



Press Release

FITCH PLACES AUTOSTRADA PER L'ITALIA ON RATING WATCH EVOLVING

Rome, 17 July 2020 – The rating agency Fitch, in relation to the recent developments communicated on 15 July after the Cabinet of Minister, placed Autostrade per l'Italia “BB+” Rating on Rating Watch Evolving. Attached the full report of the rating agency.

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17 Jul 2020 | Rating Watch

Fitch Revises Rating Watch on Atlantia, ASPI and AdR to Evolving

Fitch Ratings-Madrid-17 July 2020:

Fitch Ratings has revised the Rating Watch on Atlantia SpA's EUR10 billion euro medium-term note (EMTN) programme's 'BB' rating to Evolving (RWE) from Negative (RWN). Fitch has also revised the Rating Watch on Autostrade per l'Italia Spa's (ASPI) and Aeroporti di Roma's (AdR) Long-Term Issuer Default Ratings (IDRs) of 'BB+' and 'BBB-', respectively, to Evolving from Negative.

ASPI and AdR are infrastructure assets currently managed and owned by Atlantia.

A full list of rating actions is below.

RATING RATIONALE

The rating actions follow the recent preliminary agreement between the group and the national government to settle the dispute on the ASPI concession early termination. We understand that negotiations are still ongoing and parties have yet to sign a binding agreement before the government formally withdraws the dispute opened in the aftermath of the Morandi Bridge collapse in August 2018. The RWE reflects the still high uncertainties about the evolution of the situation.

We could take positive rating action on ASPI, Atlantia and AdR if a memorandum of understanding is signed on the basis on the terms highlighted in the recent statement from the Italian Council of Ministers. The focus of our analysis will be the targeted capital structure of the issuers, their potential linkages with the sponsor (ASPI) and parent company (AdR) as well as the quality from a creditor standpoint of the new concession rules (ASPI). While the deal could be agreed within weeks, it could take several months before the transaction is ultimately closed.

Conversely, downward rating pressure will resume if the agreement is not being finalised, with knock-on risks of an early termination of the ASPI concession. This would likely expose the group to a liquidity event triggered by the mismatch between the time the ASPI concession is revoked and the time the indemnity is being paid, as amended by the highly controversial Milleproroghe decree, converted into law in February 2020.

Fitch will resolve the RWE once the government formally withdraws its proposal to revoke the ASPI concession and Fitch finalises its assessment of the companies' business risk profile and ASPI's new governance structure. This could take place beyond the next six months.

KEY RATING DRIVERS

Agreement Reached on ASPI Compromise

On 15 July, the Italian government and ASPI/Atlantia reached a preliminary agreement to settle an ongoing two-year dispute over alleged gross negligence from ASPI in the management of its toll road network, following the collapse of a bridge managed by the company in 2018. The event caused 43 casualties.

The agreement is mainly centered on four key pillars and the government said it will only formally withdraw its proposal to revoke the concession once the agreement is finalised.

- i) Settlement after Genoa Incident. Parties agreed that ASPI would assume sole responsibility for meeting expenditure totaling EUR3.4 billion in tariff discounts and additional maintenance/capex across its network. This is EUR0.5 billion more than initially offered by the company in March 2020.
- ii) Mutually agreed application of the Transport Authority (ART) tariff mechanism. ASPI accepted a revision of tolls paid by users of ASPI's network, reducing planned index-linked tariff hikes and therefore future cash flows, which will now be capped at 1.75% per year.
- iii) Amendments to the ASPI Concession. Parties will agree on a change to some terms of the ASPI concession, notably the one on concession revocation for concessionaire fault, which should mirror in principle the provision of art. 35 of the Milleproroghe. Furthermore, there will also be increased penalties for the concessionaire in the event of minor violations, and ASPI will withdraw lawsuits against the government filed during the two-year dispute.
- iv) New ASPI Governance. Crucially, the statement from the Italian Council of Ministers envisages that Atlantia will give up its 88% stake in ASPI through one of two options: either a capital increase, stake sale, demerger and IPO, or a direct sale of its stake. The equity value the parties will attribute to ASPI remains unclear at present.

