

## RATING ACTION COMMENTARY

# Fitch Affirms ASTM at 'BBB-'; Outlook Negative

Tue 06 Dec, 2022 - 11:19 ET

Fitch Ratings - Madrid - 06 Dec 2022: Fitch Ratings has affirmed ASTM S.p.A.'s Long-Term Issuer Default Rating (IDR) at 'BBB-'. The Outlook is Negative. A full list of rating actions is below.

## RATING RATIONALE

The affirmation considers the recovery of group's motorway traffic to pre-pandemic levels, its solid liquidity position as well as management's commitment to reducing leverage in the coming years.

The Negative Outlook considers the uncertainties related to 2023 tariff increases, which could delay the group's expected deleveraging under the Fitch rating case. We expect the group's leverage to peak at 5.8x in 2024 and progressively reduce thereafter.

The 'BBB-' rating reflects ASTM's mature and resilient Italian toll road business as well as its exposure to a sub-investment grade country (Brazilian toll roads, Ecorodovias,) and EPC activities (Itinera), which reduce group's debt capacity compared with EU-focused peers in the toll road sector.

## KEY RATING DRIVERS

### Large Network, Moderate Volatility: Volume Risk - High Midrange

Fitch has revised its assessment of revenue risk (Volume) to 'High Midrange' from 'Midrange', following the publication of its new Transportation Infrastructure Rating Criteria.

ASTM is the second-largest Italian toll road operator, managing a network of about 1,400km that is critical for the mobility of wealthy north-west Italy. The traffic mix is composed of about 75% light vehicles and 25% heavy vehicles (HV; one of the highest proportions of HV 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, similar to ASPI (-11%).

In 2021, ASTM increased its exposure to Brazil with a 51.2% (currently 51.9%) stake in Ecorodovias, which owns and controls 11 toll road concessions. Weighted by 2021 EBITDA contribution, Ecorodovias' toll road concession life is 12 years, but this will increase as long-term newly-acquired concessions start contributing to the group's EBITDA. For an overview of Ecorodovias' main toll roads assets, see 'Fitch Realiza Ações de Ratings na ECS, Coponte e Ecosul' on [fitchratings.com](https://www.fitchratings.com).

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

Following the application of the Transport Authority 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 around EUR 4.4 billion by the end of all concessions. This has increased from previous reviews, reflecting additional safety investments in line with new technical guidelines by authorities and conservative price increases in raw materials.

The overall plan, which has low complexity and is predominantly self-funded, will be mostly deployed by 2026. The plan has some flexibility, alleviating possible pressure on group free cash flow generation. We believe the ASTM group is well equipped and sufficiently experienced to deliver its capex plan.

### **Corporate-Type Debt Structure: Debt Structure - Midrange**

ASTM's group debt is predominantly bullet (around 60%) and fixed rate (around 70%), and with no material structural protection. ASTM's presence in the capital markets is increasing and the group also benefits from well-established relationships with a diversified network of national and international banks. A strong liquidity position, covering debt maturities beyond 24 months under the updated Fitch rating case (FRC), mitigates refinancing risk.

In 2021, ASTM renewed its EMTN programme, under which it can only issue senior unsecured debt, unlike the previous 2020 EMTN programme that allowed both senior secured and unsecured debt issuances. We equalise the ratings of unsecured notes with those of secured notes due to the presence of a cross-default clause in the EMTN programme, which results in the same probability of default for the notes.

### **Financial Profile**

Fitch-adjusted leverage on a group basis was 5.8x in 2021, but it is expected to increase substantially to 6.5x this year, driven by a one-off loss recorded in the EPC business. There is no structural increase in leverage, as reflected by a sharp reduction to 5.4x projected for 2023 despite the assumed reduction in traffic. ASTM's leverage will peak again at 5.8x in 2024 due to our assumption of the loss of the A21 and ATIVA concessions. From 2024, Fitch projects progressive leverage reduction to 5.3x by 2026.

The above is premised on a 3.1% average tariff increase in 2023 and around 4.5% thereafter.

### **Rating Approach**

Fitch consolidates ASTM's controlled Italian toll road concessions line by line and proportionally consolidates Ecorodovias, currently resulting in a relatively low contribution to the group's overall EBITDA (15%). EPC business revenues are material but their EBITDA contribution remains negligible (2%).

