

CREDIT OPINION

17 December 2018

New Issue

✓ Rate this Research

RATINGS

Milione S.p.A.

Domicile	Italy
Long Term Rating	Baa3
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Milione S.p.A.

New Issue

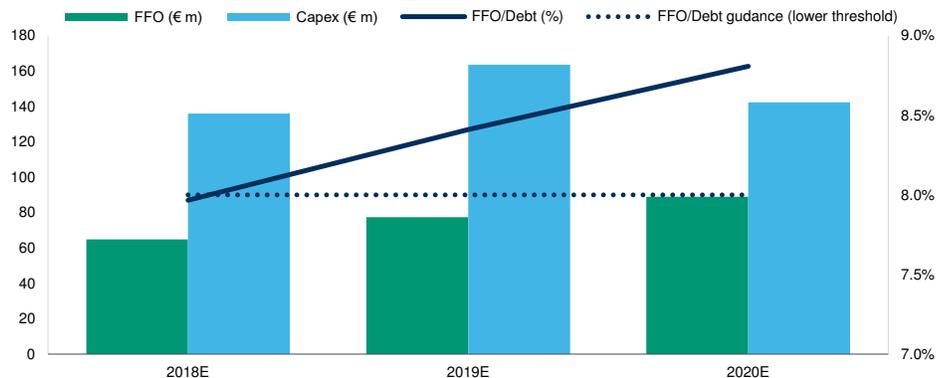
Summary

Milione S.p.A. (Milione, Baa3 stable) is the holding company of SAVE S.p.A. (SAVE), the concessionaire operating the Venice and Treviso airports in Italy. The company's credit profile 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; (3) the favourable competitive position of its managed airports; (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; (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 credit quality is however constrained by (1) the existence of some transmodal competition for domestic traffic; (2) a sizeable investment programme; (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; and (5) a financial policy aimed at distributing excess cash flows to shareholders, albeit not at the expense of financial stability.

Exhibit 1

Milione exhibits a highly leveraged profile and capex needs will limit ability to materially deleverage



Note: This represents Moody's forward view, not the view of the issuer.
Source: Moody's Investors Service

Credit strengths

- » Strong fundamentals of the airport assets managed by SAVE
- » Diversified airline base and traffic profile characterised by a significant international component
- » Regulatory framework gaining track record
- » Commitment towards a financial policy targeting an investment grade rating

Credit challenges

- » Leveraged financial profile
- » Sizeable capital expenditure programme will limit ability to deleverage
- » Significant debt maturities concentration

Rating 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.

Factors that could lead to an upgrade

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.

Factors that could lead to a downgrade

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.

Profile

Created in 2017, Milione is the holding company for SAVE, the operator of the Venice and Treviso airports, on the basis of concessions expiring in 2041 and 2053, respectively. 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 controlled 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