The first option would see state lender Cassa Depositi e Prestiti (CDP, BBB-/Stable) take a relevant stake in ASPI via a capital increase injecting fresh capital in ASPI. Institutional investors approved by CDP would buy ASPI shares from Atlantia. As part of this plan, ASPI would be demerged from Atlantia and its shares directly attributed to Atlantia shareholders. ASPI's shares would then be floated on the stock market via an IPO, ultimately resulting in ASPI becoming a public company where, based on publicly available information, Atlantia's current shareholders would get around 35% of ASPI shares while CDP, new institutional investors and former ASPI minority shareholders would get around 65%.

Under the second option, Atlantia offered to sell its entire stake to CDP and co-investors. Under this scenario, Atlantia's current shareholders would not keep any shares in ASPI and there would be no need for an IPO.

Scenario Analysis - Atlantia Group and HoldCo

On the assumption the agreement is finalised, upon closing of the transaction the new Atlantia group would be a smaller infrastructure player with materially lower cash flow generation (around EUR2.2 billion on an EBITDA-adjusted basis) It would also have a smaller and less diversified portfolio of assets with a shorter EBITDA-weighted average concession tenor (from 14 years to 12 years at December 2019).

We note that Abertis's business risk profile would effectively drive Atlantia's as the Spain-based group would represent around 75% of consolidated EBITDA - from around 50% at present. Atlantia's holdco net debt - around EUR4.8 billion at March 2020, pro-forma to account main transactions occurred until May - as well as restrictions embedded in Abertis shareholder agreement would add to our analysis of the group and holdco credit profile, as will Atlantia's balance-sheet flexibility to efficiently manage its target capital structure.

In this scenario, we expect the cross-guarantee mechanism currently in place between Atlantia and a portion of ASPI debt would be removed and/or the guaranteed debt repaid in advance.

Scenario Analysis - ASPI

Upon transaction closing, ASPI would be delinked from Atlantia. Its credit profile would be driven by Fitch's qualitative assessment of the revenue volatility, the new regulatory arrangements and projected leverage in the context of the new shareholders' target capital structure and dividend policy.

Based on the statement from the Italian Council of Ministers, ASPI would likely be highly capitalised but will have to undertake a sizeable investment plan to revamp the network, also in the context of an increase in infrastructure spending to ramp-up the Italian economy.

The overall credit profile would also have to be assessed in the context of the linkage with majority shareholder CDP - rated under Fitch's Government-Related Entity Rating Criteria - and its co-investors, as well as the linkage to the Italian economy, which could ultimately constrain the rating.

Scenario Analysis - AdR

Absent changes to AdR's governance, its rating would continue to be driven by Atlantia's consolidated credit profile.

Atlantia almost fully owns AdR and governs its financial and dividend policy. AdR's debt does not benefit from material ring-fencing and its concession agreement provides limited protection against material re-leveraging of the asset.

Scenario Analysis - ASPI Concession Revocation

If the agreement among ASPI/Atlantia and the Italian government is not reached, the government will likely re-consider a revocation of the ASPI concession.

In this case, according to the rules set out in the Milleproroghe, ASPI's network operations would be transferred to a new operator and the indemnity calculated as the sum of investments realised by the concessionaire net of depreciation. According to the new rules, the validity of the revocation would no longer be subject to the payment of the indemnity and this would likely result in a liquidity event for Atlantia.

In this case, we understand ASPI intends to immediately challenge the legality of the revocation in court requesting an injunction, i.e. a suspension of the validity of the decree until the court case is concluded. If the court accepts ASPI's request for an injunction, ASPI would continue to operate the concession until the court finally decides on the dispute. Conversely, if the court rejects ASPI's request, the operations would be transferred to a new operator and if a timely payment of an adequate indemnity is not forthcoming, the Atlantia group would be exposed to a liquidity event.

Impact on Abertis

Fitch has not taken rating action on Abertis (BBB/Negative) as we believe the governance structure of the Spain-based toll road operator adequately insulates Abertis from Atlantia at the current rating, i.e. two notches above the 'BB+' consolidated rating.

