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Credit Opinion: **Autovias S.A.**

Global Credit Research - 18 Apr 2015

Sao Paulo, Brazil

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating -Dom Curr	Baa3
Senior Secured -Dom Curr	Baa3
Senior Unsecured -Dom Curr	Baa3
NSR Senior Secured -Dom Curr	Aa1.br
NSR Senior Unsecured -Dom Curr	Aa1.br
NSR LT Issuer Rating -Dom Curr	Aa1.br

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Key Indicators

[1]Autovias S.A.	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Cash Interest Coverage	4.0x	4.4x	3.8x	2.8x	2.9x
FFO / Debt	33.9%	29.2%	33.7%	24.2%	19.2%
Moody's Debt Service Coverage Ratio	1.5x	1.0x	1.4x	1.3x	1.1x
RCF / Capex	1.4x	1.6x	0.9x	3.4x	2.3x
Concession Life Coverage Ratio	1.7x	1.8x	2.4x	1.8x	1.2x

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

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Rating Drivers

- Strong operating performance supported by constant traffic growth
- Essential transport link in a small but wealthy area
- Evolving concession and regulatory environment in the State of Sao Paulo
- Cost reduction strategy
- Track record of high dividend distributions

- Expected higher leverage to fund capital expenditures at Arteris' federal concessions

Corporate Profile

Autovias S.A. (Autovias) is an operating subsidiary of Arteris S.A. (Arteris, not rated). Arteris (f/k/a OHL Brasil S.A.) is a holding company with approximately 3,250 kilometers of operating toll roads under concession in Brazil consisting of four concessions in the state of Sao Paulo and five federal concessions in the states of Sao Paulo, Minas Gerais, Rio de Janeiro, Parana and Santa Catarina. Combined tolled traffic was 726 million equivalent vehicles in FY 2014. In 2014, Autovias' Revenues and EBITDA represented, respectively, 14% and 18% of Arteris consolidated Tolls Revenues and EBITDA. In 2014, Autovias reported net sales of BRL315 million, EBITDA of BRL256 million and net profit of BRL100 million using Moody's standard adjustments.

Autovias has a 20-year concession to operate the toll road services of five small adjacent roads in the interior of the state of Sao Paulo, which the state regulatory agency ARTESP granted under a single concession in September 1998, which leaves about 4 years remaining including the six months extension obtained in 2014 due to the additional BRL91 million CAPEX required by ARTESP.

Autovias is indirectly controlled by Abertis Infraestructuras S.A. (Abertis, not rated) and by Brookfield Asset Management, Inc. (Brookfield, Baa2/stable) through their respective ownerships of 51% and 49% in Participes en Brasil S.L. (Participes, not rated), which owns 69.3% of Arteris. Abertis, a company listed on the Spanish stock exchange for more than 25 years, having been included in the IBEX 35 since its creation, has a market capitalization of approximately EUR 9 billion and assets under management of EUR 23 billion. It operates in two sectors in 12 countries: highway concessions and telecommunications infrastructure with public-private partnership contracts and highway concessions worldwide.

Brookfield is indirectly controlled by Brookfield Asset Management Inc., a company listed on the NYSE and the Toronto Stock Exchange, with a market capitalization of more than US\$20 billion with more than US\$150 billion in assets under management. Brookfield Asset Management has been operating in Brazil since 1899, with a direct or indirect presence in 11 states and the Federal District and more than R\$25 billion under management. In Brazil, it operates primarily in the real estate, renewable energy, infrastructure and private equity segments.

Recent Developments

On September 17, 2014, Autovias had its concession contract extended by six months to restore its economic/financial equilibrium as a result of negotiations between the company and ARTESP to invest BRL91 million up to June 2016 to duplicate 14 kilometers of roads under their concession.

On June 30, 2014, Autovias had a 5.58% tariff adjustment approved to the period July 1st, 2014 up to June 30, 2015, 0.75% lower than the inflation rate for the period. Autovias filed a lawsuit against the regulator to receive the full index adjustment provided in the concession contract which is the IPC-A of 6.37% for the period. ARTESP says the lower percentage is to counterbalance the benefits Autovias had with the 50% reduction of the variable concession fees payable to ARTESP to 1.5% from the previous 3.0% of gross toll revenues and by the charge of idle truck axles since July 28, 2013.