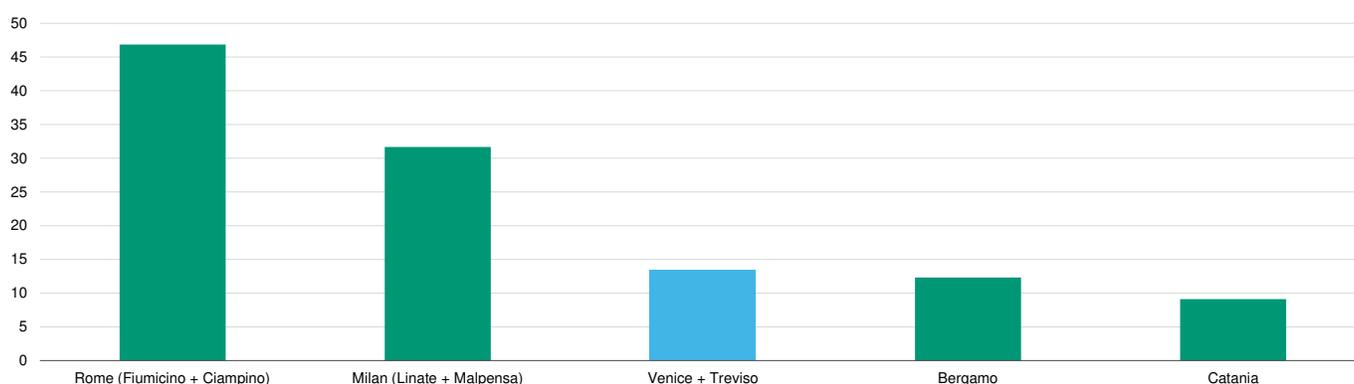
Detailed credit considerations

Operator of one of Italy's major airport systems

SAVE is the operator of the Venice and Treviso airports, under long term concessions expiring in 2041 and 2053, respectively. With 13.4 million passengers in 2017 (10.4 million at Venice and 3 million at Treviso), SAVE is the third-largest airport group in Italy, serving not only the cities of Venice and Treviso, but the whole Veneto region, the fifth-largest in Italy with around 4.9 million residents. In addition, SAVE holds a minority stake (40.8%) and manages the nearby airports of Verona and Brescia, which further enlarges the size of its service area and enables the company to manage the competitive dynamics between its airports. In addition to being the capital city of the region of Veneto, Venice is one of the world's leading cultural cities and a major world tourist destination, while the dynamism of the region makes it an attractive location for service industries.

Exhibit 2

SAVE is the third-largest airport group in Italy 2017 passengers (million)



Source: Companies, Moody's Investors Service

Overall, we consider that SAVE's airports manage the vast majority of air travel within their region, albeit they are also exposed to some transmodal competition. Domestic air services compete with rail, including high-speed rail connecting larger cities (e.g. the Rome-Venice route), as well as roads for shorter distances. Nevertheless, for the majority of SAVE's route network, neither road nor rail services are an effective competitor.

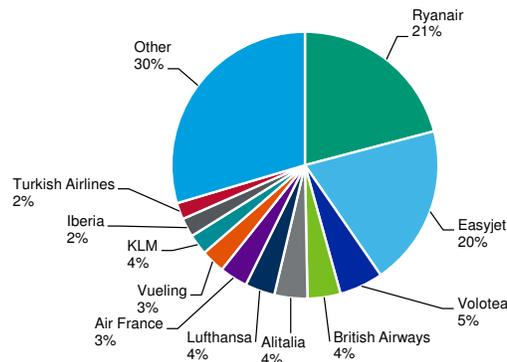
High proportion of O&D passengers and diversified carrier base underpin traffic resilience

The popularity of Venice as a travel destination is reflected in a high share of origin and destination (O&D) passengers at the airport, which represent virtually 100% of traffic. This high proportion of O&D traffic lends resilience to SAVE's profile, as it tends to somewhat delink traffic evolution from the financial health or the business strategies of its carrier base.

The Venice airport exhibits a diversified carrier mix. The two largest airlines, easyJet (Baa1 stable) and Volotea (unrated), both have seven aircraft based at the airport. In addition, the airlines have long term commercial agreements in place with SAVE, whereby discounts on aviation charges are recognised following the achievement of specific passenger growth targets. EasyJet and Volotea account for approximately 32% of traffic at Venice, while the eight largest airlines cumulatively account for less than 60% of total passengers. Importantly, SAVE's exposure to the Italian flagship carrier Alitalia, which is currently under extraordinary administration, is very small (approximately 5% of traffic at Venice).

The main airline at the Treviso airport is Ryanair (unrated), with 86% of traffic in 2017. Overall, when considering the combined position of the Venice and Treviso airports, Ryanair and EasyJet are the two main airlines, with a share of traffic in the area of approximately 20%, respectively. The diversification of SAVE's carrier base and the O&D nature of its traffic mean that the company should not be overly exposed to any individual airline failure, at least outside a context of a general recession.

