Comunicato Stampa

STANDARD & POOR'S RIVEDE I RATING DEL GRUPPO ATLANTIA

Roma, 13 gennaio 2020 – L'agenzia di rating Standard & Poor's, in relazione alle modifiche unilaterali introdotte con il Decreto Milleproroghe nei contratti delle concessionarie autostradali in Italia, ha rivisto oggi i rating del gruppo Atlantia. In particolare il rating di Autostrade per l'Italia da 'BBB-' a 'BB-' e quello di Atlantia (holding) dal precedente 'BB+' a 'BB-'. Al contempo, l'agenzia di rating ha rivisto anche il rating di Aeroporti di Roma, che passa da 'BBB-' a 'BB+', il rating di Abertis e delle sue controllate HIT e Sanef, passando da 'BBB' a 'BBB-'.
In relazione alla persistente incertezza sul profilo di credito del Gruppo, i citati rating sono posti/rimangono in rating watch negativo.

Si riporta di seguito il testo integrale del comunicato dell'agenzia di rating.

Investor Relations
e-mail: investor.relations@atlantia.it

Rapporti con i Media
e-mail: media.relations@atlantia.it

www.atlantia.it

Research Update:

Atlantia And Subsidiaries Downgraded On Increased Concession Termination Risk For ASPI; Ratings On Watch Negative

January 13, 2020

PRIMARY CREDIT ANALYST

Stefania Belisario
Madrid
+34 91 423 3193
stefania.belisario@spglobal.com

SECONDARY CONTACT

Juliana C Gallo
London
(44) 20-7176-3612
juliana.gallo@spglobal.com

ADDITIONAL CONTACT

Industrial Ratings Europe
Corporate_Admin_London@spglobal.com

Rating Action Overview

- The Italian government recently introduced unilateral changes by Law Decree n.162/2019 ("Milleproroghe") to toll road operators' regulatory framework. Under the Milleproroghe, the process for terminating or revoking concession contracts is less costly to the Grantor and not subject to the Grantor making a timely termination payment (which underpinned our analysis).
- In our view, the Milleproroghe negatively affects ASPI (and thus indirectly Atlantia) by increasing the risk of a concession termination by either ASPI or the Grantor, with difficult-to-predict liquidity and legal consequences for ASPI and Atlantia.
- If the concession were terminated or revoked, we would expect protracted legal proceedings bearing in mind that the concession initially provided strong protections to ASPI including in case of changes in the regulatory or legal framework.
- We are therefore lowering our long- and short-term ratings on Atlantia and ASPI to 'BB-/B', with a recovery rating of '3'. At the same time, we are lowering our long- and short-term ratings on Atlantia's Spanish 50% plus one share subsidiary Abertis and its subsidiaries HIT and Sanef to 'BBB-/A-3' from 'BBB/A-2' and placing them on CreditWatch negative. We are also lowering the long- and short-term ratings on Atlantia's almost fully-owned operating subsidiary Aeroporti di Roma (AdR) to 'BB+/B' from 'BBB-/A-3' and placing them on CreditWatch negative.
- The CreditWatch indicates that we could lower the ratings by more than one notch if liquidity risk increases for ASPI and Atlantia. We see liquidity risk increasing in the event of concession termination or revocation, or by a demand by creditors for acceleration of their debt. Apart from increased liquidity risk, the ratings could also be negatively affected by the ongoing investigations of the Genoa bridge collapse and ASPI's role in operating and maintaining its infrastructure network. If the findings of these investigations went against ASPI, it could be subject to large fines.

Rating Action Rationale

The unilateral changes introduced by the Italian government on existing toll road concessions increase the risk of ASPI concession termination. The Milleproroghe could create difficult-to-predict liquidity and legal consequences for both ASPI and Atlantia. The Milleproroghe in our view makes the regulatory framework for concessions more unpredictable as it significantly changes the terms of ASPI's concession, creating uncertainty about the consequences of a potential termination of the concession. The Milleproroghe is now in effect although it must be ratified by the Italian Parliament within two months of enactment, which we assume will happen.

