COMUNICATO STAMPA

FITCH RATINGS HA RIVISTO L'OUTLOOK DI SOCIETA' DI PROGETTO BREBEMI S.P.A. DA "STABILE" A "NEGATIVO" CONFERMANDO IL LIVELLO "BB+"

Brescia, 28 ottobre 2022 – Fitch Ratings ha rivisto l'Outlook sul debito "Senior Secured" di Società di Progetto Brebemi S.p.A., da "Stabile" a "Negativo", confermando il livello "BB+".

Si riporta di seguito il testo integrale del comunicato dell'agenzia di rating.

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FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Outlook on Brebemi's Notes to Negative; Affirms at 'BB+'

Thu 27 Oct, 2022 - 12:04 PM ET

Fitch Ratings - Madrid - 27 Oct 2022: Fitch Ratings has revised the Outlook on Societa di Progetto Brebemi S.p.A.'s senior secured notes to Negative from Stable and affirmed the rating at 'BB+'. A full list of rating actions is at the end of this rating action commentary.

RATING RATIONALE

The Negative Outlook reflects the ongoing delay in traffic ramp up and recent regulatory interference in the 2022 tariff setting, which will pressure the debt service coverage ratio (DSCR) in the Fitch Rating Case (FRC), given the escalation in mandatory debt service.

2022 traffic is expected to be 2% above the pre-pandemic level compared with 41% forecast in the traffic study commissioned in 2019. This is due to the ongoing Covid-19 legacy as well as delays in developments of the westbound road connections out of Milan. This is limiting the full potential of the stretch of road, eight years since it opened to traffic. Fitch's expectations of a subdued Italian economy in 2023 will increase traffic challenges in the next 12 months.

Brebemi 's proposed 2022 tariff increase of 4.49% has been put on hold by the Ministry of Transport & Mobility, which notified the grantor that the request was not admissible due to ongoing approval of the 2021- 2025 economic and financial plan. Fitch also does not expect a 2023 tariff increase.

Under the updated Fitch rating case (FRC), the DSCR remains around 1.1x until 2025. Fitch believes this is amply mitigated by the protections in the lock-up mechanism, trapping cash until the DSCR remains below 1.25x as well as strong minimum project life coverage ratio (PLCR) of 1.70x. This is reflected in the affirmation at 'BB+'.

KEY RATING DRIVERS

Brebemi's 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 willing to pay the relatively high toll rates in exchange for shorter travel times and high quality service compared with the competing tolled alternative on the A4 motorway.

Class A1 and A2 Ratings

The class A1 and A2 notes' 'BB+' ratings reflect the favourable northern Italy catchment area and a regulatory asset base (RAB) based pricing system, which sustains revenue growth. Under the updated FRC, we expect normalised and mature traffic volumes only by2026-2027 when the DSCR stabilises at around 1.3x for some years and then grows materially

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 class A3 accretion 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 robust. The TV payment is contractually equal to the non-amortised value of the asset and allows Brebemi to recover its investment. Under the current setup, 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). Amid the uncertainty of re-tendering the asset, Fitch assesses the grantor's contractual obligation to pay the TV.

As class A3 is 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.

Favourable Location, Limited History - Revenue Risk (Volume): Midrange

Fitch maintains its 'Midrange' assessment of revenue risk (volume), following the publication of its new Transportation Infrastructure Rating Criteria, which assess volume risk on a five-point scale.

Brebemi opened to traffic in 2014 but remains in ramp-up due to the coronavirus impact and a delayed opening of interface connections, with additional network connections and pandemic-induced delays expected to extend ramp-up through 2027. Brebemi's toll rates are relatively high on a euro/km basis compared with the competing A4 motorway, but only moderately higher for a full trip than the A4. In Fitch's view, limited traffic history limits adequate testing of price elasticity, and higher annual tariff increases on Brebemi compared with A4 could impair elasticity over time. Fitch views positively the wealthy Lombardy region's familiarity with tolling and its economic strength.

RAB-Based Pricing - Revenue Risk (Price): Midrange

The price-cap mechanism allows a fair return (weighted average cost of capital; WACC) on the asset base and recovery of operating costs and depreciation of assets, resulting in a residual TV at concession maturity. The grantor has been supportive of Brebemi during ramp-up and the pandemic and demonstrated a favourable rebalancing mechanism in 2014 and in 2022, which included public grants, extension of concession tenor and implementing a TV payment at concession maturity to ensure maintenance of the WACC.

