

## RATING ACTION COMMENTARY

# Fitch Downgrades ASTM to 'BBB-'; Outlook Negative

Thu 10 Jun, 2021 - 10:23 ET

Fitch Ratings - Madrid - 10 Jun 2021: Fitch Ratings has downgraded ASTM S.p.A (ASTM) Long-Term Issuer Default Rating (IDR) to 'BBB-' from 'BBB' and removed it from Rating Watch Negative (RWN). The Outlook is Negative. A full list of rating actions is at the end of this rating action commentary.

## RATING RATIONALE

The downgrade considers the material group re-leveraging resulting from the EUR1.9 billion fully debt-funded acquisition of ASTM minority shares. This transaction follows the debt funded buy-out of Sias minorities in 2019 and the debt-funded acquisitions of control of Brazilian and Italian assets (Società Italiana per il Traforo Autostradale del Fréjus SpA; SITAF; and Autostrada Torino Ivrea Valle d'Aosta SpA; ATIVA). The Negative Outlook considers the limited visibility and predictability of the group's future capital structure amid a clear group acquisitive stance and the uncertainty on the traffic recovery path.

The revised Fitch Rating Case (FRC) expects leverage to reach 5.8x in 2023, a level which may not be commensurate with the 'BBB-' rating considering the natural erosion of existing concessions tenor. Leverage returns within the new guidance from 2024, but we remain cautious about the uncertain evolution of the group's capital structure, where potential debt-funded acquisitions may increase leverage and pressure the rating.

## KEY RATING DRIVERS

On 21 February, NAF 2 S.p.A. (NAF 2) launched a voluntary tender offer (VTO) aimed at acquiring 66.9 million of ASTM shares, or 47.6% of its share capital. The VTO was successful, resulting in the delisting of ASTM shares and the raising of EUR1.9 billion debt at NAF 2 to buy out ASTM minorities. NAF 2 is a vehicle owned by ASTM's parent company, Nuova Argo Finanziaria S.p.A.

Following the VTO, ASTM will likely merge with NAF 2 and assume the additional EUR1.9 billion debt raised, doubling Fitch-adjusted net debt at end 2020 on a pro-forma basis. Even if a merger does not take place, we will look at the group's consolidated credit profile, including NAF 2 to rate ASTM. This is because ASTM will be the sole cash flow generation source to service NAF 2's debt.

The leverage profile under the FRC is uneven due to the increase in leverage under the VTO transaction, the M&A already agreed and the expiry of some of the group Italian concessions. In particular, we project leverage slightly

above 5.0x in 2021 to reach 5.8x in 2023 before decreasing to around 5.3x at the end of the five-year forecast horizon.

The leverage profile reflects the consolidation of the SITAF concession as well as the Brazilian business of Ecorodovias in 2021. It also reflects the roll-over of two concessions currently operated by ASTM (A12 Sestri Levante-Livorno and A10 Savona-Ventimiglia) and the termination in December 2022 of Turin-Piacenza (A21) and three stretches from ATIVA, which represent more than 25% of 2020's Italian toll road EBITDA.

Fitch's projections and the current guidance for the 'BBB-' rating already incorporate the roll-over of the A10 and A12 concessions, which were formally awarded to ASTM in November 2020 but are still waiting for contract execution. The A12 and A10 roll-over increases the weighted average group concession life to 10 years from slightly below eight years (including SITAF and the Brazilian assets), as calculated by Fitch at December 2020.

Fitch assumes the operation of A21 and A5-ATIVA concessions will expire in December 2022, given the recent rejection by the Council of State of the appeal filed by ASTM against its exclusion from the pre-qualification process. The timing for the resolution of the tender and the replacement of ASTM as operator is unclear, but Fitch believes it is unlikely to happen before the end of 2022.

For an overview of ASTM's credit profile, including key rating drivers, see the rating action commentary Fitch Affirms ASTM at 'BBB'; Outlook Stable' dated 15 December 2020 at [www.fitchratings.com](http://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 11 majority/fully-owned and fully consolidated concessions. The group's operations are predominantly focused on Italy. Following the likely merger of ASTM into NAF2, ASTM will ultimately be owned by the Italian Gavio family (50.5%) and Ardian Infrastrutture (49.5%).

## RATING SENSITIVITIES

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

- Greater visibility on the group's future capital structure, coupled with a clearer path to traffic recovery could lead to a revision of the Outlook to Stable.

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

- Fitch-adjusted leverage sustained above 5.8x. Fitch may re-assess this ratio trigger and associated debt capacity if the mix of concession and construction businesses adversely changes.

- Sustained move towards large-scale, debt-funded acquisitions, due to the resulting business risk profile.

- Unexpected challenges to the roll-over of the awarded A10 and A12 concessions.

## 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>.

## 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](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
ASTM S.p.A.	LT IDR	BBB- Rating Outlook Negative	Downgrade	BBB Rating Watch Negative
● ASTM S.p.A./Debt/1 LT	LT	BBB- Rating Outlook Negative	Downgrade	BBB Rating Watch Negative
● ASTM S.p.A./Debt/2 LT	LT	BBB- Rating Outlook Negative	Downgrade	BBB Rating Watch Negative

[VIEW ADDITIONAL RATING DETAILS](#)

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## **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**

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ASTM S.p.A.

EU Issued, UK Endorsed

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Europe

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