Comunicato Stampa

AUTOSTRADE PER L'ITALIA RITORNA INVESTMENT GRADE
STANDARD & POOR'S ASSEGNA RATING 'BBB-' CON OUTLOOK POSITIVO

Roma, 7 giugno 2022 - L'agenzia di rating S&P Global Rating, a valle del completamento dell'acquisizione dell'88,06% del capitale sociale della Società da parte di Holding Reti Autostradali, ha rivisto a 'BBB-' il merito di credito di Autostrade per l'Italia che ritorna Investment Grade, l'outlook sul rating è Positivo.

In allegato la nota completa dell'agenzia di rating.

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

Rapporti con i Media
e-mail: ufficiostampa@autostrade.it

www.autostrade.it

Research Update:

Autostrade per l'Italia SpA Upgraded To 'BBB-' Following Completion Of Change Of Control; Outlook Positive

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PRIMARY CREDIT ANALYST

Elena Lampugnani
Milan
(39) 02-72111-200
elena.lampugnani
@spglobal.com

SECONDARY CONTACT

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

ADDITIONAL CONTACT

Corporate and IFR EMEA
RatingsCorpIFREMEA
@spglobal.com

Rating Action Overview

- The disposal of Atlantia SpA's 88.06% stake in Autostrade per l'Italia SpA (ASPI) to a consortium led by Cassa Depositi e Prestiti SpA (CDP; BBB/Positive/A-2) settles the dispute regarding the ASPI concession that arose after the Genoa bridge collapsed in August 2018. This removed the risk that the concession might be terminated early, thus improving the company's regulatory and operating environment.
- Although we expect ASPI to generate solid funds from operations (FFO) to debt of 17%-19% over 2022-2024, discretionary cash flow (DCF) will remain negative because of heavy investments. We will monitor the capital structure and dividend policy, which are not yet fully disclosed.
- The change of control makes ASPI a government-related entity (GRE) under our criteria because the Italian government indirectly owns 45% of the asset via CDP. As a national strategic asset critical to Italy's trade-driven economy, we see a high likelihood that ASPI would receive extraordinary government support if necessary.
- We revised upward ASPI's stand-alone credit profile (SACP) to 'bb+' from 'bb' and raised our issuer and issue rating by two notches to 'BBB-'. We also raised our short-term rating on ASPI to 'A-3'.
- The positive outlook mirrors that on Italy (unsolicited, BBB/Positive/A-2) because we see a high likelihood of extraordinary government support.

Rating Action Rationale

In our view, the acquisition of ASPI by CDP-led consortium strengthens its regulatory and operating environment and removes the company's liquidity risk. After Atlantia sold its 88.06% stake in ASPI, the settlement agreement with the Italian Ministry of Infrastructure and Sustainable Mobility came into force. This removed the risk that the ASPI concession could be terminated early, thus triggering early repayment of its financial debt. It also strengthened the regulatory and operating environment in which ASPI operates.

ASPI's new economic and financial plan (EPF) and the shift to a regulated-asset base (RAB) mechanism makes its future capital expenditure (capex) and investment remuneration more predictable. It will receive a 7.09% return on new eligible investments in the current regulatory period and 13.87% on the existing assets and investments already agreed by end-2019, as estimated under the original terms of the ASPI concession, through annual tariff increases set at 1.61% for 2020-2024. This may provide stronger protection than other European toll road operators in the long term, should downside scenarios materialize, such as weaker-than-anticipated traffic.

That said, because the tariff is reset every five years, in the short term, it won't be adjusted in line with inflation. This gives weaker protection than peers that have annual index-linked tariffs. At the same time, we view as positive that the concession has a longer maturity than European rated peers. ASPI's concession lasts until December 2038, while key French single-asset rated concessions last until 2031-2036. The third addendum to the concession has amended the terms of ASPI's original concession, including a reduction in the termination payment due to ASPI if the concession is revoked, in line with Law Decree n.162/2019 (Milleproroghe). Although this is weaker than the original contractual terms, in our view, it is not uncommon for toll road concessions to calculate termination payments based on the net value of the assets, rather than the net present value of future cash flows as ASPI's original concession did.