### **PEER GROUP**

ASTM peers in Fitch's EMEA rating portfolio are Autostrade per l'Italia SpA (ASPI, BBB/Stable) and Brisa Concessao Rodoviaria, S.A. (Brisa, A-/Stable). ASTM has performed broadly in line with ASPI in terms of traffic performance even during the coronavirus outbreak, and historically exhibited less volatility than Brisa, although Brisa has had a stronger recovery in recent years.

Compared with domestically-focused ASPI, ASTM's Italian toll roads business has a shorter average concession tenor and slightly higher projected leverage. Furthermore, ASTM has a more complex group and debt structure

with exposure to more volatile regions such as Brazil and the EPC business, which ultimately also weigh on its debt capacity and credit profile.

Compared with Brisa, higher leverage combined with the shorter-term maturity of ASTM's portfolio of concessions and uncovenanted debt structure underpin the lower rating.

## **RATING SENSITIVITIES**

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

- Fitch-adjusted leverage above 5.8x on a sustained basis. 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.

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

- 2023 tariff increases substantially in line with the concession frameworks could lead to a revision of the Outlook to 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**

Following the debt-funded acquisition of minority interests in ASTM, the group has continued actively acquiring concessions in Brazil through Ecorodovias, putting pressure on group's consolidated leverage.

Traffic recovery in 2022 has been strong, with year-to-date levels as of October 2022 around 98.5% of 2019, better than expected in our previous rating case. ASTM's ambitious capex plan is linked to projected tariffs. However, in Fitch view's, projected tariffs are still highly uncertain and tariff growth materially below than assumed in Fitch's cases may jeopardise the deleveraging path.

In 2021, ASTM successfully issued EUR3 billion sustainability-linked bonds, reinforcing its presence in the capital markets. ASTM's maturity profile is well diversified with no scheduled bullet maturities in 2023, mitigating short-term refinancing risk.

## **FINANCIAL ANALYSIS**

The updated FRC assumes one-off negative event in 2022 in the EPC business, driven by a EUR178 million loss recognition by Itinera linked to the Storstroem Bridge project in Denmark recorded in 1H22 results with a direct impact on 2022 EBITDA. This results in high leverage of 6.5x projected in 2022, but Fitch views this as an isolated event with no structural changes in the overall group's performance. This is reflected by the normalisation of leverage in 2023 towards 5.4x leverage, consistent with current rating guidance.

In 2023, Fitch assumes the loss of EBITDA from expiring concessions (A21+ ATIVA) as well as the expected EUR150 million cash related to the terminal value (TV) from these two concessions reducing net debt. Overall the negative impact of the EBITDA loss from terminated concession outweighs the positive impact from collecting the

TV, resulting in leverage peaking at 5.8x in 2024. From 2025, Fitch forecasts healthy deleveraging back to 5.3x in 2026.

The FRC assumes 2022 traffic remains about 1.5% below 2019 levels, in line with year to date actual data as of October 2022. This will be followed by a slight contraction in 2023 driven by declining consumer spending in Italy. 2024 traffic will then grow and substantially return to 2019 levels in 2024. From 2024, traffic mirrors Fitch's updated Global Economic Outlook assumptions for Italy, with 1% year-on-year growth.

Fitch assumes a 3% increase in tariffs for 2023, below management's expectations of an average increase of 5%. Fitch projects tariffs in line with management representing CAGR of 4.3% in 2024-2026, which is high but reflects the group's ambitious capex plan for Italian toll road concessions.

## 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	Affirmed	BBB- Rating Outlook Negative
ASTM S.p.A./Debt/1 LT	LT	BBB- Rating Outlook Negative	Affirmed	BBB- Rating Outlook Negative
ASTM S.p.A./Debt/2 LT	LT	BBB- Rating Outlook Negative	Affirmed	BBB- Rating Outlook Negative

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[Transportation Infrastructure Rating Criteria \(pub. 16 May 2022\) \(including rating assumption sensitivity\)](#)  
[Infrastructure & Project Finance Rating Criteria \(pub. 20 Jul 2022\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

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

GIG InForM Model, v1.1.0 (1)

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ASTM S.p.A. EU Issued, UK Endorsed

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