Termination or revocation of the ASPI concession could result in protracted litigation between the Grantor and the concessionaire. Litigation in the event of a concession terminations is in our view likely because the concession provides strong protections to ASPI, including in case of changes in the regulatory or legal framework, and provides for a termination payment to ASPI in case of termination. As such, we believe that both parties have an interest in reaching a settlement. We would likely reassess the ratings if we saw evidence of that the parties were taking steps to avoid concession termination or revocation.

A lower termination payment and changes in effectiveness of a termination event increase liquidity risks. Under the Milleproroghe, termination of existing toll road concessions would be less costly to the Grantor, compared with the regulatory protections included in ASPI's concession, and would not be subject to the receipt of a timely termination payment by the Grantor. In our view, this significantly increases the risk of a shortfall liquidity for ASPI and Atlantia. In our initial analysis, we viewed the termination payment as a key source for ASPI and Atlantia's repayment of obligations that could be accelerated on a termination. According to some estimates, a Milleproroghe-based termination payment would be about €11 billion-€12 billion without taking into account potential penalties or damages payable by ASPI to the Grantor. This is significantly lower than the expected payment due under ASPI's concession calculated as the net present value of future cash flows (estimated at €20 billion-€25 billion). Under the Milleproroghe the termination payment is only equal to the value of investments made on the network, net of amortization.

ASPI's debt is about €9.8 billion and Atlantia has further debt, which could be accelerated in case of a termination event. ASPI's debt includes €7.7 billion of bonds of which €3.9 billion are guaranteed by Atlantia. By their terms, ASPI's bonds can be accelerated if the concession is terminated. ASPI also has €2.1 billion of credit facilities of which €1.7 billion can be accelerated under the terms of the facilities if ASPI's issuer credit ratings fall below 'BBB-'. If the facilities are accelerated, we will assess Atlantia's ability to face a repayment in a situation of potential liquidity stress.

If the concession is terminated, ASPI's cash flows could halt relatively quickly. The Milleproroghe provides that on termination of a toll road concession, state-owned road operator ANAS (fully consolidated into FSI rail operator since 2018) would take over responsibility for the relevant roads and be responsible for ordinary and extraordinary maintenance until a new operator is appointed.

Concession termination by ASPI would also raise liquidity and regulatory uncertainty. Under its concession, ASPI also has the right to terminate in certain circumstances. In its press release dated Dec. 23, 2019, ASPI stated that if the Milleproroghe were approved, ASPI reserved to terminate. As the Milleproroghe purports to invalidate ASPI's termination rights, it remains uncertain at this stage what effect an ASPI termination would have. The uncertainty is related to: (i) ASPI's legal right to terminate; (ii) the amount of the termination payment (under the original concession or under the Milleproroghe); and (iii) potential creditor actions. In our view, the last element is a key driver for a potential liquidity shortfall at ASPI and, in turn, Atlantia, particularly if not aligned with a full and timely termination payment from the grantor (the Ministry of Infrastructure and Transportation).

We expect any potential settlement agreement to be at more unfavorable conditions for ASPI than previously anticipated. In our view, the above legal and regulatory uncertainties, combined with the risk that a large termination payment may be due to ASPI, create incentives for both parties to find a settlement agreement. Nevertheless, given the ongoing investigations and allegations regarding the safety of ASPI's network, combined with a strained relationship with the Grantor, we expect any settlement agreement will likely be at more unfavorable conditions for ASPI than previously anticipated. This may result from significantly higher maintenance or investment costs, lower remuneration or tariffs, or large fines or penalties.

