

Global Credit Research - 15 May 2015

Sao Paulo, Brazil

## Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating -Dom Curr	Ba1
Senior Unsecured -Dom Curr	Ba1
NSR Senior Unsecured	Aa1.br
NSR LT Issuer Rating	Aa1.br

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## Key Indicators

[1]CentroviasSistemasRodoviarosS.A.

	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
Cash Interest Coverage	2.9x	4.0x	2.9x	2.7x	2.1x
FFO / Debt	20.7%	36.5%	22.3%	22.1%	12.7%
Moody's Debt Service Coverage Ratio	0.8x	1.6x	1.0x	1.3x	0.9x
RCF / Capex	1.5x	5.6x	-2.6x	4.8x	0.8x
Concession Life Coverage Ratio	0.9x	1.9x	1.3x	1.6x	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 traffic growth of commercial vehicles
- Historically stable and supportive regulatory framework until July 2013 when the annual tariff adjustment was suspended
- Track record of high dividend distributions
- Potentially higher leverage to fund capital expenditures at parent Arteris' federal concessions
- Strong asset features in an economically robust service area

## Corporate Profile

Centrovias 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 (717 million in FY 2013). In 2014, Centrovias' Revenues and EBITDA represented, respectively, 8.6% and 18% of Arteris' consolidated Tolls Revenues and EBITDA. In 2014, Centrovias reported net sales of BRL341 million, EBITDA of BRL296 million, and net profit of BRL120 million, using Moody's standard adjustments.

Centrovias holds a 21-year concession to expand, operate and maintain the toll road services of two small adjacent roads in the interior of the state of Sao Paulo with a total extension of 218.2 km. The concession was granted by the State of Sao Paulo in June 1998, which leaves 4 years remaining.

Centrovias is indirectly controlled by Abertis Infraestructuras S.A. (Abertis, not rated) and by Brookfield Brazil Motorways Holdings SRL, (Brookfield Brazil, not rated) 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. It operates in two sectors in 12 countries: highway concessions and telecommunications infrastructure with public-private partnership contracts and highway concessions worldwide.

Brookfield Brazil Motorways Holdings SRL is indirectly controlled by Brookfield Asset Management Inc., a company listed on the NYSE and the Toronto Stock Exchange, with than US\$200 billion in assets under management. Brookfield Asset Management has been operating in Brazil since 1899, with a direct or indirect presence in about half of the Brazilian states with revenues of \$1.8 billion (10% of the group's total sales) and assets of \$11.8 billion (9% of the group's total assets). In Brazil, it operates primarily in the real estate, renewable energy, infrastructure and private equity segments.

## Recent Developments

On March 2, 2015 Brazil's President Dilma Rousseff approved Law 13.103 ("Lei dos Caminhoneiros"), which: (i) suspended the idle axles charge for unloaded trucks; (ii) defined the overload weight increase to 10% from 5%, which may result in more maintenance costs for the toll roads; (iii) created more "resting/supporting" areas for trucks/truck drivers; (iv) exonerated truckers from penalties from the last two years related to overload-weight.

On September 19, 2014, Centrovias won the right to receive the full index adjustment of 6.37%, according to the concession contract.

On June 30, 2014, Centrovias had a 5.04% tariff adjustment approved to the period July 1st, 2014 up to June 30, 2015, 1.33% lower than the inflation rate for the period. Centrovias filed a lawsuit against the regulator to receive the full index adjustment provided in the concession contract which was the IPC-A of 6.37% for the period. ARTESP said the lower percentage was to counterbalance the benefits Centrovias 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 February 14, 2014, Moody's America Latina (Moody's) assigned a Ba1 rating on the global scale and Aa1.br rating on the Brazilian National Scale to unsecured BRL400 million non-convertible debentures, which was issued by Centrovias S/A in March 2014. At the same time, Moody's affirmed Centrovias' Ba1 and Aa1.br issuer ratings and the the Ba1/Aa1.br ratings of the Company's outstanding senior secured debentures which mature in 2017. The outlook was stable for all ratings. The proceeds of this issuance was used to pay maturing debt, including debentures (approximately BRL90 million) as well as for general corporate purposes, including CAPEX, dividend distribution and potential intercompany loans to the parent holding company.

