Atlantia

Press Release

STANDARD & POOR'S PLACED ON CREDITWATCH NEGATIVE ITS RATINGS FOR ATLANTIA, AUTOSTRADE PER L'ITALIA AND AEROPORTI DI ROMA

Rome, 11 July 2019 – Atlantia announces that Standard & Poor's has placed its ratings of Atlantia, Autostrade per l'Italia and Aeroporti di Roma, on CreditWatch Negative.

Standard & Poor's press release is attached.

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Research Update:

Atlantia Ratings Placed On CreditWatch Negative On Heightened Downside Risk From ASPI Concession

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Rating Action Overview

- On July 2, 2019, an internal commission appointed by the Italian Ministry of Infrastructure and Transport (MIT; the grantor) published a legal report on last August's Genoa bridge collapse. The report concludes that the grantor may invoke a breach of custody and maintenance to pursue a unilateral revocation of the Italian toll road concession of Autostrade per l'Italia (ASPI; the concessionaire), although the renegotiation of the concession could be considered as an alternative to its unilateral revocation.
- Moreover, as a result of negative political sentiment towards Atlantia SpA--the toll road and airport operator that owns 88% of ASPI--we see a heightened risk that any renegotiated concession terms (including investment remuneration) will be less favorable to ASPI.
- We do not assume a full revocation of the ASPI concession, however, because of the economic and financial impact such an action might have on the grantor based on the terms of the concession contract.
- We are therefore placing our 'BBB' issuer credit ratings on Atlantia and ASPI on CreditWatch with negative implications. We are also placing our 'BBB-' issue rating on Atlantia's senior unsecured notes and our 'BBB' issue rating on ASPI's senior unsecured notes on Creditwatch with negative implications. At the same time, we are placing our 'BBB+' ratings on Aeroporti di Roma (AdR) on CreditWatch with negative implications due to its partial linkage to Atlantia.
- The CreditWatch placement reflects our view of the increased likelihood that a tough regulatory and operating environment could hurt ASPI's--and therefore its parent, Atlantia's--operations and finances. It remains uncertain at this stage what specific actions the grantor may pursue, but in the worst-case scenario--MIT's unilateral revocation of the concession--we could lower these ratings by multiple notches.

Rating Action Rationale

The CreditWatch placement reflects our view of an increased likelihood that the financial and operating repercussions of last year's Genoa bridge collapse may hurt ASPI's--and therefore its parent, Atlantia's--operating and financial performance beyond our previous assumptions. This could result from a renegotiation of ASPI's Italian motorway concession to much less favorable terms, other potential compromises such as Atlantia supporting the financial rescue of the ailing Italian airline Alitalia, or, in an extreme case, the full termination of ASPI's concession with no termination payment. The Italian motorway concession managed by ASPI represents about 32% of the Atlantia group's EBITDA after the Abertis consolidation.

The increased downside risk on the ASPI concession follows the publication of a legal report issued by an internal commission on July 2, 2019, which was appointed by the MIT as part of civil administrative proceedings initiated after the Genoa bridge collapse on Aug. 14, 2018. The commission concluded that a breach of duty of custody and maintenance, as per article 1177 of the Italian Civil Code and article 3 of the concession respectively, could be used by MIT to pursue unilateral revocation of the concession, although the renegotiation of the concession could be considered as an alternative to its unilateral revocation.

Nevertheless, our base-case scenario continues to assume no unilateral revocation of ASPI's concession because of (i) the explicit provision under the concession agreement setting out the right to receive a termination payment by the grantor under all circumstances upon revocation; (ii) absence as of today of a technical report that would point to negligence by ASPI on maintenance as the cause of the bridge collapse. In addition, we are not aware of any successful precedents involving a unilateral revocation of a concession agreement in Italy.

On the other hand, we see potential risks of renegotiation of the concession agreement including reduced investment remuneration and potential fines, which are capped at €150 million under the concession agreement. We currently forecast Atlantia's S&P Global Ratings-adjusted funds from operations (FFO) to debt will remain in the range of 11%-12%. Nevertheless, a weakening of its adjusted FFO to debt towards 10%, for example as a result of a renegotiation of the concession, may lead to a downgrade by one notch. Atlantia has high financial gearing, reflecting the large amount of debt consolidated within the group after the recent Abertis acquisition (€46.1 billion as of Dec. 31, 2018).