Ratings on Abertis lowered to 'BBB-'. We lowered our ratings on Atlantia's 50% plus one share-owned subsidiary Abertis to 'BBB-/A-3' from 'BBB/A-2' and placed them on CreditWatch negative following our negative rating action on Atlantia. The CreditWatch indicates that a negative rating action on Atlantia could trigger negative rating action on Abertis, a highly strategic subsidiary, unless we see evidence of minimal impact of Atlantia's credit stress on Abertis credit profile. We incorporate in our 'BBB-' ratings on Abertis three notches of insulation from Atlantia, reflecting the strengths of the shareholder agreement in place with Abertis' minority shareholders ACS/Hochtief (50% minus one share). The three notches reflect our view that the shareholders agreement provides effective measures to ACS/Hochtief to protect Abertis' credit quality from the potential negative intervention of Atlantia. This notably reflects that the minority shareholder has veto power on some reserved matters, such as dividend distributions and major acquisitions, which are core to Abertis' credit quality. We believe that ACS/Hochtief would be unwilling to allow actions detrimental to Abertis' creditworthiness. The stand-alone credit profile of Abertis remains unchanged at 'bbb' and we see Abertis as continuing to deliver its investment strategies with no significant impact from difficulties at Atlantia.

Abertis' subsidiaries HIT and Sanef also lowered to 'BBB-'. We also lowered our ratings on HIT and Sanef to 'BBB-' from 'BBB' and placed them on CreditWatch negative, in line with the rating action on Abertis. This is because we see HIT and its fully owned French toll road operator Sanef as core subsidiaries of Abertis.

Aeroporti di Roma rating lowered to 'BB+'. We lowered our ratings on AdR to 'BB+/B' from 'BBB/A-2' and placed them on CreditWatch negative. The CreditWatch signals that a negative rating action on Atlantia could trigger a negative rating action on AdR. We incorporate two notches of insulation between AdR and its parent Atlantia. The insulation reflects our view that, despite AdR being almost fully owned by Atlantia, its euro medium-term note (EMTN) program and its facilities do not include cross-default provisions or guarantees with Atlantia. In addition, AdR must meet certain conditions under its concession agreement with ENAC (The Italian Civil Aviation Authority), including a debt service coverage ratio (DSCR) of above 1.2x (2018: 6.0x). Furthermore, the concession agreement includes regulatory oversight by requiring three statutory auditors appointed by the Ministry of Economic Affairs, Ministry of Finance, and Ministry of Infrastructure and Transportation. We continue to assess AdR's stand-alone credit profile (SACP) at 'a+', reflecting its relatively strong balance sheet and its strong competitive position as Italy's largest airport operator, with a monopoly position in Rome.

CreditWatch

The CreditWatch placement indicates that we could lower the ratings on Atlantia by more than one notch if liquidity risk materializes at ASPI and, in turn, Atlantia. This would most likely be triggered by a termination or revocation of the concession, or by a decision of some creditors to ask for acceleration of debt reimbursement.

In the absence of material liquidity risk, the ratings could also be negatively affected by the ongoing investigations regarding ASPI's responsibility in the Genoa bridge collapse and its diligence in operating and maintaining its infrastructure network, which could result in large fines.

If Atlantia and ASPI settle with the Grantor, we would analyze the agreement with an eye to its potential increased maintenance costs or lower remuneration on investments, among other things. In such a scenario, we may affirm or lower the ratings depending on the impact on Atlantia's financial metrics. Funds from operations (FFO) to debt of at least 9% would be supportive of the current ratings.

Any downgrade of Atlantia would most likely lead us to lower the ratings on AdR, Abertis and its subsidiaries in parallel, unless we see new tangible elements of increased insulation of those entities versus their parent group.

We expect to resolve the CreditWatch over the next few months.

Liquidity

We have revised our assessment of Atlantia's liquidity to less than adequate.

We maintain our estimate that--in the absence of a termination of ASPI's concession--sources will cover uses by more than 1.2x in the 12 months to September 2020. However, the current regulatory and legal uncertainty increases liquidity risk, which in our view reduces the ability to absorb high-impact low-probability events and Atlantia's standing in credit markets.