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.

In August 2012, Abertis and OHL Concesiones S.A. (OHL, Ba2, negative) reached an agreement through which Abertis purchased 100% of the shares of Participes, previously owned by OHL. As a result, Centrovias is now indirectly controlled by Abertis and by Brookfield through their respective ownerships of 51% and 49% in Participes. The operation involved (i) the exchange of 100% of Participes' capital stock for 10% of Abertis' capital

stock, (ii) the assumption by Abertis of approximately R\$1.2 billion in intercompany loans between OHL and Participes, and (iii) the payment of EUR 10.7 million. In order to make the operation feasible, Abertis formalized an agreement with the Canadian fund Brookfield for the joint acquisition of Participes. All government approvals were received and the transaction was finalized in December 2012, which allowed Abertis to become the global leader in highway management.

### Rating Rationale

The Ba1 and Aa1.br ratings are supported by the long history of tolling operations of Centrovias' road system, which is located in a well developed and economically diversified region in the State of Sao Paulo (Baa2 negative). The stable outlook reflects our opinion that Centrovias' operational performance will remain strong during the remaining life of the concession in light of strong credit fundamentals 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 that dates back to 1998, 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 operating toll road concessionaires in the State of Sao Paulo further supports the rating.

Notwithstanding the positive fundamentals of Centrovias' concession, the ratings are somewhat constrained by: (i) the downturn in the domestic GDP; (ii) the track record of high dividend distributions which we expect will continue in the future; (iii) potential intercompany loans that could be extended to the parent holding company; (iv) further potential political interference from the State of Sao Paulo and the rather short remaining life of the Centrovias concession which expires in four years.

### DETAILED RATING CONSIDERATIONS:

#### Asset Type and Service Area

Centrovias has a 21-year concession to operate the toll road services of two small adjacent roads in the interior of the state of Sao Paulo, which the state regulatory agency ARTESP granted under a single concession on June 19, 1998. The two roads consist of 218 kilometers and 5 toll plazas and have annual traffic of approximately 58 million equivalent vehicles. The region covered by the concession includes twelve cities with an estimated population of around 1.0 million people.

Centrovias serves a relatively small region with supportive demographics and evolving economic fundamentals. The alternative routes in the region are either tolled by the same tariff/km or not tolled with inferior service quality. Therefore, there is limited competition envisioned over the remaining life of this concession which is scheduled to expire in June 2019.

The most populated cities along Centrovias' concession area are: Sao Carlos, Bauru, Jau, Brotas and Rio Claro. The economic base of this service area is reasonably diversified. In Sao Carlos there is a concentration of high technology industries and educational services. The concession area is part of the Milk belt of Sao Paulo and it has also been the transport route of other agricultural commodities such as oranges, sugar cane, tomatoes, coffee, rice, eggs, chicken and beef from the North. Over the last few years, Brotas has become an important destiny of ecotourism in the state of Sao Paulo. In Sao Carlos, there is a concentration of educational services and high technology industries, such as the site for the maintenance of AIRBUS turbines.

We consider Centrovias 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. 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.

#### Traffic Profile and Performance Trends

Centrovias' tolled traffic in 2014 was 66% represented by heavy trucks, which tends to be more volatile than

passenger vehicle traffic. From 2010 to 2014, Centrovias presented an average tolled traffic growth of 18.8%.