Exhibit 3
SAVE exhibits a relatively diversified carriers base
 Traffic breakdown (Venice and Treviso)

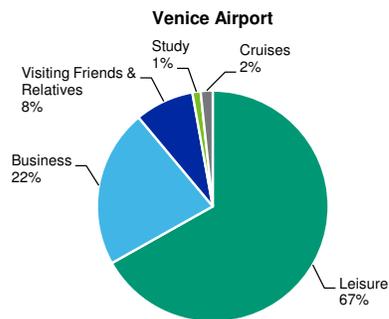


Source: Company, Moody's Investors Service

Significant international component supports traffic performance

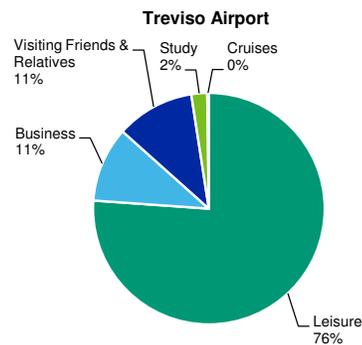
In light of the location of its airport assets, and their proximity to one of the world's most popular travel destinations, SAVE's traffic profile is characterised by a significant leisure component. The Venice airport in particular, however, also serves business users, recognising the presence of important manufacturing and service industries in the area.

Exhibit 4
Leisure traffic component is significant at Venice...
 As of FY 2017



Source: Company, Moody's Investors Service

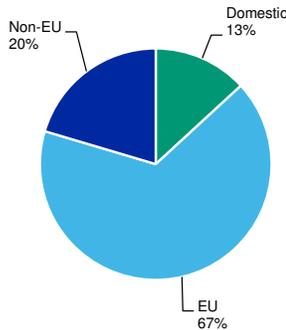
Exhibit 5
... and Treviso
 As of FY 2017



Source: Company, Moody's Investors Service

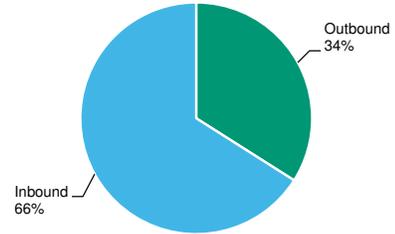
SAVE exhibits a material exposure to international traffic, which accounts, for example, for more than 85% of the total at the Venice airport. The majority of traffic at Venice is with other EU countries, with a high proportion of traffic inbound, which makes it less influenced by local economic conditions. More generally, the high share of international traffic helps to insulate SAVE's performance from purely domestic macroeconomic trends. In FY 2017, London, Paris, and Barcelona were the main destinations served internationally (almost 2.2 million passengers, 21% of total at Venice). Top Italian destinations included Naples, Catania and Rome, cumulatively accounting for almost 7% of total traffic at Venice.

Exhibit 6
International traffic is significant at Venice
 As of FY 2017



Source: Company, Moody's Investors Service

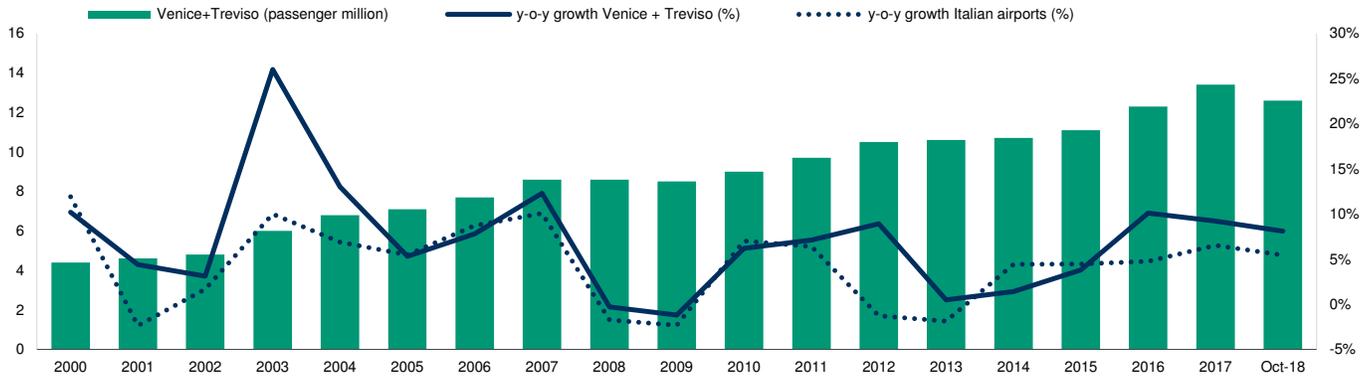
Exhibit 7
Venice traffic exhibits a substantial inbound component
 As of FY 2017