On November 03, 2013, Moody's America Latina (Moody's) assigned a Baa3 rating on the global scale and Aa1.br rating on the Brazilian national Scale to the 44-month unsecured BRL300 million non-convertible debenture which was issued by Autovias S/A in December 2013. At the same time, Moody's affirmed Autovias' Baa3 and Aa1.br issuer ratings. The outlook was stable for all ratings.

The proceeds of the Third Issuance was used to prepay existing debentures of BRL154.5 million related to the first and second issuances indexed to CDI maturing in 2015 as well as for general corporate purposes, including CAPEX and dividend distribution.

On June 24, 2013, the Governor of the State of Sao Paulo suspended the annual tariff adjustment for all toll road concessionaires. Toll tariffs, which were scheduled to be adjusted for inflation on July 1st, were frozen for one year, until July 1, 2014. The Governor's decision followed intense public protests against tariff increases (later revoked) in the public transportation system in the city of Sao Paulo.

Rating Rationale

The Baa3 and Aa1.br ratings reflect the strong asset features of Autovias' road system, which is located in a well-developed and economically diversified region in the State of Sao Paulo, Brazil (Baa2/negative outlook). The

stable outlook reflects our view that the Company's credit metrics will continue to be strong primarily as a result of steadily growing operating revenues and relatively low remaining CAPEX requirements. The rating also takes into account the mature nature of the concession, as evidenced by a solid track record of tolled traffic, which has resulted in stable cash flows as well as strong credit metrics for the rating category. The track record of a regulatory environment that has been generally supportive of private-sector operating toll road concessionaires in the State of Sao Paulo further supports the rating.

The rating also incorporates expected upcoming increases in leverage as a result of potential transfer of resources to the holding company to help finance large capital expenditure programs at the federal concessions, planned contract amendments, potential investments in new concessions, as well as dividend distributions to shareholders. The rating is further pressured by the rather short remaining life of the Autovias' concession, which expires in about four years (May 2019) with little prospects for renewal or extension coupled with the potential for issues arising at concession termination with the amount of reimbursement to be realized from the Government of the State of Sao Paulo for the non-depreciated assets utilized in operating the concession.

Covenants included in the debentures limit the distribution of dividends and a significant leverage increase of Autovias. The covenants limit the maximum amount of net debt to 3.5x the annual EBITDA minus fixed concession payments and require cash coverage of short term debt obligations to be equal to or higher than 1.2x. Currently, these covenants are relatively loose given that the net debt to EBITDA ratio was 1.8x on December 31, 2014, while the cash coverage of short-term debt was 1.7x, according to the definition of the covenant.

DETAILED RATING CONSIDERATIONS

Factor 1: Asset Type and Service Area

Autovias has a 20-year concession to operate the toll road services of five small adjacent roads in the state of Sao Paulo, which the state regulatory agency ARTESP granted under a single concession in August 1998, which leaves about 4 years of remaining life. The five roads consist of 317 kilometers and 5 toll plazas which had an annual traffic of 48.9 million equivalent vehicles in 2014, an increase of 3.2% over the previous year. This compares with domestic GDP growth of 0.1% in 2014. The increase in traffic volume is a combined result of the charge of idle truck axles from July 01, 2013 and good performance from the agriculture sector. The region covered by the concession includes eighteen cities with an estimated population of around 3.4 million people.

Autovias' assets operate within an economically robust service area. The mature and essential nature of the concession is evidenced by its solid operating performance. We understand that, in general, the alternative roads in the region are either tolled by similar tariffs or not tolled with inferior service quality. There is limited competition envisioned over the remaining life of this concession.

The most populated cities within the concession area are: Ribeirao Preto, Araraquara, Franca, Sao Carlos and Jardinopolis. The economic base of this service area is well diversified. Ribeirao Preto is one of the wealthiest regions of the country with a strong presence in the agribusiness sector. The region produces approximately one third of the country's ethanol and 70% of Brazil's exported orange juice. In Sao Carlos, there is a concentration of educational services and high technology industries, such as the site for maintenance of AIRBUS turbines. Franca is well-known for its shoe making industry. Despite the economic diversification, a higher rating on this sub-factor is limited by uncertainty regarding demographic developments over time.