Both the criminal investigation and civil administrative proceedings against ASPI are ongoing, while the cause of the bridge collapse remains unknown. We could lower the ratings by more than one notch if, in contrast to what is specified by the concession contract, the termination of the concession creates a liquidity event for certain of ASPI's credit facilities and ASPI's bonds that contain a put option. This means that in the event of a termination of the concession, ASPI's debt could be accelerated by creditors and redeemed at par with accrued interest. An important mitigant, however, is that according to the concession agreement, a termination of the concession is not effective until a termination payment is duly received by the concessionaire. Although the report by the MIT commission suggests that no termination payment may be due, it points out that a unilateral termination with no compensation amount could expose the grantor to the risk that such payment may later be successfully claimed by the concessionaire in a court of law.

There have not yet been any formal steps to initiate a revocation of ASPI's concession. According to the MIT's report, the revocation of the concession would require the approval of MIT and of the Ministry of Economy and Finance (MEF). We understand that this would also involve the Italian Court of Auditors, which has jurisdiction over public accounts. The report concludes that a renegotiation of the existing concession could be considered as an alternative to its unilateral revocation. This is because of potential risks and consequences of a unilateral revocation in terms of economic, financial, and operational impact for the Italian state.

The concession agreement covers ASPI's entire network, which is the largest in Italy, managing about 2,855 kilometers (km) of toll roads or about 50% of the Italian tolled motorway network.

In our view, finding a new concessionaire able and willing to take over the operations of such a large toll road network could deter the government from pursuing a revocation. Also, we believe that a unilateral termination of the concession without termination payment could discourage other potential concessionaires' appetite and deter foreign direct investments in the country.

The potential impact on ASPI's credit metrics, and therefore Atlantia's, is difficult to assess given the current uncertainty regarding the terms of a potential renegotiation of the concession agreement. However, we note that ASPI has not increased any tariffs in its Italian motorway network since Jan. 1, 2019, and voluntarily extended the freeze to Sept. 15, even though it was entitled to apply for a 0.81% tariff increase from July 1. Moreover, the Italian Transport Regulation Authority (ART) recently published a decision to revise the tariff mechanism for Italian toll road operators starting on Jan. 1, 2020, on the basis of a price cap and regulated-asset-base (RAB) regulation. The decision was appealed by concessionaires, ASPI included, as it would represent, unless mutually agreed, a unilateral change of existing contracted concessions. This adds to the uncertainty about future tariffs and, consequently, the profitability of Italian concessions. Nevertheless, it demonstrates the difficult regulatory environment and strained relationship between the grantor and Italian toll road concessionaires.

With these uncertainties in mind, we forecast Atlantia's consolidated FFO to debt of about 11%-12% over 2019 and 2020 based on the full consolidation of Abertis, flat traffic growth on ASPI's network over 2019 and 2020, and recurrent maintenance and safety inspection costs of €150 million annually for ASPI. We do not factor in any credit supportive measures at this point. However, we understand that ASPI may be willing to support its metrics by lowering its dividend distribution, as occurred in 2018, or, in the case of uncertainty or delays in the approval of new projects, by reducing its capital expenditure.

The rating on AdR

We currently cap the rating on AdR one notch higher than its parent and more than 99% owner, Atlantia. We assess AdR's stand-alone credit profile (SACP) at 'a+'. AdR has a relatively strong balance sheet, even considering the heavy investment required to ramp up terminal capacity. There are no cross-default provisions or guarantees in AdR's euro medium-term note (EMTN) program or facilities, and AdR is not defined as a material subsidiary under Atlantia's EMTN program. In addition, AdR must meet certain conditions in its concession agreement with ENAC (The Italian Civil Aviation Authority) as the grantor. We believe that ENAC's requirement that AdR maintain a debt service coverage ratio (DSCR) of above 1.2x (2018: 6.0x) means its credit metrics are likely to stay commensurate with the 'BBB+' rating. The requirement is gradual--if the DSCR is below 1.6x, the grantor must authorize special transactions such as disposals and acquisitions. Furthermore, the concession agreement requires three statutory auditors apiece from the Ministry of Economic Affairs, Ministry of Finance, and MIT.

In addition to actions on Atlantia, ASPI, and AdR issuer credit ratings, we have also placed the following ratings on CreditWatch with negative implications:

- 'BBB' issue-level rating on the senior unsecured debt under the €10 billion EMTN program (originally issued by Atlantia but then transferred to ASPI);
- The 'BBB' issue-level rating on the €7 billion EMTN program and senior unsecured debt issued by ASPI;
- The 'BBB-' rating on Atlantia's €10 billion EMTN program;
- The 'BBB+' issue-level rating on the EMTN program and senior unsecured debt issued by AdR; and

- The 'A-2' short-term ratings on Atlantia, ASPI, and AdR.

