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Atlantia And Subsidiaries Downgraded On Increased Concession Termination Risk For ASPI; Ratings On Watch Negative

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Related Criteria

The Italian government recently introduced unilateral changes by Law Decree n.162/2019 ("Milleproroghe") to toll road operators' regulatory framework. Under the Milleproroghe, the process for terminating or revoking concession contracts is less costly to the Grantor and not subject to the Grantor making a timely termination payment (which underpinned our analysis).

In our view, the Milleproroghe negatively affects ASPI (and thus indirectly Atlantia) by increasing the risk of a concession termination by either ASPI or the Grantor, with difficult-to-predict liquidity and legal consequences for ASPI and Atlantia.

If the concession were terminated or revoked, we would expect protracted legal proceedings bearing in mind that the concession initially provided strong protections to ASPI including in case of changes in the regulatory or legal framework.

We are therefore lowering our long- and short-term ratings on Atlantia and ASPI to 'BB-/B', with a recovery rating of '3'. At the same time, we are lowering our long- and short-term ratings on Atlantia's Spanish 50% plus one share subsidiary Abertis and its subsidiaries HIT and Sanef to 'BBB-/A-3' from 'BBB/A-2' and placing them on CreditWatch negative. We are also lowering the long- and short-term ratings on Atlantia's almost fully-owned operating subsidiary Aeroporti di Roma (AdR) to 'BB+/B' from 'BBB-/A-3' and placing them on CreditWatch negative.

The CreditWatch indicates that we could lower the ratings by more than one notch if liquidity risk increases for ASPI and Atlantia. We see liquidity risk increasing in the event of concession termination or revocation, or by a demand by creditors for acceleration of their debt. Apart from increased liquidity risk, the ratings could also be negatively affected by the ongoing investigations of the Genoa bridge collapse and ASPI's role in operating and maintaining its infrastructure network. If the findings of these investigations went against ASPI, it could be subject to large fines.

The unilateral changes introduced by the Italian government on existing toll road concessions increase the risk of ASPI concession termination. The Milleproroghe could create difficult-to-predict liquidity and legal consequences for both ASPI and Atlantia. The Milleproroghe in our view makes the regulatory framework for concessions more unpredictable as it significantly changes the terms of ASPI's concession, creating uncertainty about the consequences of a potential termination of the concession. The Milleproroghe is now in effect although it must be ratified by the Italian Parliament within two months of enactment, which we assume will happen.

Termination or revocation of the ASPI concession could result in protracted litigation between the Grantor and the concessionaire. Litigation in the event of a concession terminations is in our view likely because the concession provides strong protections to ASPI, including in case of changes in the regulatory or legal framework, and provides for a termination payment to ASPI in case of termination. As such, we believe that both parties have an interest in reaching a settlement. We would likely reassess the ratings if we saw evidence of that the parties were taking steps to avoid concession termination or revocation.

A lower termination payment and changes in effectiveness of a termination event increase liquidity risks. Under the Milleproroghe, termination of existing toll road concessions would be less costly to the Grantor, compared with the regulatory protections included in ASPI's concession, and would not be subject to the receipt of a timely termination payment by the Grantor. In our view, this significantly increases the risk of a shortfall liquidity for ASPI and Atlantia. In our initial analysis, we viewed the termination payment as a key source for ASPI and Atlantia's repayment of obligations that could be accelerated on a termination. According to some estimates, a Milleproroghe-based termination payment would be about €11 billion-€12 billion without taking into account potential penalties or damages payable by ASPI to the Grantor. This is significantly lower than the expected payment due under ASPI's concession calculated as the net present value of future cash flows (estimated at €20 billion-€25 billion). Under the Milleproroghe the termination payment is only equal to the value of investments made on the network, net of amortization.

ASPI's debt is about €9.8 billion and Atlantia has further debt, which could be accelerated in case of a termination event. ASPI's debt includes €7.7 billion of bonds of which €3.9 billion are guaranteed by Atlantia. By their terms, ASPI's bonds can be accelerated if the concession is terminated. ASPI also has €2.1 billion of credit facilities of which €1.7 billion can be accelerated under the terms of the facilities if ASPI's issuer credit ratings fall below 'BBB-'. If the facilities are accelerated, we will assess Atlantia's ability to face a repayment in a situation of potential liquidity stress.

If the concession is terminated, ASPI's cash flows could halt relatively quickly. The Milleproroghe provides that on termination of a toll road concession, state-owned road operator ANAS (fully consolidated into FSI rail operator since 2018) would take over responsibility for the relevant roads and be responsible for ordinary and extraordinary maintenance until a new operator is appointed.

Concession termination by ASPI would also raise liquidity and regulatory uncertainty. Under its concession, ASPI also has the right to terminate in certain circumstances. In its press release dated Dec. 23, 2019, ASPI stated that if the Milleproroghe were approved, ASPI reserved to terminate. As the Milleproroghe purports to invalidate ASPI's termination rights, it remains uncertain at this stage what effect an ASPI termination would have. The uncertainty is related to: (i) ASPI's legal right to terminate; (ii) the amount of the termination payment (under the original concession or under the Milleproroghe); and (iii) potential creditor actions. In our view, the last element is a key driver for a potential liquidity shortfall at ASPI and, in turn, Atlantia, particularly if not aligned with a full and timely termination payment from the grantor (the Ministry of Infrastructure and Transportation).