Our assessment of ASPI's financial risk reflects negative DCF expected in light of its large investment plan agreed with the grantor. Strong traffic recovery, reaching 95% of 2019 levels in 2022, should support solid FFO-to-debt of about 17%-19% over 2022-2024. Nevertheless, ASPI should complete €14.1 billion new investments by 2038, peaking in 2023-2026 at over €1.5 billion a year. The program includes line widenings, network modernization, and large single projects such as the Genoa and Bologna bypasses. Our base case assumes that the capex required combined with a 100% dividend payout will increase the company's adjusted net debt by about €1 billion per year in 2022-2024. Although we understand the shareholder agreement is targeting an investment-grade rating, we require greater visibility on dividend policy and capital structure before raising the SACP to investment-grade.

Following the settlement agreement, we see limited legacy risks from the collapse of the Genoa bridge. Direct civil damages have been already paid and civil claims by local authorities have been satisfied by including specific projects related to the Region of Liguria into the €3.4 billion settlement agreement, of which €1.4 billion had been spent at year-end 2021. Also, on March 16, 2022, the Genoa public prosecutor agreed to the €29 million settlement that ASPI had requested, and this covered the risk of fines and damages for the company. Ongoing criminal investigations are just into specific individuals. As a result, our adjusted debt no longer includes provisions for risks and charges, which amounted to €2 billion on Dec. 31, 2021. Instead, we reflect the use of provisions in our capex forecasts and deduct annual tariff discounts from projected revenue. The €3.4 settlement amount included €509 million for annual tariff discounts over 2020-2026.

The change of control leads us to regard ASPI as a GRE, given the close relationship between CDP and the Italian government. CDP's main equity investment holding, CDP Equity SpA, which is 100%-owned by CDP, indirectly holds a 45% stake in ASPI, through a 51% stake in the new company Holding Reti Autostradali SpA (HRA). This makes CDP the largest shareholder, followed by Blackstone Infrastructure Partners (BIP) and Macquarie Asset Management (MAM), which each have an indirect stake of about 21.6% in ASPI.

The collapse of the Genoa bridge in August 2018 prompted the government to prioritize the safety of the Italian toll road network. CDP, which is majority-owned by Italy's Ministry of Economy and Finance, made a €4.2 billion equity investment in ASPI (out of €8.2 billion total acquisition price), equivalent to 0.2% of the country's GDP. This indicates the importance of the role the company plays for the Italian government. Over the next decade, ASPI's heavy investments are a priority to the government, triggering an important reputational risk. In our opinion, CDP's involvement also improves the stability and predictability of ASPI's capital structure. We do not anticipate that the Italian state will sell its stake in ASPI. That said, peers such as the Slovenian motorway network operator DARS d.d. (A+/Stable/A-1) or the Italian integrated rail and road group Ferrovie dello Stato Italiane SpA (BBB/Positive) have a closer link with their respective governments, being fully and directly owned by them.

The Italian economy relies more heavily on toll roads than other European countries, particularly for freight transportation. Transportation, including storage, accounts for 5.5% of Italy's economic output, by gross value added. Italy's road network carries 55% of its merchandise freight. Hence, the motorway infrastructure is, in our view, an essential pillar for the Italian economy and the acquisition is fully aligned with CDP's mission of supporting Italy's strategic infrastructure. As laid out in the €191.5 billion 2021-2026 Piano Nazionale di Ripresa e Resilienza, authorities support a large-scale investment plan to digitalize, upgrade, and expand rail and road networks to improve road connections with key country trading partners such as France and to deepen the integration of all Italian regions--including the Mezzogiorno--into the national economy.

