Press Release

STANDARD & POOR'S CHANGES TO DEVELOPING THE OUTLOOK OF AUTOSTRADE PER L'ITALIA RATING

Rome, 12 August 2020 – The rating agency Standard & Poor's, in relation to the recent developments communicated on 15 July after the Cabinet of Minister, affirmed the BB- rating of Autostrade per l'Italia and changed the outlook to Developing from negative; attached the full report of the rating agency.

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Research Update:

Atlantia, ASPI, And Aeroporti di Roma Outlooks Revised To Developing And Ratings Affirmed On Potential ASPI Settlement

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Rating Action Overview

- We believe the Italian government's framework for a settlement proposal with toll road operator ASPI, announced by the Council of Ministers on July 15, 2020, and the alternative proposals regarding the divestment from ASPI share capital set out by its parent Atlantia SpA on Aug. 4, 2020, is a positive step toward settlement of the dispute over the ASPI concession following the Genoa bridge collapse on Aug. 14, 2018.
- In our view, the framework for an agreement reduces the risk that the ASPI concession will be terminated and could, if finalized along its current lines, result in positive rating actions on Atlantia and ASPI, since it would remove the liquidity and legal risks that a termination could have on the two companies.
- Under the proposals, Atlantia would divest ASPI, which would no longer qualify as a core subsidiary, meaning potential rating consequences for each company could differ. This is because the complexity of the proposed divestiture and the number of stakeholders involved makes the respective rating outcomes difficult to predict at this stage.
- Furthermore, until an agreement is finalized the termination of the concession cannot be ruled out, and although we see it as less likely, it continues to underpin potential downside risk to the ratings.
- We are therefore affirming our 'BB-/B' long- and short-term issuer credit ratings on Atlantia and its core subsidiary ASPI and our 'BB+/B' ratings on Atlantia's subsidiary Aeroporti di Roma (AdR) and revising the outlooks on the three companies to developing.
- The developing outlook indicates that we could take a positive rating action on Atlantia, ASPI, and as a consequence AdR, if a settlement agreement is reached regarding the ASPI concession, but, until this happens, downside risk to the ratings remains, notably related to the risk the concession is terminated.

Rating Action Rationale

We expect a potential settlement between ASPI and the grantor could lead to positive rating actions on Atlantia and ASPI, but the extent may differ for each company. We believe the Italian government's preliminary agreement with ASPI, announced on July 15, 2020, and alternative proposals set out by Atlantia SpA on Aug. 4, 2020, could lead to a settlement of the dispute on serious breaches of the ASPI concession, which started with the Genoa bridge collapse on Aug. 14, 2018. The content, timing, and procedures of the settlement remain unclear at this stage. Nevertheless, we understand that a settlement would remove the risk that the ASPI concession is terminated and consequently the liquidity and legal risks that triggered our multi-notch downgrade on ASPI and its parent Atlantia on Jan. 13, 2020 (see "Atlantia and Subsidiaries Downgraded On Increased Concession Termination Risk For ASPI; Ratings on Watch Negative," published on RatingsDirect). Pending a final agreement, the risk the ASPI concession is terminated cannot be ruled out and, although we see it as less likely, it continues to underpin potential downside risk to the ratings. Under the proposals, a change of control would occur at ASPI (currently 88% owned by Atlantia), which would ultimately cease to be part of Atlantia group. Given the complexity of the divestiture and the large number of stakeholders involved, the outcome remains difficult to predict at this stage. Nevertheless, we anticipate that such a settlement would mean ASPI no longer qualifies as a core subsidiary of Atlantia group and our ratings on the two companies would reflect their respective credit qualities.