We consider Autovias well positioned for an Baa rating on this factor, primarily due to the strong economic characteristics of the area in which it operates and the maturity of its road network that has relatively stable and predictable traffic levels and operating cash flows. Fundamentals of the service areas are also considered favorable given the strong traffic growth correlation with past national economic trends, and the increasing car ownership rates in the most densely populated cities.

As Brazil's largest state, Sao Paulo has a population of about 40 million and contributes more than one-third of the country's GDP. The State's economic base is highly diversified, reflecting its role as the country's industrial engine. Wealth levels are relatively high compared to the national average, and the State's economic performance has outpaced Brazil's in recent years. We estimate the GDP per capita in the service area of Autovias is currently about USD13,000, which is among the highest in Latin America. Historically, Brazil has had a dynamic market-oriented economy characterized by a diversified export base; however, according to Moody's forecast, Brazil's overall GDP growth will be in the range of 1% negative in 2015.

Factor 2: Traffic Profile and Performance Trends

Autovias has a strong track record of tolled traffic. In 2014, heavy vehicles represented about 63% of the total traffic in terms of equivalent vehicles and it is a result of the economic activity in the region including both industrial production and agribusiness, and by the fact that fees for idle truck axles started to be charged on July 01, 2013, as a government measure to compensate for the tariffs being frozen from July 2013 to July 2014. Nevertheless, it should be noted that freight vehicle traffic is typically more volatile than commuter traffic mainly at times of economic contraction.

Light vehicles accounted for the remaining 37% of traffic volume in 2014. We estimate that commuter traffic ranges from 20% to 30% of the total traffic. Commuter traffic tends to be less volatile than commercial traffic, which typically moves in tandem with the country's GDP. Our Baa assessment for this rating factor takes into account the long track record of Autovias' toll road and the significant contribution of commuter traffic.

Factor 3: Concession and Regulatory Framework

We view the regulatory environment for toll road operators in Brazil, and specifically in the State of Sao Paulo as generally supportive in terms of transparency for the tariff-setting mechanism and protection against events outside the control of the concessionaire. Despite being relatively new and not completely independent of political pressure, the rated private toll road concessions have a reasonable track record of cost recovery and adequate returns on invested capital. Toll rates are adjusted annually by inflation according to the General Price Index (IGP-M).

The Agencia Reguladora de Servicos Publicos Delegados de Transporte - ARTESP is the transportation regulatory agency responsible for overseeing toll road concessions in the State of SP. ARTESP has been generally supportive of toll road concessionaires in the State of Sao Paulo, as demonstrated by previous amendments made in December 2006 when ARTESP extended the concession of Intervias for an additional 95 months in order to restore the financial equilibrium of the concessionaire as a result of events outside management's control. The extension was triggered by an increase in costs associated with the taxes on revenues that were not clearly defined in the original concession agreement. Another example was the extension of the concession contract of Autoban and Ecovias dos Imigrantes as a result of negotiations between the companies and ARTESP which restored the economic/financial equilibrium of those concession contracts.

We view this as evidence of the supportiveness of the regulatory framework. Toll road tariffs are adjusted annually every year in the month of July. However, on June 27, 2013, the Governor of the State of Sao Paulo suspended the annual tariff adjustment for all toll road concessionaires. Toll tariffs, which were scheduled to be adjusted for inflation on July 1st, were frozen for one year, until July 1, 2014. The Governor's decision followed intense public protests against tariff increases (later revoked) in the public transportation system in the city of Sao Paulo.

In order to preserve the financial-economic equilibrium of the concessionaires' contracts the main compensating measures announced by the State Governor were: (i) a 50% reduction of the variable concession fees payable to ARTESP to 1.5% from the previous 3.0% of gross toll revenues; and (ii) idle truck axles started to be charged on July 28, 2013. These additional measures taken to preserve the economic/financial equilibrium of the concession confirms our opinion of ARTESP's continued support of private-sector concessionaires in the State of Sao Paulo.

Nevertheless, according to our Operating Toll Roads rating methodology, we have adjusted the rating of subfactor 3a ("Ability to Increase Tariffs") to Baa from Aa, which reflects our perception of potentially greater political interference and increased uncertainty as to the consistency and predictability of the concession and regulatory framework (Factor 3 in our methodology).

