

**Rating Action: Moody's downgrades Concessioni Autostradali Venete's rating to Baa1; stable outlook**

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23 Oct 2018

London, 23 October 2018 -- Moody's Investors Service has today downgraded to Baa1 from A3 the senior secured debt rating of the Italian toll road operator Concessioni Autostradali Venete - CAV S.p.A. (CAV). The rating outlook is stable. This concludes the review for downgrade initiated on 30 May 2018.

The rating action was prompted by the rating agency's downgrade of the Government of Italy's bond rating to Baa3 with stable outlook from Baa2 under review for downgrade. For further information on the sovereign rating action, please refer to Moody's press release dated 19 October 2018 [http://www.moodys.com/viewresearchdoc.aspx?docid=PR\\_390302](http://www.moodys.com/viewresearchdoc.aspx?docid=PR_390302)

**RATINGS RATIONALE**

The downgrade of CAV's rating to Baa1 reflects the one-notch downgrade of the Italian sovereign rating, and the constraints that this puts on CAV's credit profile.

As one of Italy's largest toll road operators, all of CAV's earnings are generated domestically, which means that the company cannot fully insulate itself from the risks associated with a weakened sovereign. This would ordinarily constrain CAV's rating to one notch above the sovereign rating. However, the provision of partial credit enhancement from the European Investment Bank (EIB, Aaa stable) in the form of first-loss cover warrants a one-notch higher rating. Moody's would not expect CAV's senior secured debt to be rated more than two notches higher than the Italian government rating.

More generally, CAV's rating reflects (1) the continued good operating and traffic performance reported on its motorway network; (2) the terms of CAV's financing, which includes a fully amortising debt repayment profile that eliminates refinancing risk, and fixed interest costs, shielding CAV from higher market interest rates that may arise from a weakened sovereign environment; and (3) the additional credit support deriving from the EIB Project Bond Credit Enhancement, which results in an uplift of up to one and a half rating notches, providing additional liquidity if required, and enhancing recovery for senior lenders, as it acts as a first-loss piece in the financing structure.

In addition, the positioning of CAV's rating at two notches above the sovereign rating also assumes that the company will not be subject to significant political interference and/or discriminatory fiscal measures that would materially impact its business and financial risk profile.

The downgrade of CAV's rating also accommodates the likely deterioration of the company's financial profile due to the expected decrease of the rate or return (WACC) in the next regulatory period 2020-24. The decrease in WACC, the magnitude of which remains uncertain at this stage, reflects the proposed application of an agreement concluded in 2011 between CAV and ANAS in its role of concession grantor at the time.

**RATING OUTLOOK**

The outlook is stable, reflecting Moody's view that CAV will likely stay above the minimum financial metric guidance considered appropriate for the Baa1 rating, as well as the stable outlook on the sovereign rating.

**WHAT COULD MOVE THE RATING UP/DOWN**

Given the current linkages between CAV's rating and that of the government, an upward move in the sovereign rating, in addition to improved stability of the regulatory and tolls framework and a continued strong financial profile, would be needed in order to exert upward pressure on CAV's rating.

Downward rating pressure could develop in case of (1) a deterioration of the Italian sovereign rating; (2) a material change in the terms and conditions of CAV's concession or other public intervention that negatively affected the company's business or financial risk profile; or (3) a weakening of the Debt Service Coverage Ratio used to monitor CAV's performance under the debt documentation to levels persistently below 1.2x.

## PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Privately Managed Toll Roads published in October 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Concessioni Autostradali Venete - CAV S.p.A. operates 74 km of motorway stretches located in the Venice area, in Northern Italy, under a concession expiring in 2032. For the year ending December 2017, the company reported toll revenues of EUR136.9 million and EBITDA of EUR97.7 million.

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Raffaella Altamura  
Vice President - Senior Analyst  
Infrastructure Finance Group  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Andrew Blease  
Associate Managing Director  
Infrastructure Finance Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom

JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454



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