Atlantia's principal liquidity sources, excluding Abertis, over the 12 months to Sept. 30, 2020, include:

- Available bank lines of about €5.2 billion, including two RCFs at the Atlantia level that total €3.25 billion; €1.3 billion of RCFs at ASPI provided by Cassa Depositi e Prestiti and €600 million of RCFs at Aeroporti di Roma;
- Cash available of €3 billion; and
- Positive FFO of €1.7 billion, according to our forecasts.

Atlantia's principal liquidity uses, excluding Abertis, over the same period include:

- Debt maturities of €3.5 billion, including €2.1 billion ASPI facilities that could be accelerated given that the issuer ratings on Atlantia or ASPI are below 'BBB-';
- Capital spending of €1.3 billion; and

- Dividend payment of about €1 billion, funded by dividends received from Abertis and other subsidiaries, according to our forecasts, although we understand these are not committed by the company.

If the €2.1 billion ASPI credit facilities are accelerated, we would need to assess Atlantia's ability to face a repayment in a situation of potential liquidity stress.

At the same time, if ASPI's concession is terminated, we would need to assess whether ASPI and Atlantia bondholders will request accelerated repayment of the debt and whether this will be feasible.

On a consolidated basis, with Abertis, we continue to estimate that sources will cover uses by more than 1.2x over the next 12 months.

Issue Ratings - Recovery Analysis: ASPI

Key analytical factors

- We rate ASPI's €9.8 billion debt at 'BB-' with a recovery rating of '3', reflecting that we expect substantial recovery (90%-100%; rounded estimate: 90%) in the event of default based on our key assumption that a substantial termination payment will be paid to ASPI in the event of a termination. That said, we cap the recovery rating at '3' to capture the risk that since the debt is unsecured the capital structure of the company may be different at the simulated default.
- In our recovery analysis we simulate the default of ASPI by assuming the termination of its concession, reflecting current liquidity and legal risks. Under this scenario, we assume ASPI will be liquidated and we estimate the recovery value through the receipt of a substantial termination payment by the Grantor.

Simulated default assumptions

- We do not select a specific year of default as this would not make a significant impact on our recovery analysis and recovery rating. This reflects our key assumption that substantial compensation will be received by ASPI in case of a termination and we assume this will be the key source of liquidity to repay existing debt.
- We assume the net termination payment received by the Grantor will be about €9 billion-€9.5 billion. This reflects an estimated value of investments completed by ASPI, net of amortization, net of potential penalties/damages, as per the content of the recent law decree. This corresponds to a much lower value that the estimated net present value of future cash flows (estimated at €20 billion-€25 billion) up to the end of the concession (2038) as per the definition of termination payment under ASPI's concession.

Simplified waterfall

- Gross enterprise value at emergence: €9 billion-€9.5 billion corresponding to termination payment net of potential penalties/damages.
- Administrative expenses: 5%, or €500 million

- Net enterprise value (after 5% administrative costs): €8.9 billion
- Senior unsecured debt: €9.8 billion
- --Recovery expectations: 90%-100% (rounded estimate: 90%)

Issue Ratings - Recovery Analysis: Atlantia

Key analytical factors

- We rate Atlantia's €5.7 billion debt at 'BB-' with a recovery rating of '3', reflecting that we expect substantial recovery (90%-100%; rounded estimate: 100%) in the event of default. That said, we cap the recovery rating at '3' to capture the risk that since the debt is unsecured the capital structure of the company may be different at the simulated default.
- The recovery rating reflects 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 G. Costanera in Chile). We are not including any value related to ASPI as we assume the liquidation of Atlantia in our recovery scenario and we don't expect significant equity value to be left over after ASPI debt repayment.
- We assume that Atlantia would remain a going concern after any default and we estimate a recovery value through a discrete asset valuation (DAV) approach.