Distorting this number is the 63% increase in 2011 which reflects the change in the configuration of certain toll plazas, so that they could begin to charge tolls in both directions. On a normalized basis, we estimate that Centrovias' toll traffic increased approximately 7% in 2011. Traffic in 2012 grew 6.4% mainly due to the better performance of the agriculture commodities segment in the region. In 2013, tolled traffic increased 10.8% mainly due to the fact that idle truck axles started to be charged on July 01, 2013 as a partial offset to the frozen tariffs for a year. In 2014, traffic increased 3.7% due to the 9.6% traffic growth in the first semester while during the second semester due to weaker economic performance of the industry traffic decreased almost 1.5%. In the first quarter 2015, traffic decreased an additional 6.3% when compared to the same period of 2014, also following the weak economic performance.

#### 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 sub-factor 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.

Given Centrovias' strong cash flow generation of BRL160 million per year on average over the past three years and limited maintenance capital expenditures of just BRL19 million in 2014, overall credit metrics will remain at sufficiently strong levels for the current rating category based on Moody's sensitivities. An extension of concession life would be viewed positively.

#### Financial Policy

Revised estimates from Arteris indicate a significant additional amount of CAPEX (BRL4.2 billion) will be spent between 2014 and 2017, mostly related to its five federal concessions, which had their respective concession contracts amended given delays incurred 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 the planned 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. Currently, the group has 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 the BNDES has been resilient, significant additional investments could lead to a deterioration in liquidity and further borrowing needs if the capital markets become less favorable.

Consequently, the ratings of Centrovias are constrained by the potential cash needs of Arteris, the parent company, which is forecasted to require sizeable dividends as well as additional intercompany loans to finance the planned CAPEX investments at the federal toll road concessions. However, the following financial covenants embedded in the most recent debenture issuance limit the Company's re-leveraging capability, a mechanism which could be pursued by the Company to raise funds to on-lend them to the parent company in the form of related-party debt. Centrovias recent debenture issuance includes the following financial covenants: i) Net Debt to EBITDA minus fixed concession payments equal or less than 3.5x and Debt Service Coverage Ratio equal or higher than 1.2x, according to the definition included in debenture's indenture. It additionally has a CAP of BRL65 million for additional intercompany loans on top of the current BRL319 million exposure as of December 31, 2014 (BRL149 million on December 31, 2013).

Given Centrovias' cash flow generation of BRL200 million per year on average and limited maintenance capital expenditures of BRL37 million per year on average up to the end of the concession in 2019, our forecast shows that overall credit metrics are expected to remain strong for the rating category even if Centrovias were to receive the BRL233 million of intercompany loans from its holding company parent just at the end of the concession expiration.

#### Coverage and Leverage

Centrovias has presented relatively strong credit metrics for the rating category, characterized by high debt coverage ratios as measured by the latest three-year average (2012 - 2014) Funds From Operations-to-Debt ratio (FFO-to-Debt) of 26.5%, with a Cash Interest Coverage ratio of 3.3x. These ratios are much stronger when compared to the period 2010 - 2012, in which FFO-to-Debt was 19%, and Cash Interest Coverage ratio was 2.6x. The improvement in the aforementioned ratios is a combined result of the higher cash generation as a result of the previous mentioned higher traffic, lower operating expenses and a reduction in interest rates during the period.

Through the remaining life of the concession (from 2015 up to June 2019), Centrovias is required to spend approximately BRL156 million in maintenance CAPEX, of which about BRL140 million is targeted from 2015 to 2017. Until the end of the concession, the Company is required to pay approximately BRL37 million to the granting authority (the Department of Highways of the State of Sao Paulo) in the form of fixed concession payments, of which BRL34 million is scheduled to be paid over the next three years (2015 to 2017). For comparative purposes with other rated operational toll roads and in accordance with Moody's standard adjustments, we have adjusted the Company's financial debt to include the present value of these required concession payments. Going forward, Centrovias is forecasted to post strong credit metrics in line with its rating category for most of the key credit ratios used in the Operational Toll Roads Methodology.