New Road, Minimal Maintenance Needs - Infrastructure Development and Renewal: Stronger

Brebemi is a new asset, with minimal infrastructure renewal needs expected over the concession's life. While capex costs were elevated while constructing the roadway, the contractual fixed-price operations & maintenance (O&M) agreement covers a modest capex component, which is expected to be sufficient. No heavy maintenance capex is currently envisaged in the concession. We expect any additional capex would be eligible for remuneration, based on guidelines set by the transport authority (ART) in an updated business plan.

The debt structure comprises around EUR2.0 billion senior and junior debt .

Senior amortising debt (EUR1.4 billion split into a bank loan, the class A1 and A2 notes and a restructured swap) is fully amortising and hedged to almost 100% fixed rate, with adequate protections (robust forward-and-backward looking lock-up and no re-leverage undertakings). However, Brebemi only has a six-month debt service reserve account (nine months until 2021) and a back-ended repayment profile.

The class A3 notes (EUR0.6 billion) are partially reliant on project cash flows via a two-phase cash sweep mechanism, but their full repayment is currently expected to rely on the timely payment of the TV by a new concessionaire or in case of delay by the grantor. The class A3 notes rank pari passu with the senior amortising debt and have no unilateral enforcement action until 2040 when non-payment of interest becomes an event of default.

Junior debt (EUR0.2 billion, not rated by Fitch) is repaid through a cash sweep capped at a target amortisation schedule. It is floating rate and fully subordinated to senior debt that cannot be accelerated even in case of a junior event of default.

Financial Profile

We expect the DSCR under the updated FRC to average 1.2x until 2029 and remain slightly below 1.1x from 2023 to 2025. We expect the ramp-up to end by 2027 and traffic to grow at a pace slightly above Italian GDP. This results in an average annual DSCR of 1.3x until 2035.

The TV always covers net senior debt and the TV/net debt ratio improves to 1.7x in 2038 as the senior debt retires and the class A3 notes remain flat at the agreed threshold of EUR760 million.

PEER GROUP

Brebemi is comparable with Salerno Pompei Napoli S.p.A. (SAM; BBB/Stable), North Carolina Turnpike Authority (NCTA; BBB/Stable) and a number of other privately rated toll roads.

SAM and Brebemi have a similar RAB-based concession framework while catchment areas are different. Notably, SAM traffic profile is well-established in a very densely populated area, while Brebemi is still in ramp-up and exposed to competition. Conversely, Brebemi has only minimal plain-vanilla capex requirements when compared with SAM, which needs to undertake some capex up to 2030. Both projects' debt structure is fully amortising and strongly covenanted, supporting their 'Stronger' assessments. The current average DSCR for SAM is around 1.5x (minimum of 1.4x) while Brebemi's average DSCR is 1.3x until 2035.

Like Brebemi, NCTA provides peak-period time savings for commuters in a well-developed roadway network in a wealthy and industrialised catchment area, with competition from larger facilities nearby. NCTA had a successful ramp-up phase with growth continually exceeding sponsor expectations, despite being located in an area with low familiarity with toll roads. NCTA further benefits from a backstop from the State of North Carolina to cover operating expenses if revenues are insufficient, creating a gross pledge of revenues for debt.

The current mandatory DSCR of 1.5x is limited by the completion of an extension. Lifetime scheduled DSCRs under the rating case average 2.1x when excluding outliers.

RATING SENSITIVITIES

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

- Material worsening of traffic profile compared with our expectations, resulting in further delays of the expected ramp-up well beyond 2027.

- Before the implementation of the ongoing rebalancing process, we view the grantor's obligation to pay the TV as ranking below the Region of Lombardy's direct debt and the class A3 notes' 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.

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

- Greater visibility of traffic and tariff patterns until 2024, supporting a projected DSCR of at least 1.3x could lead to a revision of the Outlook to Stable.

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.

CREDIT UPDATE

Performance Update

2021 traffic in 2021 was up by 33%, above our expectations in the FRC in September 2021, when we expected a 26% increase. Traffic ended 2021 5% below 2019. 9M22 traffic was up by 6% vs. same period in 2019, which is above Italian peers.

We expect traffic to continue on its recovery path, more than recovering 2019 levels this year. We expect 2023 and 2024 to be slightly lower than the around 8% yoy traffic growth provided by a third-party report for this period, reflecting the current macroeconomic environment. From 2025, traffic should continue to increase, leading to mature and stabilised traffic from 2028.

