



Press Release

**STANDARD & POOR'S CONFIRMS RATINGS FOR ATLANTIA, AUTOSTRADE PER L'ITALIA AND AEROPORTI DI ROMA, UPGRADING OUTLOOK TO STABLE**

Rome, 15 May 2018 – Atlantia announces that, following the outcome of the voluntary public offer for Abertis Infraestructuras's shares, Standard & Poor's has confirmed its 'BBB+' issuer rating of Atlantia, Autostrade per l'Italia and Aeroporti di Roma, upgrading the outlook from negative to stable. At the same time, Standard & Poor's has confirmed its 'BBB' rating of Atlantia's €10bn EMTN programme.

The Group's Chief Financial Officer, Giancarlo Guenzi, commented:

*"We are very pleased that our "BBB+" rating has been reaffirmed and the outlook upgraded to stable. Today's announcement from Standard & Poor's confirms the strategic sense and fully sustainable nature of the Abertis acquisition, once again highlighting the strength of the Atlantia group."*

Standard & Poor's press release is attached.

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## Research Update:

# Italy-Based Atlantia Outlook Revised To Stable From Negative On Takeover Of Abertis; 'BBB+' Rating Affirmed

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## Research Update:

# Italy-Based Atlantia Outlook Revised To Stable From Negative On Takeover Of Abertis; 'BBB+' Rating Affirmed

## Overview

- A consortium of Italian transportation group Atlantia, Spanish construction company ACS, and its Germany subsidiary Hochtief achieved a rate of acceptance of 78.79% of the entire issued capital (or 85.6% of the outstanding shares, net of the treasury shares) on its €16.7 billion all-cash offer for the shares of Spain-based toll road operator Abertis Infraestructuras S.A. The acquisition will be funded with about €10 billion debt via a special purpose vehicle above Abertis and pro rata shareholder equity.
- Despite both Atlantia and Abertis taking on significant additional acquisition-related debt, which we will fully consolidate given Atlantia's control over Abertis, we expect credit-ratio deterioration to be partly mitigated by already-executed sales of minority stakes, planned disposals of Abertis' noncore assets, and some synergies from the joint operation of assets in overlapping regions.
- As a result, our base-case forecast is that Atlantia's weighted average funds from operations (FFO) to debt will be 13%-14% over 2019-2020.
- We are therefore revising to stable from negative our outlook on Atlantia and its subsidiaries Aeroporti di Roma and ASPI. We are affirming our 'BBB+/A-2' issuer credit ratings.
- The stable outlook reflects our expectation that Atlantia can manage the decline in its credit ratios by a combination of disposals, synergies, and strong growth of the consolidated group's cash flows from stable and diverse global toll roads. We anticipate that the group will achieve adjusted FFO to debt of at least 12% over 2019 and 2020, but our base case shows limited ratings headroom.

## Rating Action

On May 15, 2018, S&P Global Ratings revised to stable from negative its outlook on Italy-based Atlantia SpA and its subsidiaries--toll road network operator Autostrade per l'Italia SpA (ASPI) and airport operator Aeroporti di Roma SpA (AdR). At the same time, we affirmed our 'BBB+' long-term and 'A-2' short-term issuer credit ratings on these companies.

We also affirmed our 'BBB+' issue-level rating on the senior unsecured debt under the existing €10 billion euro medium-term note (EMTN) program originally

issued by Atlantia but recently transferred to ASPI, as well as our 'BBB' rating on Atlantia's €10 billion EMTN program. We also affirmed the 'BBB+' rating on the EMTN programs and senior unsecured debt issued by ASPI and AdR.

