

PRESS RELEASE

DBRS MORNINGSTAR CONFIRMED RATINGS ON SOCIETÀ DI PROGETTO BREBEMI S.P.A. TO "BB (high)".

CHANGED THE TREND TO "NEGATIVE"

Brescia, 12 June 2024 – DBRS Morningstar confirmed yesterday, Società di Progetto Brebemi S.p.A.'s Issuer Rating as well as the ratings on its Senior Secured Loan, Class A1 Notes, Class A2 Notes, and Class A3 Notes to "BB (high)".

DBRS Morningstar changed the trend on all ratings from "Stable" to "Negative".

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

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Morningstar DBRS Changes Trend on Società di Progetto Brebemi S.p.A. to Negative and Confirms Ratings at BB (high)

INFRASTRUCTURE

DBRS Ratings GmbH (Morningstar DBRS) changed the trend on Società di Progetto Brebemi S.p.A.'s (Brebemi or ProjectCo) ratings to Negative from Stable. It has also confirmed at BB (high) the Issuer Rating as well as the ratings on its EUR 307.0 million Senior Secured Loan, EUR 15.0 million Senior Secured Amortising Floating-Rate Notes (Class A1 Notes), EUR 934.0 million Senior Secured Amortising Fixed-Rate Notes (Class A2 Notes), and EUR 558.0 million Senior Secured Zero-Coupon Notes (Class A3 Notes). The recovery rating on all debt instruments is RR2.

KEY CREDIT RATING CONSIDERATIONS

The trend change reflects Morningstar DBRS' continued uncertainty regarding the approval of the next Economic and Financial Plan (PEF) and the potential that Brebemi will not recover the tariff increases missed in 2022–23, as per Morningstar DBRS assumptions. Even though Brebemi is in litigations in order to recover the lost tariff increases, we are not assuming this to happen in Morningstar DBRS forecast given little support from Authorities that have appealed the sentence on lost tariff recovery in order to not grant it. This has also been reflected in the lower-than-expected tariff increase of 2.3% in 2024, which does not allow for lost tariff recovery. Also reflected in this rating action is the unexpected worsening in the tolling regime preventing Brebemi from adequately adjusting toll rates and weak protections in the Project Agreement, allowing Authorities to undertake regulatory actions resulting in a negative impact on revenue generation.

Based on Morningstar DBRS' base case, the credit rating confirmation reflects continuation of higher-than-expected traffic revenues and volumes. As of 2023, total traffic ramp-up has continued and has increased by 12.9% compared with 2022 levels primarily because of a better-than-expected performance in light vehicles (LVs) (14.8% higher in 2023 than in 2022). Heavy vehicles (HVs) still grew by 9.1% year-over-year (YOY) in 2023. Favorable traffic performance is also partly explained by the fact that Brebemi is still in the ramp-up stage, and it has therefore outperformed its peers in the Italian region, which grew by 3.8% in 2023. In the first five months of 2024, traffic volumes continue to be higher than expected for LVs (+5.4% versus 2023) and HVs (+5.5% versus 2023) showing to economic developments and new projects. Total traffic in the first five months of 2024 has increased by 5.4% compared with 2023.

These better-than-expected volumes have slightly improved key financial metrics, commensurate with ProjectCo's current rating level. The minimum debt service coverage ratio (DSCR) under Morningstar DBRS base case from 2024 onwards is now 1.19 times (x) and 2023 historical DSCR was 1.28x, above lock-up of 1.25x, and forward-looking DSCR was 1.27x. Breakeven resilience is now 9.31%, which Morningstar DBRS still considers to be low and supportive of the current ratings as it is well below the 20%–40% level required for a project still in the ramp-up phase.

CREDIT RATING DRIVERS

A sustained improvement in traffic volumes that drives metrics to pre-pandemic levels, particularly the minimum DSCR across the forecast horizon to above 1.30x and a stronger breakeven on revenue of not lower than 20%, could lead to a positive rating action under Morningstar DBRS' base case.

Also, certainty on future tariff increases that are better than expected could lead to a revision of the trend to Stable.

On the other hand, further deterioration in traffic to levels lower than currently expected could lead to a negative rating action. Also, continuation of uncertainty on tariff setting or resulting tariff setting worse than expected could lead to a negative rating action.

EARNINGS OUTLOOK

Based on its base case, Morningstar DBRS assumes continuation of traffic ramp-up with a good performance in the next years. Morningstar DBRS has now changed its assumption on tariffs during the current regulatory period and is assuming tariffs to only increase with inflation in 2025–26 with no lost tariff increases recovery included in its forecast. In Morningstar DBRS' previous forecast, it assumed tariffs to increase by 5.61%, in line with management. Also, Morningstar DBRS assumes for the next regulatory period after 2026 to be in line with management's forecast but recognize existing uncertainty given so far little support has been shown by the authorities during the current regulatory period and regarding the approval of the next PEF.

FINANCIAL OUTLOOK

Based on its base case, Morningstar DBRS expects DSCR metrics to decline to a minimum of 1.19x in December 2025 and to remain below 1.30x until December 2027. Improvement of metrics thereafter is expected because of Morningstar DBRS' assumption of improvements in tariffs in the next regulatory period. A weaker-than-expected tariff setting could have a negative rating impact. Under Morningstar DBRS' base case, the DSCR will remain in lock-up until December 2026, when the company will be able to resume junior debt payment.

