Società di Progetto
Brebemi SpA

PRESS RELEASE

FITCH RATING REMOVES RATING WATCH NEGATIVE FROM THE SOCIETA' DI PROGETTO BREBEMI'S SENIOR SECURED NOTES

Brescia, 13 August 2020 – Fitch Ratings has yesterday removed the Rating Watch Negative from Società di Progetto Brebemi's senior secured notes class A1, A2 e A3 and confirmed BB+ rating with Stable Outlook.

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

Investor Relations
Alberto Algisi – *alberto.algisi@brebemi.it*; +39 030 2926307

Media Relations:
Consilium Comunicazione
Andrea Cucchetti – acucchetti@consiliumcom.it; +39 349 5554664

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Brebemi at 'BB+'; Removes RWN

Wed 12 Aug, 2020 - 12:16 PM ET

Fitch Ratings - Madrid - 12 Aug 2020: Fitch Ratings has affirmed Società di Progetto Brebemi S.p.A.'s ('Brebemi') senior secured class notes at 'BB+' and removed them from Rating Watch Negative (RWN). A Stable Outlook has been assigned.

A full list of rating actions is detailed below.

The removal of the RWN follows completed solicitation with Brebemi´s senior creditors to grant a covenant holiday until June 2021. This agreement will cure the otherwise likely default covenant breach by year-end and, crucially, will prevent junior noteholders from taking enforcement actions.

RATING RATIONALE

The operational toll road of Brebemi benefits from its route location linking fairly wealthy and densely populated Milan and Brescia in the economically diversified Region of Lombardy. Brebemi has a balanced user profile of commuters and heavy vehicles who are willing to pay Brebemi's slightly elevated toll rates in exchange for shorter travel time and high-quality service compared with competing A4 motorway.

Class A1 and A2 Ratings

The class A1 and A2 notes' 'BB+' ratings reflect favourable demand from the northern Italy catchment area and a regulatory asset base (RAB)-based pricing system sustaining revenue growth. The ratings also consider the impact of a severe demand shock in 2020 related to the coronavirus pandemic, which will likely delay Brebemi's ongoing efforts to ramp-up traffic, and as such we expect normalised and mature traffic volumes only in 2026.

Brebemi has a fairly rigid operating and financial structure and, as a result, we expect the project to return to a stabilised 1.4x debt service coverage ratio (DSCR) only from 2026 in the Fitch Rating Case (FRC).

Liquidity is adequate throughout the next 12 months to offset the expected short-term revenue shortfall.

Class A3 Rating

The class A3 zero coupon notes' 'BB+' rating reflects the risk associated with the timely payment of the terminal value (TV) at concession maturity by the grantor, Concessioni Autostradali Lombarde (CAL). Our assessment of CAL's obligation to pay the TV is notched down from Fitch's internal assessment of the Region of Lombardy. CAL is contractually bound to pay the TV by 2042. A cash sweep mechanism caps outstanding class A3 accretion of notes principal at EUR760 million, but the TV payment from CAL remains the sole pledged funding source for the full repayment of the class A3 notes at maturity.

Fitch views the TV mechanism as legally strong. The TV payment is contractually equal to the non-amortised value of the asset and allows Brebemi to recover its investment. The TV will be paid by the new concessionaire at concession maturity (2040) or in case of delays by the grantor (CAL) two years later (2042). Given uncertainty of re-tendering the asset, Fitch assesses the grantor's contractual obligation to pay the TV, whose proceeds will be used to repay the class A3 notes.

As the class A3 notes are contractually pari passu with the senior fully amortising tranches, the credit profile of the class A3 notes is similar to that of the senior fully amortising debt but ultimately linked to the creditworthiness of CAL's obligation to pay the TV in a timely manner.

The outbreak of coronavirus and related government containment measures worldwide create an uncertain global environment for the toll road sector. While

Brebemi's most recently available performance data may not have indicated impairment, material changes in revenue and cost profile are occurring across the toll road sector and will continue to evolve as economic activity and government restrictions respond to ongoing developments. Fitch's ratings are forward-looking in nature, and we will monitor the virus outbreak for its 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.

KEY RATING DRIVERS

Senior Creditors Approve Covenant Holiday

On 23 July 2020, Brebemi's qualifying secured creditors approved a covenant holiday of the testing of certain financial ratios for 12 months, from and including the test date falling on 30 June 2020 to and including the test date falling on 30 June 2021. This effectively removes the risk of junior noteholders taking independent enforcement actions which, according to the existing bond documentation would have been possible, if the senior creditors did not act for 12 months and the event of default is not cured.