## **Rationale**

The outlook revision follows the high acceptance rate achieved for the €16.7 million all-cash tender offer by a consortium of Atlantia (50% + 1 share), ACS (30%), and Hochtief (20% -1 share) for the shares of Spain-based toll road operator Abertis. The tender offer will be funded through a €7 billion pro rata equity contribution by the shareholders to a special purpose vehicle (SPV) above Abertis. The SPV will then raise about €10 billion of acquisition debt. Furthermore, Atlantia will acquire, following ACS' capital increase in Hochtief, up to a 24% stake (worth about €2.44 billion). This will bring Atlantia's overall contribution for the transaction to over €6 billion.

Atlantia is the largest toll motorway operator in Italy and the second-largest transport infrastructure operator globally. The combined Atlantia and Abertis group will be the largest transport infrastructure group globally, with a presence in 15 countries. It will have more than 14,000 kilometers of roads, 60 million airport passengers, and combined EBITDA of €7.2 billion in the most recent financial year (2017 figures).

In our analysis, we assume full consolidation of Abertis' cash flows and debt into Atlantia's credit ratios because we believe that Atlantia can exercise full control through the corporate governance agreements signed by the shareholders. In particular, Atlantia will own 50% + 1 share but can nominate five out of the nine board members as well Abertis' senior management team. Full consolidation also captures the potential risk of Atlantia's contingent shareholder support to Abertis; we see the latter as weaker in terms of credit quality.

We see Abertis as highly strategic to the Atlantia group due to its integral role and strategic fit with Atlantia's cash generative mature toll-road assets in France, Spain, Italy, and Latin America. A potential weakness, in our view, lies in the complexity of the Atlantia group after the acquisition. We think that the fragmented shareholding structure could potentially challenge the timeliness and sufficiency of group support.

Based on the full consolidation of Abertis--including the €10 billion acquisition debt at the SPV and the €6 billion equity funding by Atlantia to capitalize the SPV and purchase a stake in Hochtief--we expect the combined group's leverage to increase significantly and weaken weighted average FFO to debt to 13%-14% in 2019-2020, from 21.1% in 2017. This is partly mitigated by Atlantia's €2.0 billion aggregate disposal proceeds from the sale of minority stakes in ASPI, Azzurra Aeroporti (the holding company of Nice airport Airports De La Côte d'Azur [ACA]), and Italian airport owner SAVE Group (Venice Marco Polo Airport) in 2017. Furthermore, we expect Abertis to receive up to €2.2 billion from the planned sales of its stakes in non-core

telecom/satellite operators Cellnex and Hispasat. We anticipate the disposals of Abertis' assets to close by year-end 2018 because Atlantia has already agreed a put option for 29.9% of Abertis' 34% share in Cellnex. We understand there are potential buyers already aligned for Hispasat. That said, we forecast adjusted debt to increase to about €40.3 billion by 2020. We also forecast ongoing strong traffic growth in the next three years in Atlantia and Abertis' core markets Italy, France, and Spain, due to favorable macroeconomic conditions. We think EBITDA generation will benefit from synergies from the combined businesses as described below and that adjusted EBITDA will reach about €8.5 billion by 2020.

In our view, the transaction will strengthen Atlantia's competitive position given the larger footprint: regional diversification will be enhanced with the additions of French and Spanish assets to its European operations. It will also strengthen the group's position in Latin America, where assets from the two companies are complementary and we think synergies of about €60 million are achievable. Following the acquisition, the Abertis-owned French toll road operator Sanef would contribute 12% of the combined entity's EBITDA, with an overall contribution from France rising to 20%, and Spanish assets would account for 16%. Exposure to Chile and Brazil would also increase to a combined 16% from the current 11%. As a result, the exposure to Italy would decline to 45% of total EBITDA from the current 84%, including AdR whose business is mostly linked to global growth.

We expect Atlantia, on a consolidated basis, to achieve the following weighted average ratios:

- EBITDA margin at around 66%-67% over 2019-2020.
- FFO to debt of 13%-14% for 2019 and 2020.
- Positive discretionary cash flows that could be used to reduce consolidated debt.