We expect CDP to exercise strong influence over ASPI's strategy and business plan, although the complex governance structure and strong shareholder agreement will impose certain limitations. The shareholder agreement allows CDP to appoint six of ASPI's 14 board members, including the CEO and the chair. If a member of the consortium intends to transfer all or part of its shares to a third party that is an industrial operator, the transfer is subject to CDP's approval. That said, CDP's control over ASPI is subject to certain limitations. We understand that BIP and MAM would need to approve key matters such as changes to ASPI's dividend policy or capital structure, regulatory interactions, potential mergers or acquisitions or IPO transactions, and share capital increases. In particular, we believe this could limit CDP's ability to provide timely extraordinary support to ASPI, if not through a nonproportionate shareholder loan, if an event of default occurred or ASPI needed liquidity, as this would only require simple majority. BIP and MAM would also appoint ASPI's CFO, subject to a consultation with CDP. The structure also includes minority shareholders that did not exercise their tag-along rights but have maintained their 11.94% stakes in ASPI and their right to appoint two board members.

The A3 concession, operated by Autostrade Meridionali (SAM), which is 58.98% owned by ASPI, has come to an end. We view this as credit neutral given that it makes a relatively small contribution of about €30 million to ASPI's consolidated EBITDA. The overall effect is a €188 million net cash inflow to SAM, calculated as the difference between the €440 million takeover right--calculated as the carrying amount of unamortized capex during the final years of the concession--and the amount of outstanding debt. The new concessionaire, Salerno Pompei Napoli SpA, is taking over the 52-kilometers-long A3 motorway 10 years after the concession actually expired on Dec. 31, 2012.

Outlook

The positive outlook mirrors that on Italy (BBB/Positive/A-2) and our opinion that the company retains a high likelihood of extraordinary support from Italy in case of financial distress.

The 'bb+' SACP signals our expectations that the company will maintain a solid competitive position, apply an annual tariff increase under the plan approved by the grantor, and continue its swift recovery to pre-pandemic traffic levels, while delivering its capex plan.

Downside scenario

We would revise the outlook to stable should we take a similar action on Italy. Given our view that there is a high likelihood of extraordinary support, we see very limited downside risk to the rating. A downgrade to 'BB+' would require ASPI's SACP to be revised down by two notches to 'bb-'.

This could occur if it pursued a more aggressive financial policy than anticipated, resulting in deeper negative DCF and higher leverage, such that FFO to debt drops toward 6%. We do not expect a deterioration of the operating environment to lead to a downgrade on ASPI, considering the RAB-based earnings profile.

Upside scenario

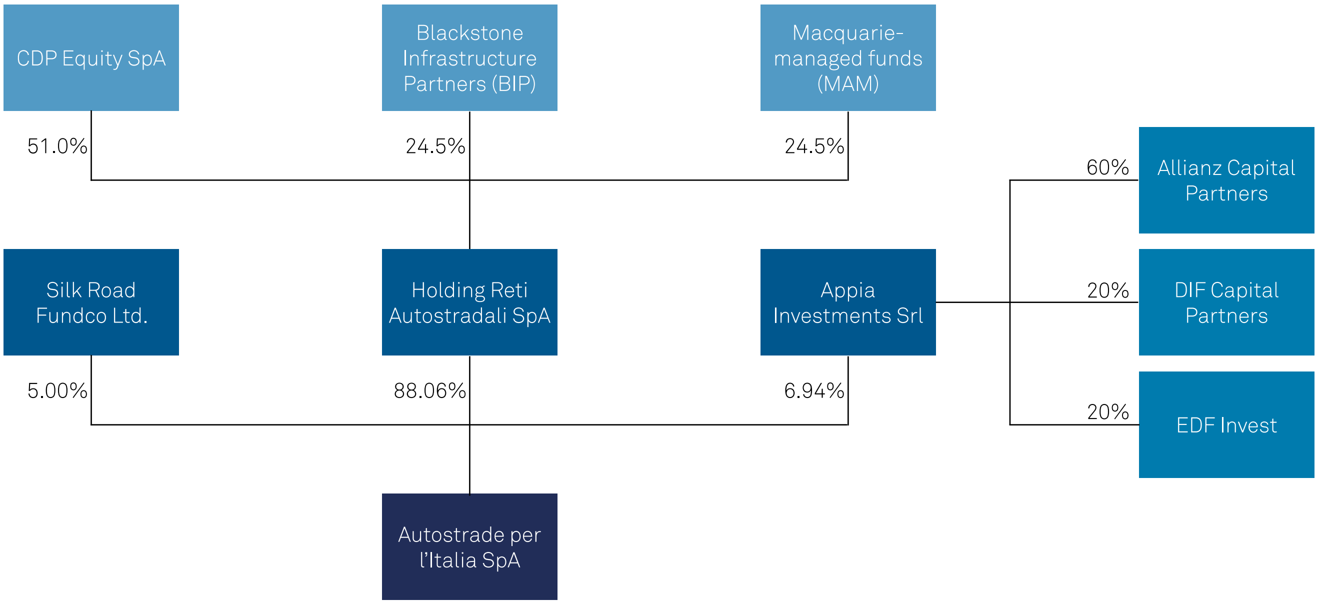
We could upgrade ASPI if we raised the sovereign rating on Italy to 'BBB+', given our assessment of the high likelihood of extraordinary government support, all else being equal. This would occur if Italy's economy performs better than we expect, with growth outpacing historical levels.