Source: Company, Moody's Investors Service

The significant international traffic component has historically supported SAVE's performance, particularly when challenging macroeconomic conditions and austerity measures in Italy impacted domestic traffic trends. SAVE reported only a small contraction in traffic during the financial crisis in 2008 and 2009, and passenger levels have been growing consistently since 2010. Traffic growth accelerated noticeably in 2016 and 2017, with SAVE reporting an overall passenger growth of 10.1% and 9.2%, respectively. In 2017, the Venice airport surpassed the 10 million passenger threshold for the first time in its history. Traffic performance remains supportive in 2018, with SAVE reporting an overall increase in passengers of 8.1% in the first ten months of the year.

Exhibit 8
SAVE's traffic performance has historically been resilient



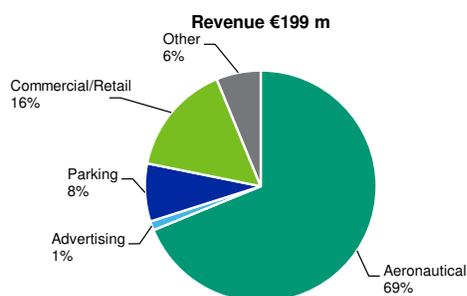
Source: Company, Assaeroporti, Moody's Investors Service

Regulatory framework is generally supportive and gaining a longer track record

The Venice airport is subject to a framework of economic regulation under a "dual till" model, i.e. a split between aviation activities and commercial activities where the risks and rewards of the commercial activities are for the account of the airport operator, whereas aviation activities are subject to a regulated return. Aeronautical revenues represented approximately 69% of the total in FY 2017.

Exhibit 9

Aeronautical revenue represent almost 70% of total FY 2017 consolidated revenue breakdown

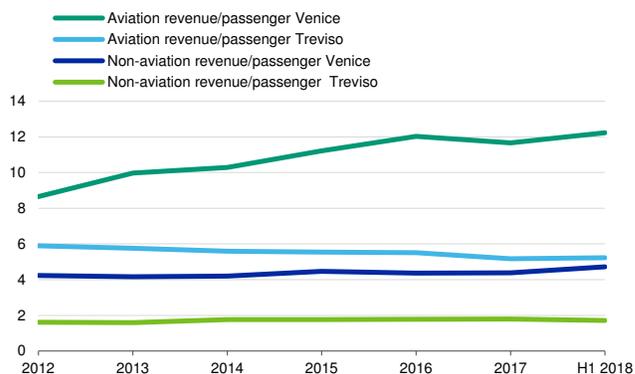


Source: Company, Moody's Investors Service

Exhibit 10

Aeronautical yields at Venice have increased

Yields per passenger evolution in €



Source: Company, Moody's Investors Service

Venice airport's aeronautical charges are subject to a regulatory review by Ente Nazionale per l'Aviazione Civile. Regulatory periods cover ten years, divided into two sub-periods of five years each (with an exception for the first sub-period, which covered the 2013-16 period). The allowed aeronautical revenues are the sum of the allowed operating costs (including concession fees), depreciation and a rate of return on the company's regulated asset base. The weighted average cost of capital (WACC) is adjusted on a five-year basis. There is also a premium of 2-4% of additional return recognised for strategic investments.

Venice is now in its second regulatory sub-period covering the years 2017-21. The allowed return for the period (the WACC) was revised down to 7.73% from 12.51% (real pre-tax), mainly as a result of a decline in market yields and a change in the Debt/Equity share used in the WACC formula. Average aeronautical charges increased by 2% and 8% in 2017 and 2018, respectively, while we expect an increase in the area of 6% in 2019.