Downside to our forecasts may arise if the disposals of Cellnex and Hispasat are delayed or if synergies are not achieved as planned. There is also some uncertainty as to the final amount of dividend to be paid by the SPV (despite the agreed policy of 90% of net distributable profit) as well as the new owners' investment strategy for Abertis. There could also be a variation in tax, refinancing costs, or other acquisition-related charges that could affect our forecasts.

Furthermore, the new owners plan to delist the company after having offered minority shareholders the option to sell their stakes before delisting at the same price as the tender offer. We understand that the delisting could delay the takeover process by about two months but will not require any additional outflows than what we factored into our base case.

The above credit metrics reflect our current base-case scenario over 2019-2020, under which we assume:

Atlantia (on a stand-alone basis)

- Stable operating performance for the Italian transport industry overall, with no major regulatory changes.
- Italian traffic volumes to grow in line with Italian GDP by 1.5% in 2018, 1.3% in 2019, and 1.2% in 2020. Tariffs will increase in line with the tariff formula, which includes return on remunerated capex and is linked to the consumer price index, rising by 1.2%, 1.3%, and 1.6%, respectively, in these years.
- Overall revenues from airports will rise by 1%-2% in 2018, 7%-8% in 2019, and 6% in 2020, after 30% growth in 2017 due to the consolidation of Airports De La Cote d'Azur. We expect flat traffic volumes in 2018 in Aeroporti di Roma, affected by lower passenger numbers from Alitalia, followed by traffic growth recovery, as a result of the positive effects of the Terminal 3 and Terminal 1 extensions at Fiumicino, which will also boost commercial revenues. We expect revenues from ACA to rise by around 5% annually in future years.
- Brazilian traffic volumes will grow in line with our GDP forecasts, but revenues will decline in 2018 due to local currency devaluation relative to the euro. We expect revenue growth to resume in 2019 and 2020 at a low-single-digit percentage rate.
- In Chile, traffic will increase by a multiple of 2.0x of Chilean GDP in 2018 and 1.0x thereafter, but currency depreciation relative to the euro will limit revenue growth to a single-digit percentage rate in 2018-2019. We forecast revenue growth will pick up in 2020.
- Acquisition of 15% stake in Getlink and the dividend from equity affiliates from Getlink and Hochtief.

Combined group

- Revenues, EBITDA, and consolidated Abertis debt as per our forecasts for Abertis. We exclude the dividend that Abertis pays to Atlantia as an intercompany transaction.
- We have not yet assumed a merger between Abertis and the SPV, as planned by the new owners. This may affect the way we analyze the debt issued by the SPV, but is neutral to Atlantia's credit ratios.
- Potential synergies targeted by Atlantia, primarily at the Abertis level. The synergies derive from improving operating costs, integration of holding company functions in Italy, Brazil, and Chile, and in-sourcing and cross-selling of digital payment services through the Telepass platform.
- Transaction closes toward the end of 2018. Transaction, disposal, and integration costs mean that 2018 ratios are not representative.
- Capital expenditure (capex) for the combined group of about €3.5 billion-€3.7 billion in 2019-2020.
- Atlantia's dividend per share (DPS) increase by 30% on the 2016 DPS pay

out, as a takeover premium on top of 10% annual growth.

In our view, Atlantia has high exposure to domestic country risk, but we still rate the group one notch above the 'BBB' sovereign credit rating on Italy. This is because, based on our stress-test scenarios, we believe there is a reasonable likelihood that Atlantia would be able to withstand a sovereign default.

## **Liquidity**

We assess Atlantia's liquidity on a stand-alone basis because we do not expect Atlantia to have access to Abertis' cash flows until late 2018. On a stand-alone basis, Atlantia's liquidity is adequate based on our forecast that sources will cover uses by more than 1.2x over the next 12 months. Atlantia's liquidity is supported by its well-established and solid relationships with banks, generally high standing in the capital markets, and prudent risk management. We recognize that Hochtief--the formal buyer of Abertis until the implementation of the SPV structure--has slightly over €18.1 billion of transitional facilities available until April 13, 2019, to cover the takeover price.