Coronavirus Affecting Demand

The spread of coronavirus in Italy is leading to an unprecedented impact on travel and to a lesser extent, freight mobility, with a knock-on impact on Brebemi's revenues and cash flow generation.

At the peak lockdown months of March, April and May, traffic declined around 65% on average with a marked difference between light vehicles (-76%) and heavy vehicles (-32%) on average. From January to July, light vehicles suffered an average drop of around 41%, while heavy vehicles remained more resilient with a decline of 14% vs 2019. Total traffic decline during January-to-July was 34%.

In the FRC, we expect Brebemi's traffic to gradually recover for the rest of the year but to decline around 25% yoy on a full year basis.

From 2021 we expect traffic to progressively normalise while ramp-up should resume, albeit from a lower base than in 2019, ultimately leading to mature and stabilised traffic only from 2026.

Brebemi has limited flexibility in operating expenditure reduction given its fixed contract with a third-party operator, while negligible capex limits scope for cutbacks to cushion the impact on cash flow available for debt service.

Reducing Coverage in FRC

Following the covenant holiday period, we expect the DSCR under our FRC to average 1.2x until 2025 and remain below 1.4x until at least 2026 when we expect the ramp-up to end.

Sensitivity Analysis

The Fitch sensitivity case assumes a steeper decline in traffic volumes in 2020 (-35%), and a slower recovery. We expect traffic to normalise progressively, leading to mature traffic volume only in 2028. This sensitivity case results in an average DSCR of 0.95x until 2025, which should remain below 1.4x until 2032.

Change of Control Neutral

On 26 June, Brebemi announced that Aleatica, a fully owned vehicle of IFM Global Infrastructure Fund, agreed with Intesa Sanpaolo for the purchase of all the bank's investments held in Brebemi and in Autostrade Lombarde S.p.A., ultimately taking control of Brebemi.

Brebemi is majority-owned by Autostrade Lombarde (82%), which itself is owned by a variety of stakeholders, with Aleatica now the controlling shareholder at 56%.

We view the transaction as neutral to the rating of Brebemi's notes as we rate the project on a standalone basis. Also, the change of control does not trigger any relevant clauses under its bond documentation.

Comfortable Liquidity in FRC

As of 31 July 2020 Brebemi had EUR46.3 million under its nine-month debt service reserve account in addition to EUR38.9 million of available cash, versus December 2020 and 2021 debt service of, respectively, EUR30 million and EUR62 million.

Key Rating Drivers - Summary Assessments

- Revenue Risk Volume - 'Midrange': Limited traffic history, asset in ramp-up.

- Revenue Risk Price - 'Midrange': Price-cap increases tracking inflation.

- Infrastructure Development & Renewal- 'Stronger': Highly developed plan.

- Debt Structure - 'Stronger': Covenanted structure, debt fully amortising.

RATING SENSITIVITIES

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

- A sustained increase in traffic leading to stabilised average senior DSCR of 1.4x in FRC well before 2026.

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

- An escalation of or protracted period of restricting measures leading to a worsening traffic profile than our expectations.

- We view the grantor's obligation to pay the TV as ranking below the Region of Lombardy's direct debt and the class A3 rating could move in tandem with Fitch's internal assessment of the Region of Lombardy. A change in the assessment of CAL's credit linkage with the Region of Lombardy could also widen the notching.

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

Brebemi operates a 62 km stretch of toll road directly linking Milan and Brescia, in one of the wealthiest and industrialised European regions. Traffic is still in the ramp-up phase amid delays in the opening of interface connections as well as expected network enhancements both east (Brescia) and west (Milan), which are not expected before 2021. Brebemi is exposed to competition from another toll road managed by Autostrade per l'Italia (A4 Milan-Brescia).

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

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Societa di Progetto Brebemi S.p.A.			
• Societa di Progetto Brebemi S.p.A./Senior Secured Debt/1 LT	LT	BB+ Rating Outlook Stable	Affirmed

ENTITY/DEBT	RATING

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Francisco Rojo
Associate Director
Primary Rating Analyst
+34 91 076 1983
Fitch Ratings Spain - Madrid Paseo de la Castellana 31 9°B Madrid 28046

Paolo Alessi
Senior Director
Secondary Rating Analyst
+39 02 879087 299

Shyamali Rajivan
Director
Committee Chairperson
+44 20 3530 1733

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Stefano Bravi
Milan
+39 02 879087 281
stefano.bravi@fitchratings.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Infrastructure and Project Finance Rating Criteria (pub. 24 Mar 2020) (including rating assumption sensitivity)

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 26 Jun 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

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

Third-party Model (24 March 2020)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Societa di Progetto Brebemi S.p.A.	EU Issued

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Infrastructure and Project Finance Europe Italy