CREDIT RATING RATIONALE

Brebemi's credit ratings are supported by the: (1) strong economic fundamentals of the service area located in one of the wealthiest and most industrialised areas in Italy and Europe, (2) low service complexity and performance standard risk, (3) new toll road with limited amount of capital expending needed, and (4) experienced management team. Brebemi's credit ratings are constrained by: (1) the traffic volume forecasting risk, (2) the current limited ability to increase tariffs, (3) a loose contractual framework that allows for regulatory risk interventions, (4) weak revenue breakeven resiliency below the bottom of the range specified by Morningstar DBRS' methodology, and (5) the reduction of or delay in receiving the termination amount and associated refinancing risk.

New Regulatory Period and Potential Rebalancing of the Economic and Financial Plan

Negotiations on toll tariff increases and other amendments to the PEF have continued among the Grantor, Brebemi, and the Authorities. Negotiations and discussions have been ongoing since 2021, with little visibility yet on resolution.

Toll Charges

On 28 December 2023, a tariff increase of 2.3% for 2024 was approved, which equals to the projected inflation rate. This is lower than the expected 11.2% for 2024 in order to compensate for the 2022 and 2023 loss of tariff adjustments. The company filed an appeal against this decision also in February 2024, and the hearing on the appeal is yet to be held. Timing required to complete the above is highly uncertain, as it is mostly dependent on the responsiveness and cooperation of the government authorities involved and there is still a pending appeal by the MIT on the Council of State.

Even though Morningstar DBRS sees positively that the Lazio government has approved the litigation started by Brebemi on the tariff increase, it has not factored any recovery of lost tariff increases during the current regulatory period, and it has factored tariff increases in 2025–26 of 2.3%, in line with 2024 tariff increase.

Liquidity Position

Morningstar DBRS considers liquidity position to be adequate. Liquidity includes unrestricted bank accounts of EUR 45.3 million and a debt service reserve account of EUR 43.1 million., which Morningstar DBRS considers sufficient to meet Brebemi's senior debt

service obligations of EUR 86.5 million in June and December 2024.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental, Social, or Governance factors that had a relevant or significant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (23 January 2024), <https://dbrs.morningstar.com/research/427030/morningstar-dbrs-criteria:-approach-to-environmental,-social,-and-governance-risk-factors-in-credit-ratings>

RATING DRIVERS AND FINANCIAL RISK ASSESSMENT (FRA)

(A) Weighting of Rating Drivers

In the analysis of Brebemi, the Rating Drivers listed in Part 2, (Volume-based PPPs) of the methodology were considered in the order of importance.

(B) Weighting of FRA Factors

In the analysis of Brebemi, the following FRA factor was considered most important: the minimum DSCR.

(C) Weighting of the BRA and the FRA

In the analysis of Brebemi, the FRA carries greater weight than the Rating Drivers.

Notes:

All figures are in euros unless otherwise noted.

Morningstar DBRS applied the following principal methodology:

Global Methodology for Rating Public-Private Partnerships (15 April 2024),

<https://dbrs.morningstar.com/research/431193/global-methodology-for-rating-public-private-partnerships>.

The following methodology has also been applied:

Morningstar DBRS Global Corporate Criteria (15 April 2024),

<https://dbrs.morningstar.com/research/431186/morningstar-dbrs-global-corporate-criteria>.

Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (23 January, 2024),

<https://dbrs.morningstar.com/research/427030/morningstar-dbrs-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

A description of how Morningstar DBRS analyses corporate finance transactions and how the methodologies are collectively applied can be found at: <https://dbrs.morningstar.com/research/431153>.

The primary sources of information used for these credit ratings include annual reports and financial statements, investor presentations and monthly traffic updates, management projections and budgets and management meetings. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12- month period. Morningstar DBRS trends and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep>- publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://dbrs.morningstar.com/research/434238/>.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Initial Rating Date: October 07, 2019

Last Rating Date: June 13, 2023

Information regarding Morningstar DBRS ratings, including definitions, policies, and methodologies, is available on dbrs.morningstar.com or contact us at info-DBRS@morningstar.com.

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Ratings

Società di Progetto Brebemi S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Recovery Rating	Attributes
11-Jun-24	Issuer Rating	Confirmed	BB (high)	Stb		EU U
11-Jun-24	Issuer Rating	Trend Change	BB (high)	Neg		EU U
11-Jun-24	EUR 15.0 million Senior Secured Amortising Floating-Rate Notes (Class A1 Notes)	Confirmed	BB (high)	Stb	RR2	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Recovery Rating	Attributes
11-Jun-24	EUR 15.0 million Senior Secured Amortising Floating-Rate Notes (Class A1 Notes)	Trend Change	BB (high)	Neg	RR2	EU U
11-Jun-24	EUR 307.0 million Senior Secured Loan	Trend Change	BB (high)	Neg	RR2	EU U
11-Jun-24	EUR 307.0 million Senior Secured Loan	Confirmed	BB (high)	Stb	RR2	EU U
11-Jun-24	EUR 558.0 million Senior Secured Zero-Coupon Notes (Class A3 Notes)	Confirmed	BB (high)	Stb	RR2	EU U
11-Jun-24	EUR 558.0 million Senior Secured Zero-Coupon Notes (Class A3 Notes)	Trend Change	BB (high)	Neg	RR2	EU U
11-Jun-24	EUR 934.0 million Senior Secured Amortising Fixed-Rate Notes (Class A2 Notes)	Confirmed	BB (high)	Stb	RR2	EU U
11-Jun-24	EUR 934.0 million Senior Secured Amortising Fixed-Rate Notes (Class A2 Notes)	Trend Change	BB (high)	Neg	RR2	EU U

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