Additional compensation for new investments or changes in business circumstances that do not include traffic volatility are subject to negotiation. At termination, the assets associated with the toll road concession are to be returned to the concession authority, and non-depreciated investments required to maintain the quality of road service during the last five years of operations are subject to indemnification; however, it should be noted that no toll road concessions have terminated to date so there is no evidence of how well the indemnification process will work.

On June 27, 2014, ARTESP approved a 6.97% tariff increase to the company to be applied for the period July 1st 2014 to June 30, 2015. This adjustment, despite higher than the 6.37% inflation for the period, is lower than the company considers enough to counterbalance the benefits the company received with the 50% reduction of the variable concession fees payable to ARTESP to 1.5% from the previous 3.0% of gross toll revenues and by the charge of idle truck axles since July 28, 2013. These benefits were provided to compensate the suspension of the annual tariff adjustment for all toll roads in the State of Sao Paulo. As a result, the company filed a lawsuit against the regulator to receive a higher index adjustment.

Factor 4: Financial Policy

Among Arteris' concessions in the State of Sao Paulo, Autovias has a relatively low level of planned CAPEX per year (BRL82 million on average) for the next 4 years. The two biggest projects are the intersection in the city of Ribeirão Preto which will consume about BRL80 million over the next two years and the duplication of 14 kilometers of roads under its concessions which will consume about BRL91 million up to June 2016.

Revised estimates from Arteris indicate a significant additional amount of CAPEX (BRL4 billion) will be spent between 2015 and 2018, mostly related to its five federal concessions, which had their respective concession contracts amended given delays due to environmental licensing, project redesign, and land expropriations.

Nevertheless, the negative economic impact resulting from said delays has been relatively minor to date. The financing for this CAPEX is expected to come from a combination of dividends and intercompany loans from the state owned concessions and new debenture issuances as well as additional financing from BNDES.

As of December 31, 2014, the group had BRL532 million of long term credit lines (up to 15 years) approved by BNDES to finance its planned CAPEX. Although Arteris' access to the capital markets and to the BNDES has been resilient, significant additional investments could lead to a deterioration in liquidity and further borrowing needs when access to the capital markets are less favorable.

Consequently, the ratings of Autovias are constrained by the significant cash needs of Arteris, the parent company, which is forecasted to require sizeable dividends as well as increased leverage in order to pay for ongoing and new CAPEX investments at the federal toll road concessions. Consequently, we have lowered our rating for the Financial Policy factor from Baa to Ba to reflect this more aggressive financial strategy. However, the following financial covenants embedded in the Company's Debentures limit its re-leveraging capability, a financing mechanism which we believe will be pursued by the Company to raise funds to on-lend them to the parent company in the form of related-party debt: 1. Net Debt-to-EBITDA less fixed concession payments equal to or less than 3.5 times. 2. Debt Service Coverage Ratio equal to or higher than 1.2 times. Additionally, according to the company's information, current intercompany loans amounting to BRL388 million as of December 31, 2014 will start to be repaid in 2015. Our projections indicate that the covenants will remain achievable throughout the duration of the debentures even assuming a 95% dividend pay-out, but just considering the repayment of the intercompany loans from 2016 to 2019, the last four years of the concession, instead of from 2015 to 2019 as the company has forecasted.

Given the expectation that Autovias' cash flow generation will be higher than BRL150 million per year over the next five years and capital expenditures will be BRL45 million per year on average, our forecast shows overall credit metrics are expected to remain adequate for the rating category even if Autovias does not receive repayment of the intercompany loans in 2015 and 2016 from its holding company parent as forecasted by the groups' management.

Factor 5: Coverage and Leverage

Autovias has strong credit metrics for the rating category which largely stems from the steady increase in traffic. Average Funds From Operations (FFO)-to-Debt ratio from 2012 to 2014 was 33.3% while the average Cash Interest Coverage ratio was 4.2x in the same period mapping, respectively, to Aa and Baa rating categories.

Retained cash flow from operations to CAPEX ratio of 1.4x is also strong mapping to Baa metric despite the high dividends distributions to support the high CAPEX demanded by the parent's federal concessions. Leverage as measured by the Net-Debt-to-EBITDA ratio increased from 1.4x in 2012 to 1.8x in 2014 as the company reduced its cash position with the higher payment of dividends and additional transference of resources to the holding company Arteris S.A via intercompany loans. As a result, net debt increased from BRL286 million as of December 31, 2012 to BRL492 million as of December 31, 2014.