Simulated default assumptions

- We do not select a specific year of default for Atlantia as our scenario is linked to a potential liquidity contagion risk from ASPI.
- We assume that the €3.25 billion facilities are 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 some level of stress (Abertis, Aeroporti di Roma, Telepass, Azzurra, Brazilian and Chilean subsidiaries). We have not assumed any equity value on ASPI.

Simplified waterfall

- Gross enterprise value at emergence: €14.5 billion-€15 billion, corresponding to our estimated equity value at emergence of Atlantia's subsidiaries excluding ASPI
- Administrative expenses: 5%, or €600 billion-€700 million
- Net enterprise value (after 5% administrative costs): €14 billion
- Senior unsecured debt: €8.6 billion at Atlantia and about €5.3 billion of ASPI debt guaranteed by Atlantia
- --Recovery expectations: 90%-100% (rounded estimate: 100%)

Issue Ratings - Recovery Analysis: Aeroporti di Roma

Key analytical factors

- We rate ADR's €1.2 billion debt at 'BB+' with a recovery rating of '3', reflecting that we expect meaningful recovery (50%-90%; rounded estimate: 80%) in the event of default.
- We assume that ADR would remain a going concern after any hypothetical default and we estimate the recovery value through an EBITDA multiple.
- Under our hypothetical default scenario, a payment default is triggered by higher investment not adequately compensated by tariff increases and a deterioration of macroeconomic conditions in Italy. This would trigger a hypothetical difficulty in refinancing some notes due in February 2023.

Simulated default assumptions

- Simulated year of default: 2023, in line with our standard assumption on 'BB+' companies
- We assume that the €250 million facilities are 85% drawn before default
- Implied enterprise value multiple: 6.5x
- EBITDA at emergence: €200 million, assuming about 60% haircut on current EBITDA, in line with stress assumed at this level of ratings
- Jurisdiction: Italy

Simplified waterfall

- Gross enterprise value at emergence: €1.2 billion
- Administrative expenses: 5%, or €60 million
- Net enterprise value (after 5% administrative costs): €1.2 billion
- Senior unsecured debt: €1.5 billion, including RCF
- --Recovery expectations: 50%-90% (rounded estimate: 80%)

Ratings Score Snapshot

Atlantia issuer credit rating: BB-/Watch Neg/B

Business risk: Satisfactory

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

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: bb+

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Less than Adequate (-1 notch)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bb-

Related Criteria

- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

*********** Abertis Infraestructuras S.A. ***********		
Downgraded; CreditWatch Action		
	To	**From**
Abertis Infraestructuras S.A.		
Issuer Credit Rating	BBB-/Watch Neg/A-3	BBB/Negative/A-2
Senior Unsecured	BBB-/Watch Neg	BBB
Holding d'Infrastructures de Transport S.A.S.		
Issuer Credit Rating	BBB-/Watch Neg/A-3	BBB/Negative/A-2
Senior Unsecured	BBB-/Watch Neg	BBB
Sanef		
Issuer Credit Rating	BBB-/Watch Neg/NR	BBB/Negative/NR
**************** Atlantia SpA ***************		
Downgraded		
	To	**From**
Atlantia SpA		
Issuer Credit Rating	BB-/Watch Neg/B	BBB-/Watch Neg/A-3
Senior Unsecured	BB-/Watch Neg	BB+/Watch Neg
Recovery Rating	3(100%)	NR
Autostrade per l'Italia SpA		
Issuer Credit Rating	BB-/Watch Neg/B	BBB-/Watch Neg/A-3
Senior Unsecured	BB-/Watch Neg	BBB-/Watch Neg
Recovery Rating	3(90%)	NR
Downgraded; CreditWatch Action		
	To	**From**
Aeroporti di Roma SpA		
Issuer Credit Rating	BB+/Watch Neg/B	BBB/Negative/A-2
Senior Unsecured	BB+/Watch Neg	BBB
Recovery Rating	3(80%)	NR

NR--Not rated.