S&P Global
Ratings

RatingsDirect®

Research Update:

French Car Park Operator Infra Park Outlook Revised To Positive On Improving Credit Metrics; Ratings Affirmed

Primary Credit Analyst:
Stefania Belisario, London (44) 20-7176-3858; stefania.belisario@spglobal.com

Secondary Contact:
Beata Sperling-Tyler, London (44) 20-7176-3687; beata.sperling-tyler@spglobal.com

Table Of Contents

Research Update:

French Car Park Operator Infra Park Outlook Revised To Positive On Improving Credit Metrics; Ratings Affirmed

Overview

- Infra Park's credit metrics have been boosted by its expansion in Brazil and successful cost optimization in France; adjusted funds from operations (FFO) to debt increased to above 13% in 2016.
- We anticipate that the company's metrics will continue improving, driven by further business growth, despite sector challenges, and an ongoing focus on cost management, assuming no material changes in its financial leverage and dividend policy.
- We are therefore revising our outlook on Infra Park to positive from stable and affirming our long-term rating at 'BBB'.
- The positive outlook reflects our view that we could increase the rating on Infra Park over the next two years if the company delivers the expected business growth while potential changes in ownership do not materially affect its financial leverage and financial policy.

Rating Action

On May 17, 2017, S&P Global Ratings revised the outlook on France-based car park operator Infra Park S.A.S. to positive from stable and affirmed the long-term corporate credit rating at 'BBB'.

At the same time, we affirmed our 'BBB' issue rating on Infra Park's senior unsecured debt.

Rationale

The outlook revision follows Infra Park's better-than-expected operating results in 2016, including a 10% increase in operating earnings (EBITDA)--mainly driven by the consolidation of its Brazilian subsidiary AGE--and the optimization of operating costs in France. The latter was a result of a cost efficiency plan launched in 2015, which focused on staff optimization measures.

We expect Infra Park's credit metrics will continue improving in the near-to-mid term, although we see green policies promoted by local municipalities and developments in the automotive industry, including the development of autonomous cars as a potential threat for the industry in the long term. We anticipate the company will be mitigating some volume declines in France in 2017 through tariff increases and further cost optimizations. The French car park market has historically demonstrated inelasticity to prices, which we expect to continue. In the coming three years, Infra Park will also benefit from the ramp-up of some new long term and cash generative contracts, including in Bordeaux and Toulouse. Furthermore, the better enforcement of on-street penalties expected from the privatization of the enforcement activities in France could result in higher dissuasive fines, potentially diverting some volume from on-street to off-street car parks. Volume growth in the rest of Europe will be driven by Spanish economic recovery. Revenue growth will be boosted by developing operations in Northern and Latin America, in particular Brazil. Due to their prevailing business models focused on short-term leases and management contracts, the American markets offer lower margins compared with concessions, which are Infra Park's main focus in continental Europe. Nevertheless, we expect Infra Park will maintain stable profitability, assuming no changes in the current group perimeter, as about 90% of company's EBITDA will still come from concessions and infrastructure type of contracts.

We also incorporate into our rating that the company is not exposed to concentration risk on single assets as major contracts do not represent a meaningful portion of total operating earnings. The company also has a good historical retention rate on its expiring contracts that we estimate at about 80%-90%.

While Infra Park's shareholders have launched a process of sale or capital opening to new shareholders, we are not incorporating in our forecast any material increase in leverage following the potential changes in ownership, as we do not have visibility on the identity of potential new shareholders and their acquisition and dividends appetite. In our base case, the only additional obligations in the coming years will result from consolidation on the balance sheet of fixed concession fees liabilities under International Financial Reporting Interpretations Committee (IFRIC) 12, that will be partially compensated for by lower reported operating costs. Based on these assumptions, we expect the company's FFO to debt to remain above 13% over the next two years.