We expect any potential settlement agreement to be at more unfavorable conditions for ASPI than previously anticipated. In our view, the above legal and regulatory uncertainties, combined with the risk that a large termination payment may be due to ASPI, create incentives for both parties to find a settlement agreement. Nevertheless, given the ongoing investigations and allegations regarding the safety of ASPI's network, combined with a strained relationship with the Grantor, we expect any settlement agreement will likely be at more unfavorable conditions for ASPI than previously anticipated. This may result from significantly higher maintenance or investment costs, lower remuneration or tariffs, or large fines or penalties.

Ratings on Abertis lowered to 'BBB-'. We lowered our ratings on Atlantia's 50% plus one share-owned subsidiary Abertis to 'BBB-/A-3' from 'BBB/A-2' and placed them on CreditWatch negative following our negative rating action on Atlantia. The CreditWatch indicates that a negative rating action on Atlantia could trigger negative rating action on Abertis, a highly strategic subsidiary, unless we see evidence of minimal impact of Atlantia's credit stress on Abertis credit profile. We incorporate in our 'BBB-' ratings on Abertis three notches of insulation from Atlantia, reflecting the strengths of the shareholder agreement in place with Abertis' minority shareholders ACS/Hochtief (50% minus one share). The three notches reflect our view that the shareholders agreement provides effective measures to ACS/Hochtief to protect Abertis' credit quality from the potential negative intervention of Atlantia. This notably reflects that the minority shareholder has veto power on some reserved matters, such as dividend distributions and major acquisitions, which are core to Abertis' credit quality. We believe that ACS/Hochtief would be unwilling to allow actions detrimental to Abertis' creditworthiness. The stand-alone credit profile of Abertis remains unchanged at 'bbb' and we see Abertis as continuing to deliver its investment strategies with no significant impact from difficulties at Atlantia.

Abertis' subsidiaries HIT and Sanef also lowered to 'BBB-'. We also lowered our ratings on HIT and Sanef to 'BBB-' from 'BBB' and placed them on CreditWatch negative, in line with the rating action on Abertis. This is because we see HIT and its fully owned French toll road operator Sanef as core subsidiaries of Abertis.

Aeroporti di Roma rating lowered to 'BB+'. We lowered our ratings on AdR to 'BB+/B' from 'BBB/A-2' and placed them on CreditWatch negative. The CreditWatch signals that a negative rating action on Atlantia could trigger a negative rating action on AdR. We incorporate two notches of insulation between AdR and its parent Atlantia. The insulation reflects our view that, despite AdR being almost fully owned by Atlantia, its euro medium-term note (EMTN) program and its facilities do not include cross-default provisions or guarantees with Atlantia. In addition, AdR must meet certain conditions under its concession agreement with ENAC (The Italian Civil Aviation Authority), including a debt service coverage ratio (DSCR) of above 1.2x (2018: 6.0x). Furthermore, the concession agreement includes regulatory oversight by requiring three statutory auditors appointed by the Ministry of Economic Affairs, Ministry of Finance, and Ministry of Infrastructure and Transportation. We continue to assess AdR's stand-alone credit profile (SACP) at 'a+', reflecting its relatively strong balance sheet and its strong competitive position as Italy's largest airport operator, with a monopoly position in Rome.

The CreditWatch placement indicates that we could lower the ratings on Atlantia by more than one notch if liquidity risk materializes at ASPI and, in turn, Atlantia. This would most likely be triggered by a termination or revocation of the concession, or by a decision of some creditors to ask for acceleration of debt reimbursement.

In the absence of material liquidity risk, the ratings could also be negatively affected by the ongoing investigations regarding ASPI's responsibility in the Genoa bridge collapse and its diligence in operating and maintaining its infrastructure network, which could result in large fines.

If Atlantia and ASPI settle with the Grantor, we would analyze the agreement with an eye to its potential increased maintenance costs or lower remuneration on investments, among other things. In such a scenario, we may affirm or lower the ratings depending on the impact on Atlantia's financial metrics. Funds from operations (FFO) to debt of at least 9% would be supportive of the current ratings.

Any downgrade of Atlantia would most likely lead us to lower the ratings on AdR, Abertis and its subsidiaries in parallel, unless we see new tangible elements of increased insulation of those entities versus their parent group.

We expect to resolve the CreditWatch over the next few months.

Related Criteria

General Criteria: Group Rating Methodology (/en_EU/web/guest/article/-/view/sourceId/10999747), July 1, 2019
Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments (/en_EU/web/guest/article/-/view/sourceId/10906146), April 1, 2019
Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings (/en_EU/web/guest/article/-/view/sourceId/10486915), March 28, 2018
General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en_EU/web/guest/article/-/view/sourceId/10011703), April 7, 2017
Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers (/en_EU/web/guest/article/-/view/sourceId/9831306), Dec. 7, 2016
Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments (/en_EU/web/guest/article/-/view/sourceId/9478732), Jan. 20, 2016
Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers (/en_EU/web/guest/article/-/view/sourceId/8956570), Dec. 16, 2014
General Criteria: Country Risk Assessment Methodology And Assumptions (/en_EU/web/guest/article/-/view/sourceId/8313032), Nov. 19, 2013
Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry (/en_EU/web/guest/article/-/view/sourceId/8284110), Nov. 19, 2013
Criteria | Corporates | General: Corporate Methodology (/en_EU/web/guest/article/-/view/sourceId/8314109), Nov. 19, 2013
General Criteria: Methodology: Industry Risk (/en_EU/web/guest/article/-/view/sourceId/8304862), Nov. 19, 2013
General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities (/en_EU/web/guest/article/-/view/sourceId/7629699), Nov. 13, 2012
General Criteria: Use Of CreditWatch And Outlooks (/en_EU/web/guest/article/-/view/sourceId/5612636), Sept. 14, 2009
Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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