Liquidity

We assess Atlantia's liquidity including and excluding Abertis. Excluding Abertis, Atlantia's adequate liquidity is based on our forecast that sources will cover uses by more than 1.2x over the next 12 months. Our assessment is also supported by Atlantia's solid relationship with banks and generally prudent risk management.

Atlantia's principal liquidity sources, excluding Abertis, over the 12 months to March 31, 2020, include:

- Available undrawn bank lines of €4.4 billion, including two revolving facilities at Atlantia's level for a total commitment of €3.25 billion, of which €2.6 undrawn as of March 31, 2020;
- Cash available of €2.2 billion, of which €600 million is at ASPI's level; and
- Positive FFO of €2.4 billion, according to our forecasts.

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

- Debt maturities of €0.6 billion;
- Capital spending of €1.0 billion-€1.3 billion; and
- Dividend payment of about €1 billion, also funded by dividends received by Abertis and other subsidiaries.

We understand that there are acceleration clauses in certain ASPI credit facilities, totaling €2 billion, if the rating falls below a certain level. Early repayment of these credit facilities could be also triggered in the event of an ASPI concession termination.

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

The refinancing of the bridge to bond facility (€4.7 billion due May 2020), which was part of Abertis' acquisition debt, has been completed through a €3.1 billion bond issuance in March 2019.

Abertis' disposal proceeds are in line with our expectations and are more than sufficient to repay the €2.2 billion bridge-to-disposal loan facility due May 2020.

CreditWatch

The CreditWatch placement reflects that we could lower the ratings by one notch if potential changes in the regulatory or concession framework, reduced remuneration and uncertainty on tariffs, or fines from the Genoa bridge collapse would cause Atlantia's FFO-to-debt ratio to fall toward 10%. Persistent uncertainty on future tariffs and investment remuneration could also trigger a negative rating action, as it would mean a less transparent and predictable, and therefore less credit-supportive, regulatory framework.

We could also lower the ratings by more than one notch if a concession termination appears more likely, particularly if the termination were to occur outside the terms of the concession agreement and without adequate and timely compensation. Such an event could trigger a liquidity event for the group, as ASPI's bonds and certain credit facilities might be immediately accelerated.

An unexpected weakening of the group's or Atlantia's liquidity position, absent strong mitigating company actions on dividends or capital spending, could also lead us to lower the rating by one or two notches.

We expect to review the CreditWatch as new information emerges or uncertainty persists in relation to the concession agreement and its effects on the Atlantia group.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2018, Atlantia's capital structure consists of €46.1 billion of debt, of which only €5.7 billion is issued at the Atlantia level, €11.0 billion at the ASPI level, and €26.5 billion at Abertis' level (including the €9.8 billion acquisition debt).

Analytical conclusions

- The priority debt ratio is higher than 50%;
- We therefore rate Atlantia's unsecured debt at 'BBB-', one notch below the issuer credit rating; and
- We rate the unsecured debt issued or guaranteed by the operating subsidiaries ASPI and AdR at 'BBB' and 'BBB+', respectively--the same as their respective issuer credit ratings.

We recognize that Atlantia has added asset and geographical diversification with the acquisition of Abertis. The combined Atlantia and Abertis group represents the world's largest transport infrastructure group, with presence in 23 countries, mainly in Europe and Latin America, managing more than 14,000km of road and 60 million airport passengers.

Ratings Score Snapshot

Issuer credit rating: BBB/Watch Neg/A-2

Business risk: Strong

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

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: bbb

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)

- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

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: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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

Ratings Placed On CreditWatch

	To	From
Atlantia SpA		
Issuer Credit Rating	BBB/Watch Neg/A-2	BBB/Negative/A-2
Senior Unsecured	BBB-/Watch Neg	BBB-
Autostrade per l'Italia SpA		
Issuer Credit Rating	BBB/Watch Neg/A-2	BBB/Negative/A-2
Senior Unsecured	BBB/Watch Neg	BBB
Aeroporti di Roma SpA		
Issuer Credit Rating	BBB+/Watch Neg/A-2	BBB+/Negative/A-2
Senior Unsecured	BBB+/Watch Neg	BBB+