



## RATING ACTION COMMENTARY

# Fitch Revises ASTM's Outlook to Stable; Affirms IDR at 'BBB-

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Fitch Ratings - Madrid - 17 Jan 2023: Fitch Ratings has revised ASTM S.p.A.'s Outlook to Stable from Negative, while affirming its Long-Term Issuer Default Rating (IDR) at 'BBB-'. A full list of rating actions is below.

## RATING RATIONALE

The Outlook change follows the recently announced official tariff increase approved by Italian Ministries of Transportation and Finance of 9.2% for Autovia Padana (AP) and 4.3% for Asti-Cuneo (A33) and SATAP (A4). It also factors in the previously announced 7.36% tariff increase on the Frejus tunnel, all applicable from 1 January 2023.

The announced tariffs are broadly in line with Fitch's expectations, resolves uncertainty about tariff increases and underlines the supportive Italian regulatory framework that will aid ASTM's deleveraging path. We have therefore revised our rating case the increase in tariff weighted by projected traffic for each concession for 2023 to 2.8% from 3.1%. Its leverage profile remains largely consistent with the 'BBB-' rating.

The rating reflects ASTM's mature and resilient Italian toll road business as well as its exposure to sub-investment grade country (Brazilian toll roads via Ecorodovias,) and EPC activities (Itinera), which reduce its debt capacity compared with EU toll road peers'. The rating also considers the recovery of group's motorway traffic to pre-pandemic levels, its solid liquidity as well as management's commitment to reducing leverage in the next four years.

## KEY RATING DRIVERS

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

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 decline of 12% in 2012-2013 as austerity measures led to a collapse in domestic consumption, similar to Autostrade per l'Italia SpA (ASPI; -11%).

Ecorodovias, which owns and controls 11 toll road concessions in Brazil, will increase ASTM's EBITDA as long-term newly-acquired concessions start their contribution as well as extending Ecorodovias' toll road concession life (currently 12 years).

For an overview of Ecorodovias' main toll roads assets, see 'Fitch Realiza Ações de Ratings na ECS, Ecofonte 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 and its new guidelines, ASTM's economic and financial plan, including tariff increases, is subject to approval every five years. The framework remains robust as it links tariff hikes to investment implementation and partially to inflation, de-linking cash flow generation from adverse traffic performance.

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

ASTM's network capex plan for its Italian motorways is around EUR 4.4 billion by the end of all concessions. This has increased from our 2021 review, reflecting additional safety investments in line with new technical guidelines set 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 free cash flow (FCF) generation. We believe ASTM is sufficiently experienced to deliver its capex plan.

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

ASTM's debt is predominantly bullet (around 60%) and fixed-rate (around 70%), and with no material structural protection. Its 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.

Although ASTM's renewed EMTN programme allows only senior unsecured debt, unlike the previous 2020 EMTN programme that allowed both senior secured and unsecured debt issuance, we equalise the ratings of unsecured notes with those of secured notes. This is 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

ASTM's financial profile remains unchanged from our December 2022 review as the announced tariff increases are largely in line with rating-case assumptions. Our adjusted leverage on a group basis was 5.8x in 2021, but we expect it to increase substantially to 6.5x this year, driven by a one-off loss in the EPC business.

There is no structural increase in leverage, as reflected by a sharp reduction to 5.4x projected for 2023 despite an assumed reduction in traffic. ASTM's leverage will peak again at around 5.9x in 2024 due to our assumption of the loss of the A21 and ATIVA concessions. From 2024, Fitch projects progressive leverage reduction to 5.4x by 2026.

## Rating Approach

Fitch consolidates ASTM's controlled Italian toll road concessions line by line and proportionally consolidates Ecorodovias, resulting in a fairly low contribution to the group's overall EBITDA (15%). EPC 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 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, underpins the lower rating.

## **RATING SENSITIVITIES**

### **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

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

- Fitch-adjusted leverage sustained below 5.3x. Fitch may re-assess this ratio trigger and associated debt capacity if the mix of concession and construction businesses favourably changes.

## **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**

On 31 December 2022, the Italian government announced the official tariff increase for 2023 applicable from 1 January 2023. In line with our rating case, the Ministry of Transportation announced tariff increases for ASTM's approved plans but no increase was granted to those concessions, whose five-year economic plans were still undergoing

scheduled reviews. This represents a positive change from previous years' trend, when most Italian concessions tariffs remained unchanged.

In Fitch's view this announcement removes uncertainty around 2023 tariffs and underlines the protection provided by the regulatory framework in a high inflationary and challenging macro-economic environment.

## **FINANCIAL ANALYSIS**

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

For 2023, Fitch assumes the loss of EBITDA from expiring concessions (A21+ ATIVA) as well as expected EUR150 million cash related to the terminal value (TV) from these two concessions, which will reduce net debt. Overall the negative impact of the EBITDA loss from terminated concession outweighs the positive impact from collecting the TV, resulting in a leverage peak at 5.9x in 2024. From 2025, Fitch forecasts healthy deleveraging back to 5.4x in 2026.

The FRC assumes 2022 traffic to have remained 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 on declining consumer spending in Italy. For 2024 traffic will grow and return to 2019 levels and mirror Fitch's updated Global Economic Outlook assumptions for Italy, with 1% year-on-year growth.

Fitch factors in a 2.8% increase in tariffs for 2023, in line with announced official tariffs. We project a high tariff CAGR of 4.3% for 2024-2026, in line with management's expectations and reflecting ASTM's ambitious capex plan for Italian toll road concessions.

## **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).

## 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.

### RATING ACTIONS

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

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