In case of a settlement, our rating on ASPI would primarily depend on its credit metrics, the supportiveness of the regulatory framework, and its ability to maintain at least adequate liquidity. We understand that a new Economic and Financial Plan (PEF) has been submitted by ASPI to the grantor, the Italian Ministry of Infrastructure and Transportation, in line with the guidelines set out by the Transport Regulator Authority (ART), which involves a new tariff regime and the transition to a regulated-asset base scheme. At the same time, the preliminary agreement between ASPI and the grantor includes a €3.4 billion settlement, through a combination of reduced tolls (€1.5 billion on a cumulated basis over the life of the concession); additional maintenance work (€1.2 billion split between 2020-2024); and expenses related to the re-construction of the Genoa bridge (€700 million). Pending visibility on the new PEF, which has yet to be approved, ASPI's credit metrics remain difficult to predict compared with 2019, when S&P Global Ratings-adjusted funds from operations (FFO) to debt and adjusted debt to EBITDA were approximately 19% and 3.8x, respectively. These metrics, which could be commensurate with an investment-grade rating, reflect that we add back to reported EBITDA the provisions related to the settlement (€1.5 billion as of Dec. 31, 2019) and include them in our adjusted debt. This is because we see these amounts as similar to litigation-related liabilities which will have a multi-year effect over ASPI's cash flows. ASPI's financial metrics post settlement could also be influenced by a potential capital injection from any new shareholders, on which we have no visibility at this stage. In our view on ASPI's credit quality we will also consider the transparency and supportiveness of the new regulatory framework, given certain concession amendments are expected to align the terms to the content of the Milleproroghe decree, particularly related to termination event clauses. Legacy risks that ASPI may continue to bear, if any, in relation to the collapse of the Genoa bridge could also be reflected in our rating. Pending visibility on the new shareholders and governance of ASPI, it is premature to comment if potential control by government-owned lending institution Cassa Depositi e Prestiti (CDP) could affect our rating on ASPI. This is because it is uncertain at this stage if we could consider ASPI a government-related entity and, if so, what the likelihood of extraordinary support ultimately provided by the government would be. Furthermore, an investment-grade rating on ASPI would require it to maintain at least adequate liquidity. Given large upcoming debt maturities of €1.2 billion in 2021--including approximately €700 million of bonds guaranteed by Atlantia that we assume will be due to be reimbursed by ASPI--we would expect ASPI to secure sufficient sources to cover its expected liquidity needs.

If a settlement is reached, our rating on Atlantia would primarily depend on its credit metrics, the strengths of its operating assets, and its strategy. In our view, a settlement could trigger a positive rating action on Atlantia since it would remove liquidity contamination risk driven by a potential termination of the ASPI concession. Nevertheless, the extent of the positive rating action would depend on a number of factors, including the pricing, process and use of the proceeds of the ASPI disposal. ASPI contributes about 30% of Atlantia's consolidated EBITDA and its financial leverage is smaller than the largest contributor Abertis (S&P Global Ratings-adjusted debt to EBITDA was 3.8x for ASPI and 5.7x for Abertis on Dec. 31, 2019). Hence, all else being equal, the disposal could weaken Atlantia's credit metrics from approximately 13% S&P Global Ratings-adjusted FFO to debt on Dec. 31, 2019, depending on the amount and use of the transaction proceeds. Atlantia's potential weaker credit metrics could be partially compensated by the proceeds from the disposal of other subsidiaries' minority stakes, such as the digital payment platform of Atlantia Telepass, which could be completed over the next few months. Pending visibility on Atlantia's future strategy, we anticipate the quality and geography of its operating assets will be an important credit consideration for the rating. Spanish-based global toll road operator Abertis (50% plus one share) as well as Italy-based airport operator AdR (almost fully owned by Atlantia) both manage strong operating assets, despite being hit by COVID-19-related traffic disruption and most of the assets are located in low risk countries. Nevertheless, ASPI has been an important dividend contributor to Atlantia and it remains unclear how or if the loss of the cash flow would be replaced in the future. The quality of Atlantia's future portfolio, together with the supportiveness of the regulatory framework, and level of exposure to soft currency risk, will be key credit considerations for our assessment of Atlantia's business strengths--combined with any potential legacy risk from the ASPI concession. We expect Atlantia's guarantee over ASPI's €4.8 billion of debt will be waived as part of the transaction to remove any financial obligations between the two companies. The process remains unclear at this stage but could take some time and result in transaction costs for Atlantia, which we currently cannot quantify.

