Atlantia

Press Release

ATLANTIA: S&P UPGRADES ATLANTIA'S CREDIT RATING TO BB+ WITH STABLE OUTLOOK AND RAISED ADR'S RATING TO BBB WITH STABLE OUTLOOK

Rome, 25 July 2022. The credit rating agency S&P has upgraded the rating of Atlantia, from BB to BB+ with a stable outlook. At the same time, S&P has upgraded the rating of Aeroporti di Roma (ADR) from BBB- to BBB with a stable outlook.

Attached the full report of the rating agency.

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Research Update:

Atlantia And Aeroporti di Roma Upgraded On ASPI Disposal Amid Voluntary Tender Offer By Edizione; Outlook Stable

July 25, 2022

Rating Action Overview

- We believe the completion of the Autostrade per l'Italia (ASPI) disposal in May 2022 removed Atlantia's liquidity risk by settling the dispute with the grantor on the collapse of the Genoa bridge, resulting in €8.2 billion proceeds received and removing financing ties with ASPI's debt.
- In our view, following the settlement on ASPI, Atlantia's business benefits from the strong quality of the key infrastructure assets in its portfolio, although this is partially offset by the presence of large minorities within the group (such as ACS/Hochtief holding a 50% minus one share in Atlantia's largest subsidiary Abertis Infraestructuras, which contributes to about 80% of consolidated EBITDA following the ASPI disposal).
- In our view, the voluntary tender offer on Atlantia's ordinary shares announced on April 14, 2022, by its largest shareholder Edizione (33% indirect stake) in partnership with Blackstone Infrastructure Partners (BIP) is credit negative as it will absorb ASPI's proceeds without replacing its cash flow generation, reducing Atlantia's financial flexibility and most likely requiring equity support from its shareholders, should it pursue significant new investments.
- If the tender offer--worth up to €12.7 billion and funded through a mix of equity (€4.5 billion) and bank debt (€8.2 billion)--is successful, we expect Atlantia to maintain S&P Global Ratings' funds from operations (FFO) to debt at 10%-11% in 2022-2023. At closing, we will confirm that there is no additional debt as per our methodology as a result of Blackstone's capital contribution and that Edizione's majority stake wouldn't constrain our view of Atlantia's credit quality.
- We have therefore raised our long-term issuer and issue ratings on Atlantia to 'BB+' from 'BB', and affirmed our short-term rating at 'B'. Additionally, we raised our long-term ratings on its subsidiary Aeroporti di Roma (AdR) to 'BBB' from 'BBB-', and raise our short-term rating to 'A-2' from 'A-3'.
- The stable outlook on Atlantia reflects our expectation that the company will be able to maintain FFO to debt above 9% while continuing to manage solid infrastructure assets.
- The stable outlook on AdR is linked to that on its parent Atlantia, given the current two-notch

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differential we reflect in our rating on AdR.

Rating Action Rationale

The ASPI disposal completed in early May lifted the liquidity risks stemming from the ASPI concession and we see limited legacy risk. Atlantia's disposal of its entire stake in ASPI (88%), for €8.2 billion, settles the dispute with the grantor on the ASPI concession started in the aftermath of Genoa bridge collapse on Aug. 14, 2018. It also relieves the liquidity risk stemming from a potential termination of the ASPI concession. Following the settlement, we believe legacy risks from civil and criminal investigations on Atlantia are limited. While criminal investigations continue on specific individuals, in March 2022, ASPI settled claims under law 231/2001 for €29 million, well below the maximum risk-sharing indemnification agreed by Atlantia in the disposal agreement with CDP-led consortium. In our view, this limits the risk of large indemnification payments by Atlantia (see "Autostrade per l'Italia SpA Upgraded To 'BBB-' Following Completion Of Change Of Control; Outlook Positive," published on June 7 2022 and "Atlantia, ASPI, And Aeroporti di Roma Upgraded By One Notch On Approved Sale of ASPI; Outlook Positive," published on June 22, 2021). The disposal has also removed any financing ties between Atlantia and ASPI, as expected, which could have extended a liquidity risk to Atlantia's debt in case the ASPI concession termination.