#### Liquidity

Centrovias has a healthy cash generation and capital structure financial profile. The proceeds of the debentures issuance that occurred in March 2014 was used initially to prepay existing short-term debt and strengthen its liquidity position. As a mature operating concession, capital expenditures primarily consist of maintenance requirements of approximately BRL30 million per year. Going forward, we expect cash outlays to mostly consist of dividend payments and inter-company loans.

The major credit risk will be further borrowings to meet the cash needs of its shareholders, either through dividend distributions or through extending further inter-company loans. These new parent borrowings could deteriorate the company's liquidity position if the capital markets were to become less favorable. However, the existing debt structure offers investors some debt protection by limiting the maximum level of debt to the equivalent of 3.5x EBITDA and cash coverage of short term debt obligations to a minimum of 1.2x.

According to Moody's standard adjustments, as of December 31 2014, Centrovias reported total debt of BRL618

million (of which BRL178 million was classified as current maturity), against a cash and cash equivalents position of BRL253 million.

## Rating Outlook

The stable outlook reflects our view that Centrovias will continue to generate stable cash flows given the mature nature of the concession, the expected growth of the domestic GDP and by the experienced management team remaining focused on improving operating performance. Moody's expects that the payment of dividends and extension of intercompany loans will continue for the remainder of the concession, but both potential cash outlays will be prudently managed so that the credit metrics remain within the proposed financial covenants. The stable outlook also reflects our expectation that the concession and regulatory framework in the State of Sao Paulo will continue to be supportive of private sector toll road concessionaires, and that the annual tariff adjustment will resume in July 2015 pursuant to the terms and conditions of the concession contract.

## What Could Change the Rating - Up

The rating could be upgraded if the company were to steadily improve its liquidity profile and maintain credit metrics in line with historical performance so that the FFO to debt ratio stays above 30% and the interest coverage remains above 3.5x on a sustainable basis.

## What Could Change the Rating - Down

The rating could be downgraded if there is a significant and sustained deterioration in credit metrics so that FFO to debt ratio falls below 25% and interest coverage ratio remains below 2.5x for an extended period of time. Deterioration in the credit quality of the parent holding company 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

### CentroviasSistemasRodoviarosS.A.

Privately Managed Toll Roads Industry Grid [1][2]	Current LTM 12/31/2014		[3]Moody's 12-18 Month Forward ViewAs of 5/15/2015	
Factor 1 : Asset Type and Service Area (25%)	Measure	Score	Measure	Score
a) Asset Type	Ba	Ba	Ba	Ba
b) Competing Routes	Aa	Aa	Aa	Aa
c) Economic Resilience of Service Area	Baa	Baa	Baa	Baa
Factor 2 : Traffic Profile and Performance Trends (15%)				
a) Traffic Profile	Ba	Ba	Ba	Ba
b) Track Record and Stability of Tolloed Traffic	A	A	A	A
c) Traffic Density	Baa	Baa	Baa	Baa
Factor 3 : Concession and Regulatory Framework (10%)				
a)Ability and Willingness to Increase Tariffs	Baa	Baa	Baa	Baa
b) Protection Provided by the Concession and Regulatory Framework	Baa	Baa	Baa	Baa
Factor 4 : Financial Policy (10%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Factor 5 : Coverage and Leverage (40%)				
a) Cash Interest Coverage	3.3x	Baa	3.3x	Baa
b) FFO / Debt	26.5%	Aa	42.4%	Aaa
c) Moody's Debt Service Coverage Ratio	1.2x	B	2.0x	Baa
d) RCF / CAPEX	1.5x	A	1.4x	Baa
e) Concession Life Coverage Ratio	1.4x	B	1.7x	B
<b>Rating:</b>				

Indicated Rating from Grid Factors 1-5		Ba1		Baa3
Rating Lift				
a) Indicated Rating from Grid		Ba1		Baa3
b) Actual Rating Assigned		Ba1		Ba1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2014; 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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