



Società di Progetto  
Brebemi SpA

## PRESS RELEASE

### **FITCH RATINGS HAS PLACED SOCIETA' DI PROGETTO BREBEMI'S SENIOR SECURED NOTES ON RATING WATCH NEGATIVE. IT HAS ALSO DOWNGRADED BREBEMI'S NOTES TO 'BB+' FROM 'BBB-'**

*Brescia, 27 march 2020* – Fitch Ratings has yesterday placed Società di Progetto Brebemi's senior secured class A1, A2 and A3 notes on "rating watch negative". It has also downgraded Brebemi's notes to 'BB+' from 'BBB-'.

The rating action reflects Fitch Rating's expectation that Brebemi's senior secured A1 and A2 notes credit profile and metrics will be impacted by a severe - albeit potentially relatively short-lived - traffic decline related to Covid-19 pandemic, affecting ongoing traffic ramp-up. Class A3 notes (zero coupon) could be consequently affected.

Fitch Ratings assume the 2020 shock to be progressively recovered by 2021 and the ramp-up to continue therefrom.

The full text of the rating agency's announcement is provided below

#### **Investor Relations**

Alberto Algisi – [alberto.algisi@brebemi.it](mailto:alberto.algisi@brebemi.it); +39 030 2926307

#### **Info stampa:**

Consilium Comunicazione

Andrea Cucchetti – [acucchetti@consiliumcom.it](mailto:acucchetti@consiliumcom.it); +39 349 5554664



SOGGETTA ALLA DIREZIONE E COORDINAMENTO DI AUTOSTRADE LOMBARDE SPA  
Sede: Via Somalia, 2/4 - 25126 Brescia - Tel. 030 2926311 Fax 030 2897630  
PEC: [sdpbrebemi@legalmail.it](mailto:sdpbrebemi@legalmail.it) – EMAIL: [info@brebemi.it](mailto:info@brebemi.it)  
Cap. Soc. Euro 51.141.227,00 i.v.- REA n. 455412  
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## Fitch Downgrades Brebemi's Notes to 'BB+'; on RWN

Fitch Ratings - Madrid - 26 March 2020:

Fitch Ratings has downgraded Societa di Progetto Brebemi S.p.A.'s (Brebemi) senior secured class A1, A2 and A3 notes to 'BB+' from 'BBB-' and placed them on Rating Watch Negative (RWN).

### **RATING RATIONALE**

The rating actions reflect our expectation that Brebemi's senior secured class A1 and A2 notes' credit profile and metrics will be affected by a severe, albeit potentially relatively short-lived, demand shock related to the coronavirus pandemic, amid a relatively rigid operating and financial structure where flexibilities are minimal. The decline in traffic will likely delay Brebemi's ongoing traffic ramp up, which we now expect to last until 2026.

Brebemi's liquidity position is comfortable as cash available and the debt service reserve account (DSRA) is sufficient to cover next 18 months debt service. Nevertheless, under the revised Fitch Rating Case (FRC), we expect the issuer will partially tap its liquidity this year to make up for a marginal shortfall in free cash flow generation.

We currently assume the 2020 shock will be progressively recovered by 2021 and the ramp-up to continue from then. We will revise our FRC if the severity and duration of the outbreak is longer than expected.

The rating action on Brebemi's senior secured zero coupon notes (class A3) reflects cross default provisions with the class A1 and A2 notes, which we now assess as riskier than the grantor's (Concessioni Autostradali Lombarde) obligation to pay the terminal value at concession maturity.

The RWN reflects a likely breach in the default historical debt service coverage (DSCR) ratio covenant by December 2020 and related uncertainty about the noteholders option to accelerate the debt or waive the event of default. We note that under the existing documentation, if the senior creditors do not act for 12 months and the event of default is continuing, the junior noteholders are entitled to take enforcement actions. We will monitor the evolving situation and will react once we have more visibility on the process over the next few months.

Brebemi operates a 62km toll road stretch positioned in the middle of Italy's most affected area in terms of number of coronavirus cases. It directly links Brescia and Milan. Codogno/Lodi and Bergamo are located south and north of Brebemi's asset, respectively. We believe this geographical position makes the asset more vulnerable to traffic stress and will also take longer to recover than the average Italian toll road network.