Although it would not affect the rating, we could revise the SACP upward by one notch to 'bbb-' if we see evidence that dividend distributions and negative DCFs are as forecast and the capital structure is commensurate with maintaining FFO to debt solidly above 13%.

Company Description

ASPI is headquartered in Rome and operates one of the largest toll road networks in Europe (2,855 km, representing about 50% of the total Italian network), under a concession that will last until December 2038. In addition to operating this concession, the company owns stakes in several other smaller Italian motorway concessionaires and provides engineering, research and designing, and administrative services.

Autostrade per l'Italia SpA Organizational Structure



Source: S&P Global Ratings.

Our Base-Case Scenario

Assumptions

- Traffic fully recovering to pre-pandemic levels by 2023, while remaining about 5% below 2019 levels in 2022, given the effect of some restrictions related to the Omicron variant in the first months and the end of the A3 concession. Going forward, we consider Italy's GDP growth to be a proxy for traffic growth. It is forecast to increase by 1.6% in 2024 and 0.8% in 2025.
- A 1.61% annual tariff increase applied, including recovery of the net losses due to the pandemic between March and June 2020, as per the EFP agreed with the grantor.
- Overall revenue growth of about 7% in 2022 and 2023, moderating toward 2.5% thereafter, reflecting the combination of traffic growth and the application of contractual tariff increases. About €400 million tariff discounts applied as per settlement agreement in 2022-2026 are deducted in our adjusted revenue.
- Operating costs impaired by the expected increase in inflation and the cost of raw materials, considering our forecast of Italy's consumer price index (CPI) at 6.0% in 2022, 2.6% in 2023, and 1.8% in 2024.
- Capex of about €5.6 billion over the next three years, mostly debt-funded, including nonremunerated investments (€412 million in 2022) and additional expenses for Genoa and the Liguria region as per the settlement agreement.
- A dividend policy to distribute about 100% of the previous year's net income, which implies dividends of about €800 million-€900 million per year.

- HRA is a debt-free vehicle as the acquisition will be funded by the consortium outside the ASPI group, with no shareholder loan instrument introduced at the level of either ASPI or HRA.