With the completion of the first sub-period, the regulatory framework is now gaining a longer track record, which is supportive of SAVE's credit profile, although it remains less established than some European peers.

As a smaller airport, Treviso is regulated by Autorità di Regolazione dei Trasporti (ART), resulting in a more flexible framework of economic regulation in respect of tariff setting, which also derive from negotiations with airline counterparties. Tariffs are approved by Governmental (inter-ministerial) decree prior to their application. Overall, aeronautical charges at Treviso have remained broadly stable in recent years and no significant increases are expected, mainly reflecting the type of airlines operating at the airport (i.e. low cost carriers) and their sensitivity to aeronautical charges increases.

Sizeable capital expenditure programme

SAVE has a sizeable investment programme, mainly concentrated at the Venice airport, aimed at improving the service offering and increasing the airport capacity to accommodate the expected traffic growth over the medium term. Investments mainly include expansion of the existing terminal building at Venice, the requalification and upgrade of flight infrastructures and the expansion of parking facilities.

Whilst capital expenditure (capex) will be spread over a number of years, the absolute amounts are relatively sizeable in the context of the company's asset base and compared with historical spending levels.

The company has already significantly scaled up its investments over the past few years, with approximately €325 million capex over the period 2014-17 at the Venice airport. Total capex for the group is estimated at approximately €1.3 billion in the 2018-25 period,

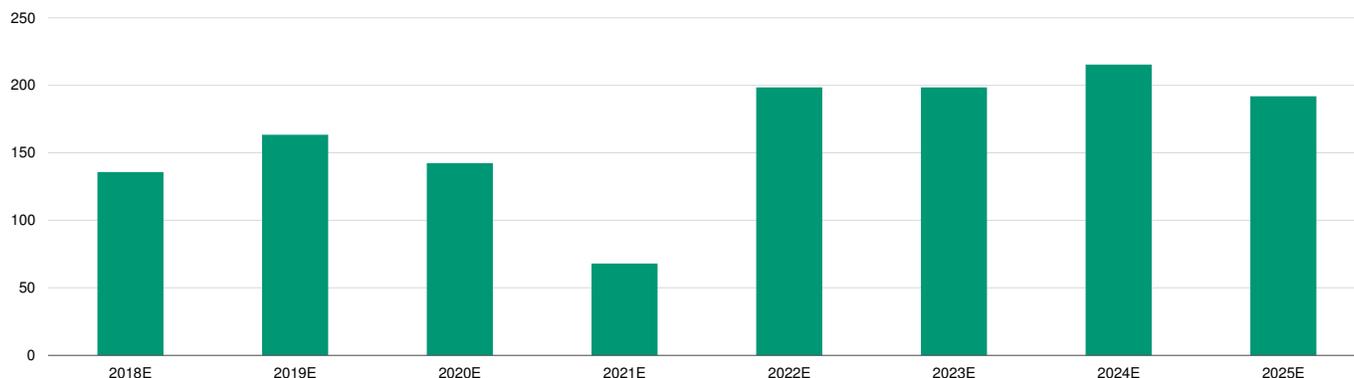
mostly concentrated at Venice. The sizeable investment levels are however mitigated by some flexibility in the timing of capex spend, also reflecting actual and projected traffic levels.

Investments will not only translate into a higher asset base leading to growth in aeronautical charges and revenues, but they will also drive an increase in SAVE's commercial revenues owing to an improved retail offer and a better customer experience.