Regulatory Framework

There was no tariff increase in 2022, unlike in 2021 when Brebemi was one of the few Italian toll roads entitled to a tariff increase (3.5%). The company has started negotiations with the grantor (CAL) earlier in the year with the aim of agreeing the key terms of the next regulatory period. As the process is not yet finalised, we do not envisage any tariff increase for 2023.

Brebemi recently agreed its rebalancing process (STID Proposal delivered in July 2022) with the grantor and lenders and bondholders, following the expiry of the previous regulatory period (October 2016-October2021). However, the agreement is yet to be implemented and will at best occur in 2023.

The negotiations with lenders and CAL resulted in a favourable concession extension of six years, an increase of the TV and *poste figurative* (financial adjustments) at the end of new maturity and a tariff increase profile of around 5.5% per year during the upcoming regulatory period. Given the timeline of the rebalancing, Fitch understands that it will only be implemented from 2H23.

Once implemented, noteholders will no longer directly rely on TV payment. Instead, the zero coupon bond will have to be repaid by 2042 with a new facility that relies on cash flows from the concession until 2046 and the TV payment. Fitch assumes that the new loan will be fully repaid from cash-flow generation, assuming a 50% cash sweep from the date of the refinancing until the new maturity in 2046.

This would impact our rating approach for the class A3 notes as we may no longer rely on an internal assessment of the Region of Lombardy to derive their rating. The class A3 notes' rating would be fully equalised with the class A1 and A2 tranches given their pari passu ranking.

Liquidity

Brebemi's liquidity position is comfortable as available cash and the debt service reserve account (six months DSRA) is sufficient to cover next 18 months debt service. Brebemi had around EUR75.4 million cash and a EUR35.5 million DSRA as at June 2022, in contrast to a EUR32 million debt repayment for the rest of 2022 and EUR77 million for 2023.

Asset Description

Brebemi operates a 62.1 km stretch of toll road directly linking Milan and Brescia, in one of the wealthiest and industrialised European regions. Traffic is still in ramp up phase amid delays in the opening of interface connections as well as expected network enhancements both east (Brescia) and west (Milan). Brebemi is exposed to competition from another toll road managed by Autostrade per l'Italia (A4 Milan-Brescia).

FINANCIAL ANALYSIS

The Fitch base case (FBC) financial projections assume prudent traffic growth rates, in line with the external traffic consultant's P90 forecast, resulting in CAGR of traffic of around 3.5% until 2039. Fitch maintained expenses in line with the sponsor's forecast, as the majority of costs are covered under a fixed-price contract. However, we updated our forecast with internal long-term inflation, which affects the portion not covered by fixed contracts. We also made conservative assumptions on non-toll revenues and the revenue loss from the discount policy.

Fitch assumed that tariff in 2023 will remain flat compared with 2022 and then align with the sponsor's assumption from 2025 at 4.9%. These assumptions result in an average senior annual DSCR of 1.3x from 2022 to 2029 under the FBC. The average until 2035 is closer to 1.5x

The FRC has a more conservative stance on traffic (external consultant's P90 forecast but limiting the traffic growth in the short term, CAGR of 3.2%) and O&M (5% stress on opex not covered under the fixed-price contract from 2025). Similar to the FBC, the FRC assumes some tariff differences, with a 0% tariff increase for 2023, 3.5% for 2024 and 5.0% for 2025, and fully aligned with the sponsor's case from 2026. The resulting average senior annual DSCR is 1.2x from 2022-2029, although it jumps to around 1.4x if we average up to 2035. As an offsetting factor, the PLCR is a minimum of 1.7x in the FRC.

The results of the sensitivities are in line with the rating as the project shows moderate resilience to stresses such as a delayed traffic ramp-up, a flat 2% yoy increase in tariff or 10% increase in opex. However, we note that in the short term metrics may be tight for its current rating, which further underpins the Negative Outlook.

Under scenarios where the rebalancing process is implemented, there will be no major changes to the senior debt average DSCR as the main changes will occur at the end of the concession period from 2040 and once the debt is repaid.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

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

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Transportation Infrastructure Rating Criteria (pub. 16 May 2022) (including rating assumption sensitivity)

Infrastructure & Project Finance Rating Criteria (pub. 20 Jul 2022) (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 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Societa di Progetto Brebemi S.p.A.	EU Issued, UK Endorsed

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