

Rating Action: Moody's assigns Baa3 rating to Milione S.p.A.; stable outlook

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London, 17 December 2018 -- Moody's Investors Service has today assigned a Baa3 rating to the EUR300 million 2.47% Senior Secured Bond maturing in 2026 issued by Milione S.p.A. (Milione). Concurrently, Moody's also assigned a Baa3 corporate family rating to Milione. The rating outlook is stable. This is the first time Moody's has assigned a rating to Milione, the holding company of SAVE S.p.A. (SAVE), the concessionaire operating the Venice and Treviso airports in Italy.

RATINGS RATIONALE

The Baa3 rating assigned to Milione reflects (1) the group's management of the Venice and Treviso airports, the third-largest airport group in Italy; (2) the strong fundamentals of its airports and, in particular, Venice, one of the world's major tourist destinations, and an attractive location for service industries within Veneto, one of Italy's wealthiest regions; (3) the favourable competitive position of its airports, which manage the vast majority of air travel within their region; (4) the high proportion of origin and destination passengers and a diversified carrier base; (5) the relatively resilient traffic profile, characterised by a significant international component, which mitigates the exposure to purely domestic macroeconomic trends; (6) a framework of economic regulation for aviation activities which is gaining a longer track record; and (7) the expectation that Milione's shareholders will seek to maintain an investment grade rating and target the strengthening of the business over the longer term rather than simply maximising financial returns over the shorter term.

Milione's rating is however constrained by (1) the existence of some transmodal competition for domestic traffic; (2) a sizeable investment programme to increase capacity and meet longer term passenger growth targets at Venice airport; (3) a financial profile which is one of the most leveraged amongst rated European peers; (4) the concentration of debt maturities over the 2025-26 period, which heightens refinancing risks, particularly in the context of the pressures characterising the Italian sovereign; and (5) a financial policy aimed at distributing excess cash flows to shareholders, albeit not at the expense of financial stability.

The Baa3 rating assigned to Milione also reflects the terms of its senior secured debt package including, amongst others (1) some limitations to business activities and acquisitions; (2) some limitations to additional financial indebtedness subject to covenants; (3) hedging of interest rate exposure covering at least 70% of the debt represented by a EUR515 million term loan for at least four years; (4) a security package benefiting senior creditors including a pledge over the shares held by Milione in SAVE and pledge over the shares that shareholders (through the respective dedicated vehicles) own in Milione; (5) shareholder distribution conditions including historic Leverage Ratio < 8.0x until 2021 and < 7.5x until 2026 and Interest Cover Ratio > 2.5x; (7) equity cure provisions. These features, whilst somewhat supporting the overall credit profile of the group, are not deemed sufficient to provide a rating uplift or significant creditors' protection, particularly if considered in the context of shortening concession lives.

A corporate family rating (CFR) is an opinion on the expected loss associated with the debt obligations of a group of companies assuming that it had one single class of debt and is a single consolidated legal entity. The CFR assigned to Milione consolidates the legal and financial obligations of the group and reflects the structural features of Milione's debt structure. The issuance of the rated EUR300 million Senior Secured Bond is part of a refinancing, on a senior secured basis, of debt previously located at the SAVE and Milione level. Following the refinancing, virtually all the group debt will be at Milione and will be subject to the same terms and conditions. Under the debt documentation, SAVE can incur debt up to a maximum amount of EUR30 million.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects the expectation that the airport assets managed by SAVE will continue to see passenger traffic growth and that the company will manage its capital expenditure programme so that Milione's credit metrics remain commensurate with the current rating category. The stable outlook also reflects the expectation that Milione's shareholders and management will continue to seek to maintain its financial profile through a flexible dividend policy.

WHAT COULD CHANGE THE RATING UP/DOWN

The rating could come under upward pressure if Milione's Funds From Operations (FFO)/Debt ratio was consistently above the low double digits in percentage terms, coupled with continued regulatory stability and a consistent application of the tariff-setting framework by the economic regulator. However, given the company's relatively leveraged financial profile and its financial policy, there is limited potential for any rating upgrade in the short term.

Negative pressure on Milione's rating would result from (1) a weakening of the company's financial profile, with FFO/Debt below 8% and Moody's Debt Service Coverage Ratio below 1.5x; (2) evidence of political interference, inconsistent implementation of the tariff-setting framework or material changes in the terms and conditions of its airport concessions, negatively affecting the overall group's business or financial profile; (3) a deterioration in the liquidity position and/or failure to timely address refinancing of its concentrated debt maturities; or (4) further significant negative pressure on the Italian sovereign rating (currently, Baa3 stable). More generally, Moody's cautions that the non-concession life driven ratio guidance for the current rating will be revised upwards as average remaining concession life reduces.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Privately Managed Airports and Related Issuers published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Milione S.p.A. is the holding company for SAVE S.p.A., the operator of the Venice and Treviso airports, in Italy. With 13.4 million passengers in 2017, SAVE is the third-largest Italian airport group, after Rome and Milan. SAVE also holds stakes in the Verona and Brescia airports (40.8%) and Brussels Charleroi airport (18%). Milione is ultimately owned by Finanziaria Internazionale, which holds investments in a number of financial and industrial sectors in Italy (12% stake), and the infrastructure funds managed by DWS (part of the Deutsche Bank Group) and InfraVia Capital Partners, each with a 44% stake.

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