Exhibit 11

Group capex expected to remain sizeable

Projected capex in € m



Source: Company, Moody's Investors Service

In light of the significant investments planned at the Venice airport, in the context of a concession expiring in 2041, SAVE would be entitled to receiving payment of a potentially sizeable terminal value at the end of the concession. The right to receive a terminal value at the end of the concession was introduced only in December 2017 (Law n. 205 of 27 December 2017) and is not explicitly included in SAVE's concession. In light of the lack of precedents related to the expiration of airport concessions, Moody's notes that no material track record exists in the Italian airport sector in respect of (1) quantification of such terminal value and (2) timing of receipt thereof. As such, the existence of a sizeable terminal value at the natural expiry of SAVE's Venice airport concession has not been factored directly into Milione's credit quality. More generally, the positioning of Milione's credit profile assumes that the company would not rely, at any point in the future, on the receipt of such terminal value for the repayment of its debt liabilities.

Highly levered financial profile and significant debt maturity concentration

Following the recently completed refinancing, Milione's outstanding debt includes a €515 million term loan and a €300 million bond maturing in 2025 and 2026, respectively. In addition, Milione has availability under a €150 million capex facility (maturing in 2025) and a €150 million loan provided by the European Investment Bank (EIB), amortising between 2022 and 2036. Virtually all group debt is at Milione, with the only exception being a loan located the Treviso Airport subsidiary (€10 million). Under the debt documentation, SAVE can incur debt up to a maximum amount of €30 million.

With a reported Net Debt/EBITDA (under Moody's case) expected to be in excess of 7.8x times and an FFO/Debt ratio expected to be around 8.5% at the end of 2019 (i.e. the first full year of operation following the newly established debt structure), Milione exhibits a leveraged financial profile when compared with rated peers. The sizeable investment programme at the Venice airport, coupled with the company's financial strategy, will also limit Milione's ability to deleverage in the short term.

Other financial metrics, which take into account the remaining weighted-average life of the underlying concessions, also reflect the leveraged profile of the group. Moody's Debt Service Coverage Ratio, which aims to capture the company's ability to service more normalised debt obligations, as they would manifest themselves on average over the life of the concession and assuming outstanding debt is fully repaid prior to expiry, is expected to be just below 1.7x times at the end of 2019.

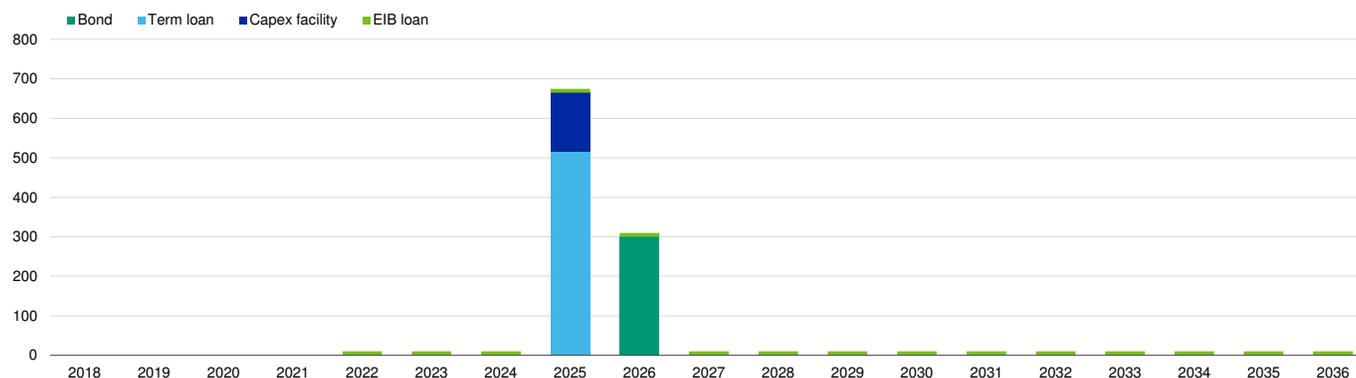
In addition to its levered profile, Milione's credit quality is constrained by the substantial concentration of its debt maturities over the years 2025-26. This heightens refinancing risks and exposes the company to potential market disruptions impairing its ability to access new funding, particularly in the context of the pressures characterising the Italian sovereign. Moody's would expect Milione to

prudently manage its financial profile and address refinancing of its debt maturities well ahead of time, and cautions that failure to do so would exert negative pressure on Milione's credit quality.

