

FITCH ASSIGNS 'BB' AND 'AA(BRA)' RATING TO ENTREVIAS' 2ND DEBENTURE ISSUANCE

Fitch Ratings-Sao Paulo-13 March 2018: Fitch Ratings has assigned long-term ratings of 'BB' and 'AA(bra)' to the second issuance of debentures of Entrevias Concessionaria de Rodovias S.A. (Entrevias) in the amount of BRL1.0 billion due in 2030. The Rating Outlook is Stable.

The total amount of the issuance is BRL1.0 billion, in line with Fitch scenarios. The upfront equity injected was BRL31 million higher and the final interest rate of IPCA+7.75% was slightly lower than initially expected.

KEY RATING DRIVERS

Summary: Entrevias' ratings reflect the operational profile of the concessionaire, with heavy vehicles representing close to 60% of the traffic in both sections. The North Section of the toll road, which crosses Ribeirao Preto (SP), has a proven traffic base and should represent two thirds of total traffic. This stretch presents a relatively moderate volatility. The South Section, a more recent stretch, is crucial for region's agricultural production flow. The concession agreement provides for annual tariff increases that track inflation. The senior debt structure is also indexed to inflation, has six months reserve account and restriction on cash distribution up to 2024, period of higher investments when the issuer has debt service coverage ratios (DSCR) below one, providing adequate liquidity, in line with the rating category.

The Stable Outlook reflects Entrevias' strong ability to absorb a demand shock. The concessionaire is able to withstand a 32% traffic decrease in 2024, before defaulting on its debt service, in Fitch's base case.

Volume Strongly Linked to Economy [Volume Risk - Midrange]

Entrevias' concession is divided in two sections: North and South. The North Section, which crosses Ribeirao Preto, is under management of Vianorte S.A. (Vianorte, not rated) until March 2018 and has a long traffic track record. Fitch estimates this stretch to represent two thirds of total traffic, according to independent engineer report. The South Section, which crosses Marilia, connects the states of Sao Paulo and Parana, and it is crucial for agricultural production flow. Heavy vehicles represent close to 60% of the traffic in both sections. Brazilian logistics network narrows competition between toll roads, therefore, the price elasticity is moderate. Fitch expects Entrevias' volume to perform in line with the overall economic outlook given the high percentage of heavy vehicles in both sections.

Tariffs Adjusted By Inflation [Price Risk - Midrange]

The concession agreement presents a mechanism that allows inflation pass-through annually, and tariffs on the North Section, under management of Vianorte since 1998, have been readjusted accordingly without great effect on volumes. The regulatory framework is well-defined and provides for enforceable contracts. Political measures that impacted tariff readjustments have been offset by other mechanisms to preserve the financial/economic balance of the contract.

Extensive Capex Plan in the Next Years [Infrastructure Development/Renewal - Midrange]

Entrevias is expected to undertake a heavy capex plan in order to comply with recently signed concession agreement and to accommodate medium-term traffic forecasts in the South Section

of the road, in the region of Marilia. Although the company has a well-developed infrastructure and renewal plan, it does not have an EPC agreement signed with a major construction company. However, the construction work is simple, making it easier to replace the contractor in case it is needed. The concession framework provides for adequate recovery of expenditure via the mechanisms defined in the concession contract to preserve its financial/economic balance.

Adequate Debt Structure [Debt Structure - Midrange]

The debentures are senior and indexed to inflation, which is the same index used to readjust tariffs, providing a natural hedge to the debt. The structure benefits from a six-month debt service reserve account (DSRA). The amortization profile is back-loaded and the covenant related to dividend distribution is not viewed as a strong protection as it includes equity in its calculation. This weak feature is partially mitigated by the cash distribution restriction until 2024.

Financial Profile

Entrevias has low leverage, measure by net debt/EBITDA, with a peak of 2.2x in 2024. It presents an average DSCR of 0.9x during the debenture tenor in Fitch's rating case. However, the deficit in cash generation has mitigated the existence of significant retained cash balances in the concessionaire up to 2024 (period of higher investments), by an LLCR of 1.6x and by the long tail of the concession, that only matures in 2047, leading to a PLCR of 3.0x in Fitch's rating case.