### **KEY RATING DRIVERS**

#### **Coronavirus Outbreak Affecting Demand**

The rapidly spreading of coronavirus is leading to an unprecedented impact on people and to a lesser extent, freight mobility. We expect Brebemi's traffic to have materially contracted from the week following the

Italian government's decision to impose a nationwide lockdown, mainly driven by the absence of commuter traffic to and from Milan. Under our revised rating case, we assume traffic to fall by 20% in 1Q20 and escalate to 50% in 2Q20. We assume traffic to gradually recover thereafter but to remain below 20% and 10% yoy in, 3Q20 and 4Q20, respectively, so that the annual decline is 25% for 2020. From 2021 we assume traffic to progressively normalise while ramp up should resume albeit from a lower base than we assumed in last year FRC, resulting in a lower traffic profile than last year at least until 2026.

#### Few Defensive Measures

Opex is relatively rigid as most of it is related to an operation and maintenance agreement with Argentea under which we understand there is little to no flexibility. There is virtually no capex as the asset is brand new.

We note that under the concession agreement, the concessionaire is entitled to ask for the rebalancing of the concession due to the traffic shortfall, which could happen in the context of the approval of the next regulatory business plan in 2022. Nonetheless, we note that the Italian transport authority (Autorità di Regolazione dei Trasporti or ART) has not yet issued detailed guidelines related to the Brebemi concession. Also, there remains limited visibility whether the traffic shortfall will be recovered in the short term (price, grants) or in the longer term (terminal value).

#### Reducing Coverage

Under the updated FRC, we expect the traffic shock to reduce the 2020 DSCR to slightly below 1x and for it to progressively recover thereafter, remaining below 1.4x until at least 2025 when the ramp up period should end. We are now forecasting the average DSCR until 2025 to be 1.2x, increasing to 1.4x afterwards.

We are closely monitoring developments in the sector as Brebemi's operating environment has substantially worsened. We will revise the FRC if the severity and duration of the coronavirus outbreak is longer than expected.

#### Sound Liquidity Under FRC

As of February 2020, Brebemi had EUR44 million under the nine month DSRA in addition to EUR40 million of available cash, which we expect the issuer to tap in order to make up for the moderate shortfall in free cash flow generation (after debt service). Under the updated FRC, we expect total liquidity at end 2020 to be around EUR80 million which compares with 2021 debt service of EUR62 million.

#### Likely Covenant Breach

Without flexibility on costs/opex, we expect the traffic shock in 1H20 to lead to a breach of the 1.05x threshold under the historical DSCR default covenants by December 2020, before progressively increasing to 1.4x in 2026.

As per financial documentation, the historical DSCR threshold below 1.05x triggers an event of default whereby senior creditors may take enforcement action and ask for acceleration of the debt. We note that at any time after the date falling 12 months after the occurrence of an event of default (which is still continuing and has not been waived by the senior creditors) junior creditors may be entitled to take enforcement action. We will monitor the evolving situation and react once we have more visibility on the process over the next few months.

### **RATING SENSITIVITIES**

Developments That May, Individually or Collectively, Lead to Positive Rating Action:

- Resolution of the RWN will focus on management of the expected default covenant breach

## Developments That May, Individually or Collectively, Lead to Negative Rating Action:

- A failure or inaction by senior creditors to waive the breach would lead to a multi-notch downgrade
- An escalation or a protraction in restricting measures leading to traffic declines beyond our expectations would put additional pressure on the rating

## TRANSACTION SUMMARY

Brebemi has raised around EUR2 billion to refinance its bank debt and fund the unwinding of a substantial portion (70%) of the negative mark-to-market on the interest rate swap. The debt raised is split into senior - fully amortising and zero coupon notes - and junior debt.

- Revenue Risk Volume : Midrange
- Revenue Risk Price: Midrange
- Infrastructure Development & Renewal: Stronger
- Debt Structure - Fully Amortising Debt: Stronger

The coronavirus outbreak and related government containment measures worldwide create an uncertain global environment for toll road traffic in the short term. While Brebemi's performance data through most recently available issuer data may not have indicated impairment, material changes in revenue and cost profile are occurring across the toll road sector and Europe and are likely to worsen in the coming weeks and months as economic activity suffers and government restrictions are maintained or expanded. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector as a result of the coronavirus outbreak as it relates to severity and duration, and incorporate revised base and rating case qualitative and quantitative inputs based on expectations for future performance and assessment of key risks.

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### RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Societa di Progetto Brebemi S.p.A.		
Societa di Progetto Brebemi S.p.A./Senior Secured Notes/1 LT	LT BB+  Downgrade	BBB- 

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## Applicable Criteria

Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020)

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 24 Mar 2020)

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