Liquidity

Autovias' liquidity weakened in 2014 as a combined result of higher capital expenditures which reached BRL61 million, dividend payments of BRL93 million and intercompany loans of BRL133 million. As of December 31, 2014, cash and marketable securities was only BRL100 million when compared to short term debt of BRL172 million. During the first quarter 2015, the company used almost 100% of this cash to repay the first installment of BRL40 million of the first debenture which matured in February 2015 and the first installment of BRL48 million of the third debenture which matured in March 2015.

As a mature operating concession, capital expenditures primarily consist of maintenance requirements of approximately BRL45 million per year. In addition to CAPEX, we expect cash outlays to mostly consist of dividend payments and repayment of current debt which fully matures

by the end of 2017. Until the end of the concession, Autovias is required to pay approximately BRL37 million (2015 to 2018) to the granting authority (the Department of Highways of the State of Sao Paulo) in the form of fixed concession payments, we have adjusted the Company's financial debt to include the present value of these concession payments which amounts to an average payment of approximately BRL9.2 million per year over the next four years.

The major credit risk will be further borrowings to meet the cash needs of its shareholders, either through dividend distributions or via extension of additional inter-company loans. However, the existing debt structure (third debenture issuance) offers investors some debt protection by limiting the maximum level of net debt to the equivalent to 3.5x EBITDA less fixed concession payments and cash coverage of short term debt obligations to a minimum of 1.2x. The debenture also has a clause which limits the total amount of intercompany loans that was reached as of December 2014.

Rating Outlook

The stable outlook reflects our view that Autovias will continue to generate stable cash flows given the mature nature of the concession, the expected growth of tolled traffic and by the experienced management team focused on improving operating performance. Moody's expects that the payment of dividends and extension of inter-company loans will continue for the remainder of the concession, but that both will be prudently managed maintaining adequate credit metrics and covenants under control.

What Could Change the Rating - Up

The rating could be upgraded if the company were to steadily improve its liquidity profile and also produce credit metrics wherein the FFO to debt ratio remains above 40% and cash interest coverage stays above 5.0x on a sustainable basis.

What Could Change the Rating - Down

The rating could be downgraded if there is a significant and sustained deterioration in Autovias' credit metrics such that FFO to debt ratio falls below 10% and the cash interest coverage ratio remains below 2.5x for an extended period of time. Deterioration in the credit quality of Arteris S.A., further political interference in the normal course of business of the Company or a deterioration in the quality of the concession and regulatory framework could also prompt a downgrade rating action.

Rating Factors

Autovias S.A.

Privately Managed Toll Roads Industry Grid [1][2]	Current 12/31/2014	
Factor 1 : Asset Type and Service Area (25%)	Measure	Score
a) Asset Type		Baa
b) Competing Routes		Aa
c) Economic Resilience of Service Area		Baa
Factor 2 : Traffic Profile and Performance Trends (15%)		
a) Traffic Profile		Baa
b) Track Record and Stability of Tolled Traffic		A
c) Traffic Density		Baa
Factor 3 : Concession and Regulatory Framework (10%)		
a) Ability and Willingness to Increase Tariffs		Baa
b) Protection Provided by the Concession and Regulatory Framework		Baa

[3]Moody's 12-18 Month Forward ViewAs of 4/17/2015	
Measure	Score
	Baa
	Aa
	Baa
	Baa
	A
	Baa
	Baa
	Baa

Factor 4 : Financial Policy (10%)		Ba		Ba
a) Financial Policy		Ba		Ba
Factor 5 : Coverage and Leverage (40%)				
a) Cash Interest Coverage	4.0x	Baa	4.5x	A
b) FFO / Debt	33.9%	Aa	45.5%	Aaa
c) Moody's Debt Service Coverage Ratio	1.5x	Ba	1.1x	B
d) RCF / CAPEX	1.4x	Baa	2.6x	Aa
e) Concession Life Coverage Ratio	1.7x	Ba	1.3x	B
Rating:				
Indicated Rating from Grid Factors 1-5		Baa2		Baa3
Rating Lift				
a) Indicated Rating from Grid		Baa2		Baa3
b) 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] As of 9/30/2014(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

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