Our outlook revision and rating affirmation on AdR mirrors the rating action on Atlantia. The rating on AdR continues to incorporate two notches of insulation from that on parent Atlantia. This caps our long-term rating on AdR at 'BB+', which is four notches below the 'a-' stand-alone credit profile (SACP). The insulation reflects that, despite being almost fully owned by Atlantia, AdR must meet certain conditions under its concession agreement with the Italian Civil Aviation Authority, including a debt-service coverage ratio of above 1.2x over the time of the concession. It is also subject to regulatory oversight by the grantor, which, in our view, protects the company from potential negative intervention by Atlantia. The two notches of insulation also reflect that AdR's euro medium-term note program and facilities do not include any cross-default provisions or guarantees with Atlantia.

The ratings on Abertis remain unchanged at 'BBB-/A-3' with a negative outlook, since they are not directly linked to our ratings on Atlantia. This is because we expect Abertis' minority shareholders ACS (30%) and Hochtief (20%) to exercise their rights under the shareholder agreement, including veto power on reserved matters, such as distributions and acquisitions, to limit potential negative intervention from Atlantia. In our view, Abertis also continues to demonstrate access to capital markets at conditions largely unaffected by credit stress at the parent and there are no cross-default or debt acceleration clauses in Abertis' financial documentation that could be triggered by an Atlantia's insolvency or rating actions on Atlantia.

Outlook

The developing outlook indicates that we could take a positive rating action on Atlantia, ASPI, and consequently AdR, if an ASPI concession settlement is signed with the government, which would reduce the risk of a liquidity event at ASPI and Atlantia.

At the same time, it indicates that, pending certainty over the settlement, downside risk to the ratings remains, notably related to the termination risk of the ASPI concession.

Upside scenario

We could take a positive rating action on ASPI and Atlantia if the risk of a liquidity event driven by a potential termination of the concession is removed, which we expect will materialize if a settlement is signed with the government.

The extent of the positive rating action on ASPI would depend on its credit metrics, as well as our view on the supportiveness and predictability of its regulatory framework. A potential upgrade to investment grade would need to be supported by solid credit metrics, adequate liquidity, visibility over the company's governance and financial policy, as well as nonmaterial legacy risk from the Genoa bridge collapse.

In the case of Atlantia, a positive rating action will also depend on its own future credit metrics, combined with our view on the quality of its portfolio and stability of its operating cash flows. Although we see a potential settlement as positive in terms of liquidity risk, we would need to assess the future strategy of the holding company, considering the disposal of its core subsidiary.

We could raise the rating on AdR, depending on the extent of the positive rating action on Atlantia, considering our assessment of AdR's SACP at 'a-'.

Downside scenario

We could lower the ratings on ASPI, Atlantia, and consequently AdR, by more than one notch if a settlement is not signed and a liquidity risk materializes at ASPI and, in turn, Atlantia. This would most likely follow a termination or revocation of the concession, or come through some creditors' willingness and ability to ask for acceleration of debt reimbursement. A financial covenant breach, which we do not anticipate at the moment, could also trigger a negative rating action if liquidity risk materializes and a waiver is not received in good time from lenders.

Company Description

Atlantia is the Italy-based holding company of a global infrastructure network. The company owns 88% of ASPI (about 32% of total EBITDA), which operates about 3,000 kilometers of toll roads in Italy. It also holds 50% plus one share of toll road operator Abertis (about 50% of total EBITDA), which operates about 9,000 kms of toll roads globally; 99.8% of Italian airport operator Aeroporti di Roma (about 8% of total EBITDA), a number of overseas motorways in Brazil, Chile, and Poland, and Aéroports de la Côte d'Azur (ACA).