Principal liquidity sources over the 12 months to March 31, 2019 include:

- Available cash of €5.8 billion (before repaying €1.06 billion for the acquisition of Getlink);
- Positive FFO of €2.6 billion; and
- Undrawn bank facilities available to draw within the next 12 months totaling €2.2 billion; and a €4.0 billion nonrevocable binding commitment by banks, with a final maturity date of Feb. 28, 2023, to fund the equity contribution for Abertis and the acquisition from ACS of the minority stake in Hochtief.

Principal liquidity uses over the same period include:

- Debt maturities of €3.5 billion (out of which €1.06 billion for the acquisition of Getlink has been repaid in May 2018);
- Capex of €1.3 billion;
- Acquisitions of €6.0 billion out of which €3.5 billion equity investment in the SPV and up to €2.5 billion for the Hochtief stake; and
- Total dividends paid up to €1.3 billion.

## **Outlook**

The stable outlook reflects our expectation that despite Atlantia's significant equity contribution of €6 billion for the acquisition of Abertis and a stake in Hochtief, we anticipate the consolidated group's credit ratios to remain about 13%-14% over 2019-2020. The impact of the acquisition will be partly mitigated by the likely €2.2 billion from the disposal of Abertis'

stakes in the telecom businesses Cellnex and Hispasat. We see this as feasible in the short term. Furthermore, we anticipate strong growth in Atlantia and Abertis' core toll road and airport concessions, as well as some resulting synergies from integration of operations, especially in Latin America and Italy. We see limited ratings headroom under our base-case forecast.

### **Downside scenario**

We could lower the ratings by one notch if Atlantia's core credit metrics were to continue to deteriorate below 12% following the Abertis takeover. This could occur, for example, if:

- The disposals of Cellnex and Hispasat are delayed or the price for Hispasat is lower than management expects;
- Abertis ends up paying a higher dividend or its capex is more aggressive than we assume in our base case. To a lesser extent, downside could arise if synergies do not materialize; or
- Atlantia is required by the shareholder agreement to commit contingent equity support to Abertis in case of a deterioration of Abertis' credit quality.

The effect on the rating will depend on whether Atlantia intends to mitigate the pressure on its credit ratios by additional divestments or by revising its financial policy.

### **Upside scenario**

Given the consolidated group's significant leverage, we see rating upside as limited at this stage.

## **Ratings Score Snapshot**

Issuer credit rating: BBB+/Stable/A-2

Business risk: Strong

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

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

Anchor: a-

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: Negative (-1 notch)

Stand-alone credit profile: bbb+

## **Issue Ratings--Subordination Risk Analysis**

Atlantia's capital structure consists of €17.5 billion of debt, of which only €2.8 billion is issued at the Atlantia level.

- 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+', the same as the issuer credit rating.

We do not anticipate changing the notching of Atlantia's unsecured debt once the takeover process is complete, and the final capital structure, including SPV debt, is known.

## **Related Criteria**

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- 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
- 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: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: 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 And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

## Related Research

- Spanish Civil Engineering Firm ACS Outlook Revised To Stable On Joint Acquisition Of Abertis; 'BBB/A-2' Ratings Affirmed, May 15, 2018
- Hochtief AG Outlook Revised To Stable On Parent Company's Joint Acquisition Of Abertis; 'BBB/A-2' Ratings Affirmed, May 15, 2018

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
Atlantia SpA Autostrade per I'Italia SpA Aeroporti di Roma SpA Corporate Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
Atlantia SpA Senior Unsecured	BBB	BBB
Senior Unsecured	BBB+	BBB+
Aeroporti di Roma SpA Senior Unsecured	BBB+	BBB+
Autostrade per I'Italia SpA Senior Unsecured	BBB+	BBB+

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action

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