If the Italian government formally withdraws its proposal to revoke the concession once the agreement is finalised, Abertis's rating would be unchanged and continue to be rated above Atlantia's consolidated rating. This is premised on Fitch's 'Weak' assessment of the legal and operational linkages between Atlantia's consolidated profile and Abertis under its Parent and Subsidiary Linkage Criteria.

Conversely, should the concession be ultimately revoked, Fitch would have to re-assess Atlantia-and Abertis's linkage as per its criteria and potentially de-link Abertis from Atlantia.

We believe Atlantia's ability to extract cash from its stronger subsidiary is impaired by the presence of a large minority shareholder (ACS) whose consent is required for M&A and any change in the dividend policy, which also has to remain compliant with a minimum investment-grade rating of Abertis. We also note that the 50% ownership in Abertis materially reduces the amount of cash Atlantia may upstream from the asset since the remaining half would be distributed to minority shareholders. We may reassess our approach if Atlantia opts to and manages to re-leverage Abertis and extract higher than expected cash.

ESG - Governance

Atlantia has an ESG relevance score of '4' for Management Strategy, as the collapse of the Morandi bridge in August 2018 has heightened financial and regulatory risks, and are relevant to Atlantia's rating in conjunction with other factors.

RATING SENSITIVITIES

Atlantia/ASPI

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

- A formal agreement between ASPI/Atlantia and the Italian government clearly leading to a formal withdrawal of the dispute opened on 16 August 2018.
- In case of concession renegotiation, Atlantia/ASPI's consolidated rating will be driven by the expected new group's business risk and leverage profile.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Failure to reach an agreement on the ASPI dispute would likely escalate tensions between parties and pave the way to an outright revocation of the ASPI concession, which could lead to a multiple-notch downgrade, especially if there are doubts on the size and timely payment of compensation.
- Change of the terms of the preliminary agreement, for example as a result of further developments in the ongoing investigation of the bridge collapse.

AdR

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

- Positive rating action on Atlantia.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Negative rating action on Atlantia.

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>].

TRANSACTION SUMMARY

Atlantia is the world's largest toll road operator with approximately 14,000 km of network under management predominantly located in Spain, Italy France, Chile and Brazil. The group has also exposure to airports in Rome and Nice.

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.

ESG Considerations

Atlantia S.p.A.: Management Strategy: 4

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of 3
- 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.

Autostrade per l'Italia SpA; Long Term Issuer Default Rating; Rating Watch Revision; BB+; RW: Evo
; Short Term Issuer Default Rating; Rating Watch Revision; B; RW: Evo
----Autostrade per l'Italia SpA/Debt/1 LT; Long Term Rating; Rating Watch Revision; BB+; RW: Evo
Atlantia S.p.A.
----Atlantia S.p.A./Debt/1 LT; Long Term Rating; Rating Watch Revision; BB+; RW: Evo
----Atlantia S.p.A./Debt/2 LT; Long Term Rating; Rating Watch Revision; BB; RW: Evo
Aeroporti di Roma S.p.A; Long Term Issuer Default Rating; Rating Watch Revision; BBB-; RW: Evo
; Short Term Issuer Default Rating; Rating Watch Revision; F3; RW: Evo
----/Debt/1 LT; Long Term Rating; Rating Watch Revision; BBB-; RW: Evo

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Additional information is available on www.fitchratings.com**Applicable Criteria**[Airports Rating Criteria \(pub. 24 Mar 2020\)_\(including rating assumption sensitivity\)](#)[Infrastructure and Project Finance Rating Criteria \(pub. 24 Mar 2020\)_\(including rating assumption sensitivity\)](#)[Parent and Subsidiary Rating Linkage \(pub. 27 Sep 2019\)](#)[Short-Term Ratings Criteria \(pub. 06 Mar 2020\)](#)[Toll Roads, Bridges and Tunnels Rating Criteria \(pub. 26 Jun 2020\)_\(including rating assumption sensitivity\)](#)**Applicable Model**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

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