Atlantia's minority interests include a 15.5% stake in Getlink, which operates and manages the Eurotunnel between France and the U.K.; a 24% stake into Hochtief, acquired in 2018; and a 29% stake into Aeroporto di Bologna.

Atlantia is a listed company, approximately 30% owned by Sintonia (Edizione), while other stakes are held by Singapore's sovereign wealth fund GIC (8.29%), Lazard Asset Management (5.05%), HSBC Holding, and Fondazione Cassa di Risparmio di Torino (about 5% each).

Liquidity

We continue to assess Atlantia's liquidity--on a consolidated basis with its core subsidiary ASPI--as less than adequate. This reflects the risks stemming from regulatory and legal uncertainty surrounding ASPI's concession and, in particular, the risk of debt acceleration if the concession is terminated. In our view, this risk reduces Atlantia's ability to absorb high-impact low-probability events, as well as its standing in credit markets.

That said, we continue to estimate that, absent termination of ASPI's concession, sources of liquidity will cover uses by more than 1.2x in the 12 months to June 30, 2021.

We calculate Atlantia's liquidity by excluding Abertis, the rating on which is not directly linked to Atlantia. Therefore, excluding Abertis, we anticipate the following principal liquidity sources for the 12 months to June 30, 2021:

- Total unrestricted available cash of about €5.4 billion as of June 30, 2020;
- About €550 million undrawn bank lines at AdR as of June 30, 2020. We do not include in our calculation ASPI's €1.3 billion committed facilities by Cassa Depositi e Prestiti since these are not immediately available to draw nor the new €200 million credit line signed by AdR and guaranteed by SACE; and
- Positive cash FFO of €900 million-€1 billion, according to our forecasts.

We anticipate the following principal liquidity uses, excluding Albertis, over the same period:

- Debt maturities of about €4.0 billion, including €2.1 billion of ASPI facilities that could be accelerated given that the long term issuer credit ratings on Atlantia and ASPI are below 'BBB-';
- Capital expenditure of about €1 billion; and
- Dividends of about €500 million, in line with our assumption of full dividend distributions paid by Abertis in 2020.

Ratings Score Snapshot

Atlantia/ASPI

Issuer Credit Rating: BB-/Developing/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
- Capital structure: Neutral
- Liquidity: Less than adequate
- Financial policy: Neutral
- Management and governance: Fair
- Comparable rating analysis: Negative

Stand-alone credit profile: bb-

- Group credit profile: bb-
- Entity status within group: Core

Aeroporti di Roma

Issuer Credit Rating: BB+/Developing/B

Business risk: Strong

- Country risk: Moderately high
- Industry risk: Low
- Competitive position: Strong

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

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: Positive (+1 notch)

Stand-alone credit profile: a-

- Group credit profile: bb-
- Entity status within the group: Partially insulated from Atlantia (+2 notches)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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
- 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: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Atlantia, ASPI, AdR Continue On Watch Neg Following Milleproroghe Law; Abertis 'BBB-/A-3' Ratings Affirmed, Off Watch, March 4, 2020
- Atlantia and Subsidiaries Downgraded On Increased Concession Termination Risk For ASPI; Ratings on Watch Negative, Jan. 13, 2020

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Atlantia SpA		
Autostrade per l'Italia SpA		
Issuer Credit Rating	BB-/Developing/B	BB-/Watch Neg/B

Ratings Affirmed; Outlook Action

	To	From
Aeroporti di Roma SpA		
Issuer Credit Rating	BB+/Developing/B	BB+/Watch Neg/B
Atlantia SpA		
Senior Unsecured	BB-	BB-/Watch Neg
Recovery Rating	3(100%)	3(100%)
Aeroporti di Roma SpA		
Senior Unsecured	BB+	BB+/Watch Neg
Recovery Rating	3(80%)	3(80%)
Autostrade per l'Italia SpA		
Senior Unsecured	BB-	BB-/Watch Neg
Recovery Rating	3(90%)	3(90%)