COMUNICATO STAMPA

FITCH RATINGS HA CONFERMATO I RATING DI SOCIETA' DI PROGETTO BREBEMI S.P.A. A "BB+" OUTLOOK NEGATIVE.

Brescia, 17 luglio 2023 – Fitch Ratings ha comunicato che il rating sul debito "senior secured" di Società di Progetto Brebemi S.p.A. è stato confermato al livello "BB+", Outlook Negative.

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

Investor Relations
Alberto Algisi – alberto.algisi@brebemi.it; +39 030 2926311

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

FitchRatings

14 JUL 2023

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

Fitch Ratings - Madrid - 14 Jul 2023: Fitch Ratings has affirmed Societa di Progetto Brebemi S.p.A.'s (Brebemi) senior secured notes at 'BB+'. The Outlook is Negative. A full list of rating actions is below.

RATING RATIONALE

The affirmation considers the recent positive traffic trend in Brebemi as well as stronger than expected revenue and debt service coverage ratio (DSCR) metrics for 2022.

The Negative Outlook reflects the limited visibility of approval of the economic and final plan and recent regulatory interventions at the 2023 tariff setting. Together these exert mild pressure on the DSCR in the short term, given higher mandatory debt service.

Under the updated Fitch Rating Case (FRC), the DSCR remains below 1.3x until 2026, albeit Fitch believes this is mitigated by the structural protections in form of the lock-up mechanism as well as strong minimum project life coverage ratio (PLCR) of 1.6x indicating higher debt capacity.

KEY RATING DRIVERS

Rating Approach 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).

Fitch's assessment of CAL's obligation to pay the TV is notched down from its 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 CAL, two years later. Amid the uncertainty of re-tendering the asset, Fitch assesses the grantor's contractual obligation to pay the TV.

As the class A3 notes are contractually pari passu with the senior fully amortising tranches, their credit profile 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

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

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.

The relatively short traffic history limits adequate testing of price elasticity. 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.

Regulatory Asset Base-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 (although not implemented to date), 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. The fixed-price operations & maintenance 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.

Fully Amortising, Adequate Protections - Debt Structure (Class A1/A2) Stronger

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

Senior debt (EUR1.2 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 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 1.25x until 2030 and remain around 1.2x until 2026. We expect traffic to be ramped-up by end-2027, converging with the third-party traffic forecast by 2030. This results in an average annual DSCR of around 1.4x until 2035.

We also assess Brebemi's reliance on growth as its debt service escalates. Cash flow available to debt service as at 2022 divided by the maximum debt service is around 0.7x, indicating a dependence on consistent traffic growth and tariff implementation.

The TV covers net senior debt throughout the debt term. The minimum PLCR is around 1.6x and above 2.0x from 2030 to 2038 as senior debt is repaid and the outstanding class A3 notes balance remains flat at the agreed threshold of EUR760 million.

PEER GROUP

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

SPN and Brebemi have a similar regulatory asset base-based concession framework while catchment areas are different. Notably, SPN 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, compared with SPN, which needs to undertake some capex up to 2030. Both projects' debt structures are fully amortising and strongly covenanted, supporting their 'Stronger' assessments. The current average DSCR for SPN is around 1.5x (minimum of 1.3x) while Brebemi's average DSCR is around 1.4x 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 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. NCTA's current mandatory DSCR of 1.5x is limited by the completion of an extension of the asset. 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 in tariff supporting a consistently projected DSCR higher than 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

2022 traffic ended 12% above 2021 and 6% above 2019 levels. 1H23 traffic is 15% above that of 1H22. Compared with other Italian mature networks and assets we rate, Brebemi is materially outperforming. However, this reflects the still ongoing ramp up in traffic given delays in developments of the westbound road connections out of Milan and the pandemic delays.

Regulatory Framework

Brebemi's tariff did not increase in 2023 for the second consecutive year, which reflects the ongoing discussion of the 2021-2025 economic and financial plan with the grantor and Italian authorities. Fitch expects a concession extension of seven years and tariff increases of around 5% per year during the upcoming regulatory period. Terminal value should remain flat at EUR1.2 billion. As the process is not yet finalised, we do not envisage any tariff increase for 2024.

Should rebalancing be implemented and concession extended, zero-coupon bond noteholders would 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 end 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

The liquidity position is adequate as cash available and debt service reserve account (DSRA) covers six months debt service. As of end-June, Brebemi had around EUR13 million cash, after the recent repayment of interests on shareholders loan and EUR41 million DSRA compared with EUR40.3 million debt due in 2H23 and around EUR40 million to be paid by June 2024.

Asset Description

Brebemi operates a 62.1km stretch of toll road directly linking Milan and Brescia, in one of the wealthiest and most 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 after considering last actuals up to June 2023. Expected growth for 2023 is around 14% YoY. The resulting CAGR of traffic is of around 3.8% up to 2039. Fitch assumed that tariff in 2024 will grow by 3.5% consistent with last year's FBC; we then align with the sponsor's assumption from 2025.

Fitch has 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.

The FRC has a more conservative stance on traffic. While growth assumed for 2023 at 11% is not materially below the FBC, we assume long-term traffic data is unchanged from the still current traffic study from 2030 onwards. Resulting CAGR in traffic is around 3.2% up to 2039. The FRC assumes a 0% tariff increase for 2024, 5% for 2025 and 2026, and then aligned with the sponsor's case. We assumed a mild stress in opex of 5%.

Metrics in the updated FRC are above those published last year in the short and medium term and aligned or marginally below in the long term.

Average coverage under the updated FRC of around 1.25x up to 2030 or around 1.4x until 2035 shows ample headroom against triggers once the ramp up period is finalised. The FBC performs slightly better and shows an average DSCR of around 1.4x up to 2030 and around 1.55x up to 2035.

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 combined with a 10% increase in opex or others. We note that in the short to medium term, metrics may be still below 1.3x even when assuming tariff increases.

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

Fitch Ratings Analysts

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

Paolo Alessi
Senior Director

Secondary Rating Analyst
+39 02 3055 3102

Christiane Kuti
Senior Director
Committee Chairperson
+44 20 3530 1396

Media Contacts

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

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Societa di Progetto Brebemi S.p.A.					
• Societa di Progetto Brebemi S.p.A./Senior Secured Debt/1 LT	LT	BB+	Affirmed		BB+
• Societa di Progetto Brebemi S.p.A./Senior Secured Notes/1 LT	LT	BB+	Affirmed		BB+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		

RATINGS KEY	OUTLOOK	WATCH
NEGATIVE	⊖	⬘
EVOLVING	◈	◆
STABLE	◘	

Applicable Criteria

Infrastructure & Project Finance Rating Criteria (pub.17 May 2023) (including rating assumption sensitivity)

Transportation Infrastructure Rating Criteria (pub.16 May 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, v (17 May 2023)

Additional Disclosures

Solicitation Status

Endorsement Status

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

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