Our view of Atlantia's business is supported by the strong quality of the infrastructure assets in its portfolio, albeit constrained by the large minorities within the group, particularly its 50% stake in Abertis. Following the ASPI disposal, we expect global toll road operator Abertis to contribute to 80% of Atlantia's full consolidated adjusted EBITDA, reducing toward 70%-75% in 2024-2025 on the back of anticipated air passenger traffic recovery. Our business assessment for Atlantia does not factor in the full strengths of Abertis portfolio since Atlantia's access to Abertis' cash flow is limited to a 50% plus one share, and the governance in place grants veto power to ACS/Hochtief on reserved matters such as acquisitions and dividend distributions. The business risk assessment is also weakened by the fact that within Atlantia's portfolio, the overseas toll road network faces some concession maturity, with the expiry in 2023 of Los Lagos (fully owned subsidiary in Chile) and Triangulo do Sol (50% plus one share owned in Brazil), which contributed to about €80 million EBITDA in 2021. At the same time, we consider the settlement of the long-lasting dispute on the ASPI concession as improving Atlantia's operating environment and we understand the company remains focused on consolidating its position as a global infrastructure company. This underpins our view of its business strengths, while we consider mobility services provided by Telepass and recently acquired Yunex as ancillary to the core business. Being a holding company, our assessment of Atlantia's business relies on the quality of the assets in its portfolio, the largest ones being Abertis, followed by AdR (almost 100% owned) and overseas toll road operators Grupo Costanera in Chile and Brazilian AB Concessoes (both 50% owned).

In case Atlantia pursued new significant investments, directly or through its subsidiaries, we would assess how they are financed as well as their implication on Atlantia's business risk profile.

We now proportionally consolidate Abertis' figures in Atlantia's credit metrics to better reflect the presence of a large minority shareholder in its largest subsidiary and potentially capture future additional debt or acquisitions by Atlantia. In our view, Abertis' proportional consolidation into Atlantia's metrics better represents Atlantia's credit quality, particularly if additional debt is raised at the holding company level or new assets are acquired outside Abertis' perimeter.

As long as these events do not materialize, we don't expect any significant deviation between full consolidation and proportionate consolidation (about 9.3%-9.5% FFO to debt in 2021). Nevertheless, given Abertis' large amount of debt (about €25 billion S&P Global Ratings-adjusted debt in 2021), we expect proportionate consolidation could result in 0.5%-1.0% stronger metrics over the next few years based on expected traffic recovery at Atlantia's airports. As part of this revised approach, we no longer extend the intermediate equity content of Abertis' €2 billion hybrid notes to Atlantia's consolidated credit metrics. While a deferred coupon payment on Abertis' hybrids could preserve cash at Abertis, potentially reducing the need of shareholder support, this would not be credit supportive for Atlantia which, following the ASPI disposal, strongly relies on Abertis' dividends to service its debt. The deferral of a coupon would indeed trigger a dividend stopper at Abertis. Furthermore, the balanced governance in place with ACS/Hochtief could restrict potential support to Atlantia, in case of a financial stress, as reflected in our delinking the rating on Abertis from that on Atlantia.

We expect the use of ASPI proceeds for the voluntary tender offer announced by Edizione and BIP to constrain Atlantia's financial flexibility, absent future support from the new shareholders. As per Edizione's and BIP's announcement, the offer, which is for a maximum of €12.7 billion, will be funded through equity by BIP (€4.5 billion) and bank debt (€8.2 billion). If successful, the transaction would absorb ASPI proceeds as these would be used to repay the bridge-to-cash facility raised by the acquisition vehicle. We see the transaction as credit negative as it will absorb ASPI proceeds without replacing ASPI's cash flow generation, reducing Atlantia's financial flexibility and most likely requiring equity support from its shareholders, should it pursue significant new investments. Under these terms, and by using a proportionate consolidation of Abertis forecasts, we expect Atlantia's FFO to debt to remain at 10%-11% in 2022-2023. The improvement compared to 2021 ratios mainly reflects expected recovery at Atlantia's airports and doesn't include the impact of any additional debt or new acquisitions by Atlantia, on which we don't currently have visibility. The offer is subject to, among other conditions, a 90% acceptance and is intended to de-list Atlantia. Edizione indirectly owns a 33% stake in Atlantia, through its fully owned subsidiary Sintonia, followed by Singapore's sovereign wealth fund GIC (8.29%) and Fondazione Cassa di Risparmio di Torino (about 4.5%), with the remaining as free float (53%).

