2019 levels in 2022.

Traffic performance on Ecorodovias' motorway network has been less impacted by the pandemic because the Brazilian government has not imposed travel bans or severe restrictions. Consequently, Moody's expects toll road traffic on Ecorodovias' network to rebound to pre-pandemic levels in 2021, mainly driven by the recovery in the economic activity in Brazil.

Therefore, given the increase in debt levels and still relatively weak traffic performance, Moody's projects that ASTM's funds from operations (FFO)/debt ratio will decrease in 2021 to around 8%-9% and gradually recover to around 10%-12% by 2023, which Moody's considers commensurate with a Baa3 rating level. Likewise, Moody's estimates that the debt service coverage ratio (DSCR) should improve from less than 1x in 2021 to more than 1.4x by 2023, also supported by the increase in average concession life due to the roll-over of the A10-A12 concession in Italy and the ramp-up of new concessions in Brazil.

In addition to the above, ASTM's Baa3 rating is supported by (1) the strong fundamentals of the group's Italian motorway network, comprising essential transport links in some of Italy's wealthiest regions; (2) the size and diversification of Ecorodovias' motorway network, which is located in the wealthiest states of Brazil; and (3) the group's historical balanced financial policy and strong liquidity profile. These strengths are however partially offset by (1) a regulatory environment and tariff framework in Italy characterised by some political interference; (2) the relatively large investment programme in Italy and Brazil associated with recently awarded toll road

concessions; (3) the presence of minority shareholders that create value leakage in the group's structure; and (4) the exposure to higher risk construction and engineering activities, although their contribution to the overall group EBITDA is expected to remain limited.

RATING OUTLOOK

The outlook is stable, reflecting Moody's expectation that, on the back of traffic recovery, ASTM's financial metrics will improve over the coming years in line with the ratio guidance for the Baa3 rating level, such that FFO/debt ratio will be comfortably positioned above 10% and Moody's DSCR would remain above 1.3x on a consolidated basis by year-end 2023.

LIQUIDITY AND DEBT COVENANTS

ASTM's rating is supported by its strong liquidity profile. As of March 2021, the company had around €1.2 billion of cash and cash equivalents (only considering its Italian business). In addition, ASTM has a €250 million committed revolving credit facility, €50 million expiring in November 2021 and the remainder in May 2023; a €350 million available term loan maturing in 2026; and a €90 million undrawn capex facility for Autovia Padana expiring in 2033. Overall, ASTM's liquidity position and internal cash flow generation should allow the company to cover all cash requirements, including investments and debt repayments, for at least the next 12-18 months.

In Brazil, Ecorodovias reported BRL1.67 billion (around €284 million) of cash available as of March 2021. In addition, Ecorodovias closed a BRL1.7 billion (around €290 million) capital increase in June 2021. These amounts should allow the group to cover its debt repayments over the next 12 months. However, Moody's expects that Ecorodovias will continue to rely on debt market access to meet its investments needs in light of the increasing capital spending for new concessions.

Despite the detrimental impact on earnings stemming from the travel restrictions imposed in Italy since the beginning of the year, Moody's expects ASTM to continue to maintain adequate headroom against the default covenants included in some of its bank loans in the next 12-18 months.

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

Given the significant increase in leverage, upward pressure on ASTM's ratings is not currently anticipated. Upward pressure could build over time if (1) following a return to normal traffic performance, the company's financial profile materially improves, such that FFO/debt was at least 17% and a Moody's DSCR was at least 1.4x on a sustainable basis; and (2) the group maintains a strong liquidity profile and a prudent financial policy.

Downward rating pressure could develop as a result of (1) a persistent weakening in the group's financial profile such that FFO/debt would remain below 10% or Moody's DSCR would remain below 1.3x; (2) a deterioration in the group's liquidity position; or (3) a growth strategy resulting in debt-funded acquisitions or significant investments in activities with a higher risk profile than motorway concessions.

The principal methodology used in these ratings was Privately Managed Toll Roads Methodology published in December 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1244932. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

ASTM is the second-largest toll road operator in Italy, managing a motorway network of 11 different concessions, mostly located in the North-West of Italy, with a total length of more than 1,200 km. In addition, ASTM is the controlling shareholder of Ecorodovias Infraestrutura e Logística S.A., which manages close to 4,000km 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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Erica Gauto Flesch
Vice President - Senior Analyst
Infrastructure Finance Group
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Andrew Blease
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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