Our assumptions for 2017-2018 include:
- Annual revenue growth of about 2.5%-3.0% a year, driven by:
- In France and Western Europe, a 1.5%-2% per year tariff growth, in line with our consumer price index assumptions. We also incorporate a 3.0%-5.0% volume decline in France in 2017 due to expiring contracts, reversed to a 1.0%-1.5% growth in 2018 driven by the ramp-up of some new contracts and the potential positive impact of the new enforcement law.
- In other regions, we incorporate the effect of a full consolidation of AGE subsidiary in Brazil in 2017 and the impact of some expired and newly awarded contracts.
- Stable S&P Global Ratings-adjusted EBITDA margin of 46%-47%, supported by cost efficiency measures and not significantly affected by overseas operations, contributing to about 5% of total EBITDA.
- No new acquisitions and no change in the scope of the consolidation.

- Capital expenditure (capex) of about €140 million-€160 million as annual average and dividends of about €80 million-€100 million per year, as per management forecasts.
- No additional financial debt issued, excluding the drawdown of some committed undrawn amount of the revolving credit facility (RCF) maturing in 2021 (€250 million undrawn amount as of December 2016). However, about €100 million in 2018 and €80 million in 2019 of additional concession fees liabilities reported on-balance sheet driven by contracts renewal.

Based on these assumptions, we arrive at the following credit measures:
- FFO to debt of 12.5%-13.5%;
- Debt to EBITDA of 5.5x-6.0x; and
- FFO interest coverage of 6.5x-7.5x.

Liquidity

We assess Infra Park's liquidity as strong based on our expectation that sources of liquidity will exceed uses by about 1.8x in the 12 months to March 31, 2018. Our assessment is also supported by our view that the company would be able to absorb high-impact, low-probability events without refinancing, has well-established, strong relationships with banks, and generally prudent risk management. There are no financial covenants on existing debt.

Principal Liquidity Sources

- Unrestricted cash and equivalents of about €51.2 million as of March 31, 2017;
- Undrawn committed RCF of €250 million maturing in October 2021; and
- FFO of about €215 million-€225 million.

Principal Liquidity Uses

- Debt maturities of about €53 million, mainly represented by payments of fixed concession fees reported as on-balance sheet;
- Capex of about €140 million-€150 million, on average, over the next 12 months; and
- Dividends of about €75 million-€85 million, on average, over the next 12 months.

Outlook

The positive outlook reflects S&P Global Ratings' view that Infra Park will be able to maintain its adjusted FFO to debt over 13% in 2017-2019 through a combination of revenue growth and cost optimization. We believe that while price increases will compensate for some declining volumes in France, the company's growth will be supported by increasing contribution from the developing markets, including consolidation of the Brazilian subsidiary AGE.

Upside scenario

We could raise the rating if the company was able to successfully deliver the projected business growth, and maintain its FFO-to-debt ratio sustainably above 13%. In our view, this would materialize if potential changes in ownership do not materially affect its financial leverage and financial policy.

Downside scenario

We could revise the outlook to stable if Infra Park fails to maintain its FFO-to-debt ratio sustainably above 13%. Furthermore, we could take a negative rating action if, in our view, Infra Park was not able to maintain its FFO-to-debt ratio comfortably above 10%. This could happen if a high debt-funded shareholder distribution or acquisition were not supported by adequate EBITDA growth due to stagnant revenues or falling operating margins.

We could also consider a downgrade if the company significantly changed its business mix so that exposure to non-infrastructure business--such as management contracts and short-term leases--increased to about 30% of EBITDA, likely resulting in adjusted EBITDA margins falling below 30%. This would likely weaken our view of the company's business risk profile.

Ratings Score Snapshot

Corporate Credit Rating: BBB/Positive/--

Business risk: Strong
- Country risk: Low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014

- Criteria - Corporates - General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Infra Park S.A.S.		
Indigo Infra S.A.S.		
Corporate Credit Rating	BBB/Positive/--	BBB/Stable/--
Infra Park S.A.S.		
Senior Unsecured	BBB	BBB

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com