If successful, we will analyze the final terms of the offer to confirm the impact on Atlantia's credit metrics as well as the supportiveness of the governance and financial policy announced by the potential new shareholders. In particular, we will assess the final terms of the offer to confirm that the equity contributions announced as part of the transaction (about €4.5 billion) will be injected as cash and will not constitute additional debt under our methodology. Otherwise, this could reduce FFO to debt toward 8%, which would not be commensurate with the current rating. We will also assess the terms of the governance to confirm that Edizione's majority stake wouldn't constrain our view of Atlantia's credit quality. For now, we understand Edizione and BIP intend to implement balanced governance on Atlantia, with certain veto powers on strategic decisions that could protect Atlantia from potential negative influence by its largest shareholder. With respect to financial policy, we understand it is intended to support an investment-grade rating on Atlantia. Considering the presence of large minorities within the group (in addition to Abertis' 50% plus one share ownership, overseas toll road operators Grupo Costanera in Chile, and AB Concessoes in Brazil are both 50% owned), we would consider FFO to debt at 13% as commensurate with an investment-grade rating on Atlantia. This is higher than the trigger on Abertis (9% to maintain a 'BBB-' rating) as most of Atlantia's consolidated assets are exposed to cash flow leakages due to the presence of large minorities. Future credit metrics will also hinge on Atlantia's investment strategy and dividend distributions decided by the potential new shareholders. In our base case, we assume about €0.9 billion-€1.1 billion dividend distributions per year, including dividends paid to minorities. We understand that Edizione and GIP announced their intention to support Atlantia and its subsidiaries to extend the concession life of their portfolios and we will need to analyze how this will be financed by the new shareholders and how it would impact our credit metrics and view of the business risk profile.

We continue to rate AdR two notches above Atlantia. As a result, we have raised our issuer and issue rating on AdR by one notch to 'BBB' and revised our outlook to stable from positive. The two-notch insulation reflects our opinion that, despite AdR being almost fully owned, the regulatory oversight exercised by the grantor, and certain covenants in the concession agreement and loan financing, protect the company from potential negative intervention by its shareholder.

Outlook

The stable outlook on Atlantia reflects our expectation that the company will continue to generate cash flows from stable infrastructure assets and will replace expiring concessions within its subsidiaries with assets having solid asset quality.

We expect the group will be able to generate FFO to debt of 10%-11% in 2022-2023 if the tender offer announced by Edizione and BIP is successful and absorbs ASPI proceeds. These metrics are based on Abertis' proportionate consolidation.

The outlook on AdR is linked to that on its parent Atlantia, given the current two-notch differential we reflect in our rating on AdR.

Downside scenario

We could take a negative rating action if we expect that the company won't be able to maintain FFO to debt comfortably above 9%.

Considering the tender offer, this could happen if the transaction includes more debt than we currently assume or if under our methodology we were to consider Blackstone equity injections as debt.

We could also take a negative rating action if Edizione's majority stake were to constrain our view of Atlantia's credit quality and this were not mitigated by the terms of the governance implemented by the new potential shareholders.

Upside scenario

We could raise our issuer credit rating on Atlantia by one notch if the company strengthens its FFO to debt to 13%.

We don't expect this to materialize in 2022-2023, based on our forecasts for Abertis, our expected traffic recovery on airports, and some expiring concessions in Brazil and Chile.

If Atlantia pursues new significant investments, directly or through its subsidiaries, we would assess how they are financed as well as their implication on Atlantia's business risk profile.

We don't expect a positive rating action to lead us to raise the issue rating on Atlantia, given the structural subordination of Atlantia's debt to the large amount of debt within its subsidiaries.

Company Description

Atlantia is the Italy-based holding company of a global infrastructure network, with €6.4 billion consolidated reported revenues in 2021. The company disposed of its 88% stake in Italian toll road operator ASPI (about 32% of total EBITDA in 2019), as part of a settlement finalized with the grantor on May 5, 2022, following the collapse of the Genoa bridge on Aug. 14, 2018.

Atlantia holds 50% plus one share of toll road operator Abertis (about 80% of total EBITDA in 2021 under Atlantia's consolidated reported figures), which operates about 9,000 kilometers of toll roads globally; 99.4% of Italian airport operator AdR (about 6% of total EBITDA in 2021); a number of overseas motorways in Brazil and Chile (both 50% plus one share owned), and Poland (61.2% owned), and Groups Aéroports de la Côte d'Azur (ACA) in France; and 51% of Telepass.

Atlantia's minority interests include a 15.5% stake in Getlink, which operates and manages the Eurotunnel between France and the U.K.; a 14.5% stake into Hochtief, acquired in 2018; and a 29% stake in Aeroporto di Bologna.

Pending visibility on the acceptance of the tender offer launched, Atlantia is a listed company (53% free float), approximately 33% owned by Sintonia (Edizione), while other stakes are held by Singapore's sovereign wealth fund GIC (8.29%) and Fondazione Cassa di Risparmio di Torino (about 4.5%).