Key metrics

Autostrade Per l'Italia SpA--Key Metrics*

	--Fiscal year ended Dec. 31--				
Mil. €	**2020a**	**2021a**	**2022e**	**2023f**	**2024f**
Revenue	2,998	3,785	4,000-4,200	4,200-4,400	4,300-4,500
EBITDA	1,880	2,470	2,500-2,700	2,700-2,900	2,700-2,900
EBITDA margin (%)	62.7	65.3	64.0-66.0	64.0-66.0	64.0-66.0
Debt	11,340	9,462	10,300	11,300	12,300
Debt to EBITDA (x)	6.0	3.8	4.0-4.5	4.0-4.5	4.0-4.5
FFO to debt (%)	11.9	21.6	17.0-19.0	17.0-19.0	16.0-18.0
FOCF to debt (%)	(2.0)	3.6	<0	<0	<0

*All figures adjusted by S&P Global Ratings. §2021 year-end debt consists of net financial debt of €9,336 million, with the key adjustments being €93 million in post-employee benefits, €33 million in finance leases. a--Actual. e--Estimate. f--Forecast.

Liquidity

We have revised ASPI's liquidity to adequate, reflecting dissipated risk of early repayments of ASPI debt following the settlement agreement. Our assessment indicates that sources are expected to cover uses by more than 1.2x in the 12 months to March 31, 2023. Moreover, the company enjoys good relationships with banks and has demonstrated its ability to access capital markets by issuing a €1 billion bond in January 2022, even though the change of control had not yet been finalized.

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

- Total unrestricted available cash of about €2.6 billion, including the receipt of €410 million take-over right recognized to SAM on April 1, 2022;
- Committed undrawn facilities amounting to €1.45 billion, including a €750 million sustainability-linked revolving credit facility (RCF) maturing in 2026 and €700 million available under the €1.1 billion term loan facility provided by CDP maturing in 2027; and
- Positive cash FFO of about €1.5 billion-€1.6 billion.

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

- Debt repayment of €1.1 billion, including the reimbursement of SAM's €245 million facility.
- Capex of about €1.8 billion; and
- Distributions to shareholders of about €800 million-€900 million.

Covenants

ASPI is required to maintain a minimum debt service coverage ratio of 1.2x under its concession. Also, we expect the company to maintain adequate headroom on financial covenants within certain bank facilities.

Environmental, Social, And Governance

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

Following the settlement agreement with the government and the Genoa prosecutor, social factors now have a moderately negative influence on our credit rating analysis on ASPI. Almost four years after the collapse of the Genoa bridge, we believe the acquisition by the state-owned CDP-led consortium removes the risk that the concession will be terminated and the related liquidity risks. Thanks to the settlements in force, we see limited legacy risks. Nevertheless, increased scrutiny of the safety of the network and the obligation to deliver substantial capex will weigh on the company's cash flow generation over the next five to seven years. More generally, we note that ASPI and the broader European toll road sector have almost recovered to pre-pandemic volumes (7.4% down on 2019 levels in the year to April), after traffic decreased by 27% in 2020 following pandemic-related lockdowns.

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 Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2021, the company had about €11 billion of senior unsecured debt, of which €312 million was issued by ASPI's subsidiaries (including SAM's debt, repaid in April 2022).

Analytical conclusions

We rate the senior unsecured debt issued by ASPI at 'BBB-', the same level as the issuer credit rating. This is because the amount of external debt issued by ASPI's subsidiaries is limited and we consider there would be limited contractual subordination at the ASPI parent level.

Ratings Score Snapshot

Issuer credit rating	BBB-/Positive/A-3
Business risk:	Satisfactory
Country risk	Moderately high
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)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile:	bb+
Related government rating	Italy, unsolicited, BBB/Positive/A-2
Likelihood of government support	High (+1 notch)

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

- Health and safety

Related Criteria

- 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- 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 | 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: Principles Of Credit Ratings, Feb. 16, 2011

- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Atlantia And ASPI 'BB' Ratings Affirmed And Outlooks Remain Positive On Expected Completion Of ASPI Disposal, Jan. 19, 2022

Ratings List

Upgraded

	To	From
Autostrade per l'Italia SpA		
Issuer Credit Rating	BBB-/Positive/A-3	BB/Positive/B
Senior Unsecured	BBB-	BB
Recovery Rating	NR	3(65%)