PEER GROUP

There are no projects with characteristics similar to those of Entrevias that have a public rating by Fitch.

RATING SENSITIVITIES

Future developments that may, individually or collectively, lead to Positive Rating Action:

--Traffic growth that increases cash balance significantly above Fitch's base case in a sustained fashion.

Future developments that may, individually or collectively, lead to Negative Rating Action:

--Traffic growth does not meet Fitch's rating case, reducing the project's liquidity in BRL60 million in an accumulated basis in the following years;

--Sustained two-digit deviations in capex above Fitch's base case.

TRANSACTION SUMMARY

Entrevias' second debentures issuance has the amount of BRL1.0 billion with a 2030 final maturity and an interest rate of IPCA+7.75%, paid annually. The principal amortization schedule is customized, with 89% of principal due between 2026 and 2030. The debt structure benefits from a DSRA of six months and a clauses that provides for cash to be retained within the concessionaire until the 2024. DSCR calculations used to test for the distribution of dividends include capital contribution and must be greater than 1.2x. There are also limitations on additional indebtedness up to BRL30 million and through the leverage covenant, measured by net debt/EBITDA, which should be lower than 3.75x.

The second issuance will be used to pay the second installment of the fixed grant of BRL416 million (data-base of April 2017), and the remainder will be allocated to the investment plan of the concessionaire.

Fitch Cases

Fitch's base and rating cases assumptions reflect the macroeconomic projections of GDP, inflation and interest rates updated according to the Global Economic Outlook report published by the agency on Dec. 4, 2017.

The main assumptions of Fitch's base case include:

- Traffic growth of 1.2x GDP growth;
- Tariff readjustments according to the inflation of the period;
- Investments of BRL2.57 billion between 2017-2026, in nominal terms.

The main assumptions of Fitch's rating case include:

- Traffic growth of 1.0x GDP growth;
- Investments of BRL2.72 billion between 2017-2026, in nominal terms.

In Fitch's base case, average DSCR is 1.2x, considering the full debenture tenor, and maximum leverage (net debt/EBITDA) is 2.1x in 2025, taking into account the years of full operation, which takes place from 2019. LLCR reaches 1.9x and PLCR, 3.5x.

In Fitch's rating case, average DSCR is 0.9x, also considering the full debenture tenor, and maximum leverage (net debt/EBITDA) is 2.2x in 2024, taking into account the years of full operation, which takes place from 2019. LLCR reaches 1.6x and PLCR, 3.0x.

Asset Description

Entrevias is an SPV that owns the concession rights to explore, to invest and maintain 570km of roads in the State of Sao Paulo, divided in seven highway stretches that connect the north of the state of Parana and the southeast of the state of Minas Gerais. The concession was granted by the State Government of Sao Paulo, mediated by Agencia Reguladora de Servicos Publicos Delegados de Transporte do Estado de Sao Paulo (ARTESP), in 2017 for a period of 30 years (maturity in June 2047).

Contact

Primary Analyst

Uilian Mendonca

Associate Director

+55-11-3957-3651

Alameda Santos, 700 - 7th floor - Cerqueira Cesar

Sao Paulo - SP - CEP: 01418-100

Secondary Analyst

Alessandra Braga

Associate Director

+55-11-4504-2203

Committee Chairperson

Astra Castillo

Senior Director

+52-81-8399-9146

Fitch used financial information available until Dec. 31, 2017 for its analysis.

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com; Benjamin Rippey, New York, Tel: +1 646 582 4588, Email: benjamin.rippy@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017)

<https://www.fitchratings.com/site/re/902689>

Toll Roads, Bridges and Tunnels Rating Criteria (pub. 22 Feb 2018)

<https://www.fitchratings.com/site/re/10021263>

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.