Our Base-Case Scenario

Assumptions

- Proportionate consolidation of Abertis figures on Atlantia, removing 50% of Abertis adjusted net debt, FFO, and EBITDA. Treatment of Abertis hybrid notes as debt within Atlantia's metrics.
- Use of ASPI proceeds to repay €8.2 billion bridge-to-cash facility, in case the tender offer launched by Edizione and BIP is accepted at the maximum amount. Remaining resources provided as equity.
- Forecasts on Abertis in line with our latest publications (see "Abertis Outlook Revised To Stable On Solid Performance; 'BBB-' Ratings Affirmed," published on June 13, 2022).
- Passenger traffic on AdR at about 55% of 2019 levels in 2022, about 75% in 2023, and about 90% in 2024.
- Maturity of Los Lagos and Triangulo do Sol concessions in 2023, in Chile and Brazil respectively (about €80 million EBITDA in 2021)
- Yunex acquisitions completed by Atlantia in July 2022 for €930 million equity value, generating about €50 million EBITDA per year.
- Annual capital expenditure (capex) of around €0.8 billion -€0.9 billion in 2022, followed by €0.9 billion-€1.1 billion in 2023-2024 (in terms of Abertis proportionate consolidation basis).
- Dividend distributions of about €0.8 billion-€0.9 billion in 2022 and €1.0 billion-€1.1 billion in 2023-2024, including dividends paid to minorities (by Abertis on a proportionate basis).

Key metrics

Table 1

Atlantia S. p. A. --Key Metrics*

	--Fiscal year ended Dec. 31--					
	2019a	2020a	2021e	2022f	2023f	2024f
(Bil. €)						
Revenues	11.9	8.7	4.0-4.1	4.1-4.3	5.0-5.1	5.3-5.4
EBITDA	8.3	5.5	2.5-2.6	2.7-2.8	3.0-3.1	3.3-3.4
Funds from operations (FFO)	5.6	4.1	1.7-1.8	1.8-1.9	2.0-2.1	2.3-2.4
EBITDA margin (%)	69.9	63.1	62.0-63.0	63.0-64.0	60.0-61.0	61.0-62.0
Capital expenditure	1.8	1.5	0.7	0.8-0.9	1.0-1.1	0.9-1.0
Dividends	1.2	0.1	0.3	0.8-0.9	1.0-1.1	1.0-1.1
Debt	42.6	46.2	18.6-18.7	18.0-19.0	17.0-18.0	16.5-17.5
FFO to debt (%)	13.2	8.8	9.3-9.5	9.5-10.5	11.0-12.0	13.0-14.0
Debt to EBITDA (x)	5.1	8.4	7.0-7.5	7.0	6.0	5.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. 2021-2024 based on Abertis' proportionate consolidation.

Liquidity

We assess Atlantia's liquidity on a stand-alone basis, to reflect its reliance on dividend distributions from its subsidiaries to meet liquidity needs.

We have revised our liquidity assessment to adequate to reflect that the ASPI disposal has dissipated the risk of a liquidity event on Atlantia's debt, that financing ties on ASPI debt have been removed, and €8.2 billion proceeds have been received. We expect proceeds to be used in the future and that the abundant sources of liquidity could cover uses by more than 1.5x over the 12 months to end-March 2023. Nevertheless, we assess liquidity as adequate, given that dividends paid by subsidiaries may fluctuate over time and that the company doesn't have a track record of ensuring continued strong liquidity.

We estimate the following principal liquidity sources on Atlantia holding company for the 12 months to March 31, 2023:

- Total unrestricted available cash of about €905 million as of March 31, 2022, as per management information;
- Committed undrawn RCF of €1.5 billion due July 2025, recently renewed;
- Proceeds from the ASPI disposal of about €8.2 billion received in May 2022; and
- Expected dividend distributions of €500 million from Atlantia's subsidiaries, largely paid by Abertis.

We anticipate the following principal liquidity uses over the same period:

- Neutral FFO at Atlantia, as per management information;

- No debt repayment due by Atlantia (the next maturity is €750 million term loan due in the third quarter 2023);
- No capex, given it is a holding company;
- Acquisition of Yunex Traffic for €930 million equity value; and
- About €600 million in dividends to Atlantia's shareholders, as announced by the company.

Pending visibility on the acceptance of the tender offer launched, we are not reflecting the transaction in our liquidity analysis.

