

Rating Action: Moody's upgrades ViaLagos' ratings to Ba2/Aa3.br and assigns Ba2/Aa3.br ratings to BRL 41 million new debenture issuance; outlook stable

25 Apr 2018

Sao Paulo, April 25, 2018 -- Moody's America Latina Ltda. (Moody's) upgraded Concessionária da Rodovia dos Lagos SA (ViaLagos) ("ViaLagos" or the company") Corporate Family Ratings and senior unsecured ratings to Ba2/Aa3.br from Ba3/A2.br (respectively, in Moody's global scale and Brazil's national scale). At the same time, Moody's assigned Ba2/Aa3.br ratings to the BRL 41 million senior unsecured debenture issuance (4th issuance) due in 2020. The outlook remains stable.

The upgrade reflects the improvement in traffic performance with 4.9% growth registered in 2017 from 2016, that reversed traffic declines of the previous two years. Furthermore, the company continues to register overall strong credit metrics that we project will continue in the forecasted period supported by continued economic growth and improved traffic performance.

RATINGS RATIONALE

The senior unsecured non-convertible debentures have a 27-month tenor from the issuance date, with a bullet payment at maturity (2020) and semi-annual interest payments. ViaLagos will use the issuance proceeds to refinance a large portion of its maturing debt. The debentures do not have cross default provisions with other outstanding debt from the company, or its parent (CCR S.A., Ba2 negative), or any of the parent's subsidiaries or affiliate companies. The indenture contains a Net Debt to EBITDA financial covenant to limit dividend distributions above the minimum required by Brazilian Corporate Law.

The Ba2/Aa3.br ratings reflect ViaLagos' relatively small but strong concession, supported by its long-term concession contract under which tariffs are annually adjusted by inflation. The relatively strong credit metrics for the rating category and overall predictable and stable cash flows further support the ratings as well as the solid track record of traffic volumes. Moreover, ViaLagos' remaining concession life expiring in 2047 combined with relative low investment needs is also incorporated in its credit profile as is our understanding of continuous access to the local banking and capital markets.

Nonetheless, the ratings are constrained by a high concentration on leisure vehicles and potential increase of competing routes. A track record of high dividend distributions and a very active controlling shareholder will continue to exert pressure on the up-streaming of dividends from ViaLagos. Our view of Brazil's sovereign rating (Ba2 stable) also limits the company's rating given ViaLagos purely domestic operations.

The stable outlook reflects our expectation that credit metrics will remain robust mainly driven by ViaLagos' overall predictable cash flows and low capex needs, typical of mature toll roads. Brazil's stable outlook also supports the company's outlook.

What Could Change the Rating - Up /Down

ViaLagos' ratings are constrained by Brazil's sovereign rating, therefore an upgrade is unlikely in the short to medium term. An upgrade of Brazil's rating could lead to upward pressure on ViaLagos' ratings considering the company maintains an adequate liquidity and strong credit metrics.

A rapid or significant downturn in traffic performance or ViaLagos' credit metrics such as if RCF/CAPEX stays below 1.0x, and Cash Interest Coverage remains below 1.4x on a sustainable basis could prompt a rating downgrade as well as the degradation of the liquidity and overall credit quality. Deterioration in the parent's credit quality could also exert downward pressure for ViaLagos as well as our perception of a weakened concession and regulatory framework or political interference in the normal operations of the company. We also assume that CCR or any of its subsidiaries will not incur new debt containing cross default provisions that could affect ViaLagos' ratings. A downgrade of Brazil would exert negative credit pressure on the assigned ratings.

ViaLagos is an operating subsidiary of CCR S.A., one of Brazil's largest infrastructure concession groups that operates and maintains 3,265 km of toll road concessions. ViaLagos accounts for approximately 1.6% of

CCR's consolidated net operating revenues and EBITDA, which reached about BRL7.5 billion and BRL5.3 billion (according to Moody's standard adjustments), respectively, in 2017.

ViaLagos holds a 50-year concession to operate and maintain the 56-kilometer (km) RJ-124 road connecting the municipality of Rio Bonito to São Pedro da Aldeia, in the northeast of the State of Rio de Janeiro. The State of Rio de Janeiro granted the concession to ViaLagos in 1996 for a 25-year period. In 2011, the State extended the life of the concession by 15 years, and in 2016 for more 10 years, until 2047.

ViaLagos connects with BR-101 at Rio Bonito which is operated by Arteris (not rated) under a concession awarded by the Brazilian Federal Government. ViaLagos also has two access points to the state-operated RJ-106, which serves the sea resort area "Costa do Sol" that includes the municipalities of Saquarema, Araruama and Iguaba Grande. ViaLagos and RJ-106 finally intercept each other at Sao Pedro da Aldeia, the end of the ViaLagos road. As a result, ViaLagos' traffic profile is composed primarily by light vehicles (80%), with a relatively large proportion of leisure traffic. The remaining 20% consists of heavy vehicle traffic (commercial), a portion of which is originated by BR-101.

The principal methodology used in these ratings was Privately Managed Toll Roads published in October 2017. Please see the Rating Methodologies page on www.moody.com.br for a copy of this methodology.

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