Exhibit 12

Milione exhibits a significant concentration of debt maturities

In € m



Note: excluding debt located at the Treviso airport subsidiary (currently €9.2 million, fully amortising by 2024).

Source: Company, Moody's Investors Service

Potential exposure to Italian sovereign pressures

Whilst SAVE's traffic includes a large component of international traffic, which is primarily driven by European GDP and global travel patterns, the company remains exposed to risks associated with being based in Italy. As such, Moody's cautions that substantial negative pressure on the government of Italy's sovereign rating (currently, Baa3 stable) would result in negative pressures on Milione's credit profile.

Liquidity analysis

Moody's expects Milione to generate sufficient cash flow and have sufficient cash balances or committed facilities to cover all cash requirements beyond the next 12 months. In line with other major airport businesses, the SAVE group generates strong operating cash flow throughout the year, albeit with some cyclicity because the northern hemisphere summer season generates more cash flow than the winter season.

As at 30 June 2018, the Milione group had almost €16 million of cash and cash equivalents. In addition, as part of the debt refinancing recently completed, Milione has access to a committed €30 million revolving credit facility, expiring in 2025.

Structural considerations

The Baa3 rating assigned to Milione 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 €515 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 a pledge over the shares that shareholders (through the respective dedicated vehicles) own in Milione, (5) shareholder distribution conditions including historic Leverage Ratio¹ <8.0x until 2021 and <7.5x until 2026 and Interest Cover Ratio² >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.

Milione's Corporate Family Rating (CFR) is Baa3, in line with the rating assigned to the company's newly issued €300 million Senior Secured Bonds due 2026. A 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. As discussed above, the issuance of the rated €300 million Senior Secured Bond is part of the refinancing, on a senior secured basis, of debt previously located

at the SAVE and Milione level. Following the refinancing, virtually all the group debt is at Milione and subject to the same terms and conditions. Under the debt documentation, SAVE can incur debt up to a maximum amount of €30 million.

Rating methodology and scorecard factors

Milione's rating reflects our assessment of the company's business profile and financial performance in line with Moody's [Privately Managed Airports and Related Issuers Rating Methodology](#), published in September 2017.

Exhibit 13

Rating factors Milione S.p.A.

Privately Managed Airports and Related Issuers Industry Grid [1]

Moody's 12-18 Month Forward View As of December 2018 [2]

Factor 1: Concession and Regulatory Frameworks (15%)	Measure	Score
a) Ability to Increase Tariffs		Baa
b) Nature of Ownership / Control		Baa
Factor 2: Market Position (15%)		
a) Size of Service Area		Aa
b) Economic Strength & Diversity of Service Area		A
c) Competition for Travel		A
Factor 3: Service Offering (15%)		
a) Passenger Mix		Aaa
b) Stability of traffic performance		A
c) Carrier Base		A
Factor 4: Capacity and Capital (5%)		
a) Ability to accommodate expected traffic growth		Baa
Factor 5: Financial Policy (10%)		
a) Financial Policy		Ba
Factor 6: Leverage and Coverage (40%)		
a) (FFO + Cash Interest Expense) / (Cash Interest Expense)	4.5x-4.8x	A
b) FFO / Debt	8.4%-9.0%	Baa
c) Moody's Debt Service Coverage Ratio	~1.7x	B
d) RCF / Debt	5.5%-7.0%	Baa
Rating:		
Indicated Rating from Grid Factors 1-6		Baa3
Uplift for Structural Considerations		0
Indicated Rating from Grid		Baa3
Actual Rating Assigned		Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, it does not incorporate significant acquisitions and divestitures.

Source: Moody's Investors Service

Ratings

Exhibit 14

Category	Moody's Rating
MILIONE S.P.A.	
Outlook	Stable
Corporate Family Rating	Baa3
Senior Secured -Dom Curr	Baa3

Source: Moody's Investors Service

Endnotes

- 1 Defined under the debt documentation as Net Debt/EBITDA.
- 2 Defined under the debt documentation as EBITDA/Net Finance Charges.

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