Environmental, Social, And Governance

Atlantia's ESG credit indicators: To E-2, S-3, G-3; From E-2, S-4, G-3

In our view, the ASPI disposal removes the ramification risks that a termination of the concession could have triggered on Atlantia, including liquidity risk. In our view, social factors now have a moderately negative influence (S-3) on our credit rating analysis on Atlantia, compared to a negative influence previously (S-4), as we see legacy risk as limited, from a financial perspective. Nevertheless, we will monitor that no unexpected payments or indemnification become due.

Governance factors remain a moderately negative consideration in our credit analysis, due to the short track record since the company revised its internal governance and risk management procedures.

Issue Rating – Recovery Analysis

Key analytical factors

- We rate Atlantia's senior unsecured notes at 'BB+' in line with the issuer credit rating, with a recovery rating of '3'.
- Our recovery rating reflects our expectation of meaningful recovery (50%-90%; rounded estimate: 55%) in the event of default, linked to potential dividend upstream interruption from its subsidiaries (Abertis being the largest source). This is based on our assessment of Atlantia's ownership and equity interests in its subsidiaries (Abertis; Aeroporti di Roma; Getlink, Hochtief and Aeroporti di Bologna; Telepass; Azzurra Airports; AB Concessoes in Brazil and Grupo Costanera in Chile).
- Atlantia's debt is unsecured and the company is incorporated in Italy. We rank Italy as a jurisdiction B country, due to insolvency law provisions, enforceability, predictability, or rule-of-law risk considerations that we expect will generally constrain recoveries for creditors.

Simulated default assumptions

- Year of simulated default: 2026
- Our hypothetical event of default assumes that dividend upstream interruption would stem from severe traffic decline on subsidiaries' global toll road network.

- We assume that Atlantia would remain a going concern after any default and we estimate a recovery value through a discrete asset valuation approach.
- We assume that the €1.5 billion facility is 85% drawn before default.
- We have estimated the equity value of Atlantia's subsidiaries by using their market valuation when available (Getlink, Hochtief, and Aeroporti di Bologna) and EBITDA multiples or recent market valuation on the other subsidiaries, incorporating a substantial level of stress (Abertis, AdR, Telepass, Azzurra, and the Brazilian and Chilean subsidiaries).

Simplified waterfall

- Gross enterprise value at emergence: about €3.0 billion-€3.1 billion, corresponding to our estimated equity value at emergence of Atlantia's subsidiaries under the hypothetical default scenario, also reflecting that Atlantia's debt holders have no share pledge or guarantees, which may reduce the actual value available to Atlantia's creditors, also considering the large amount of debt within its subsidiaries (€31.9 billion compared with €3.5 billion at Atlantia holding level). We don't include any value to ASPI proceeds as we don't expect them to be used to reduce Atlantia's debt.
- Administrative expenses: 5%, or about €200 million-€300 million
- Net enterprise value (after 5% administrative costs): about €2.8 billion-€2.9 billion.
- Senior unsecured debt: €4.8 billion at Atlantia (including 85% of available RCF drawn).

--Recovery expectations: 50%-90% (rounded estimate: 55%)

Note: All debt amounts include six months of prepetition interest.

Ratings Score Snapshot

Atlantia

Issuer credit rating: BB+/Stable/B

- Business risk: Satisfactory
- Country risk: Intermediate
- Industry risk: Low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate

- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bb+

- Group credit profile: bb+

Environmental, social and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Health and safety

Aeroporti di Roma

Issuer Credit Rating: BBB/Stable/A-2

Stand-alone credit profile: a-

Group credit profile: bb+

Entity status within the group: Partially insulated from Atlantia (+2 notches)

ESG credit indicators: E-2, S-4, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- French Concessionaire Sanef 'BBB-' Ratings Affirmed As It Approaches Concession Tail; Outlook Stable, June 29, 2022
- Abertis Outlook Revised To Stable On Solid Performance; 'BBB-' Ratings Affirmed, June 13, 2022
- Autostrade per l'Italia SpA Upgraded To 'BBB-' Following Completion Of Change Of Control; Outlook Positive, June 7 2022
- Atlantia, ASPI, And Aeroporti di Roma Upgraded By One Notch On Approved Sale of ASPI; Outlook Positive, June 22, 2021

Ratings List

Upgraded; Outlook Action

	To	From
Atlantia SpA		
Issuer Credit Rating	BB+/Stable/B	BB/Positive/B
Senior Unsecured	BB+	BB
Recovery Rating	3(55%)	3(65%)
Aeroporti di Roma SpA		
Issuer Credit Rating	BBB/Stable/A-2	BBB-/Positive/A-3
Senior Unsecured	**BBB**	**BBB-**