Alperia SpA (/gws/en/esp/issr/96533111)

FitchRatings

Fitch assigns Alperia First-Time 'BBB' Rating; Outlook Stable

Fitch Ratings-London/Milan-07 August 2017: Fitch Ratings has assigned Italy-based utilities group Alperia S.p.A. a Long-Term Issuer Default Rating (IDR) of 'BBB'. The Outlook on the IDR is Stable.

Alperia's IDR mainly reflects its solid business profile, with electricity generation entirely deriving from hydro (partly incentivised) and photovoltaic (PV) solar, with regulated activities representing around 20-25% of the consolidated EBITDA, and with a strong market position in the wealthy Alto Adige area.

The rating also takes into account the still challenging market conditions for generation, the company's growth ambitions and the maximum leverage targeted by management of 3.0x in terms of net debt/EBITDA. We rate Alperia on a standalone basis, but we see the presence of the majority shareholder Provincia Autonoma di Bolzano (PAB, 'A-'/Stable) as a stabilising factor for the company's profile. Fitch expects average FFO adjusted net leverage of 3.6x for 2017-2021 and FFO fixed charge coverage of around 9x over the same period. In light of Alperia's business profile, we see these ratios as consistent with the 'BBB' rating.

KEY RATING DRIVERS

Solid Business Profile: Alperia benefits from a 100% fuel cost-free asset base. It is the third-largest hydro producer in Italy with an installed capacity of 1.4GW. Incentives for hydro amount to EUR10-12 million per year. Alperia has also some solar PV plants. The group holds a niche market position in supply and manages the electricity distribution network in Alto Adige. Regulated activities represent 20%-25% of Alperia's EBITDA (EUR156 million in 2016). Quasi-regulated activities (incentives on hydro and solar and district heating) contribute an additional 20%. The average residual life of incentives stands at eight years for hydro and more than 15 years for PV plants.

Challenging Scenario for Generation: Electricity prices in the Italian market have averaged around EUR40/MWh over the last 18 months, excluding the peak of winter 2016 which was mainly related to nuclear plant outages in France. This level is well below the EUR52/MWh reported in 2014-15. Forward electricity prices have improved over the last few months to EUR44/MWh and structural overcapacity is gradually declining, notwithstanding the still sluggish demand for electricity (-2.1% in 2016, +1.4% in 1H17).

Prices to Average EUR45/MWh: We forecast electricity prices to hover around EUR45/MWh over the next few years. For Alperia, which is focused on hydro generation, volume and price variations are directly reflected in EBITDA, leading to significant volatility in its results. As for volumes, we consider in our projections the historical average reported by the company over a period of 30 years, except for 2017, which is an exceptionally dry year.

Predictable Regulated Business: We see the regulated activities as low-risk and predictable, since the Italian framework has a long record of fairness and transparency. The weighted-average cost of capital (WACC) for electricity distribution is set at 5.6% for 2016-2018 and we assume no major changes for the following years. The current regulatory period (fifth) will end in 2023 with an interim review in 2020.

Focus on Growth: Alperia aims to expand its business through M&A transactions and undertaking additional energy-related activities in Alto Adige (Smart Region division), probably under a concession framework with local authorities. External growth should be concentrated in 2019-2021. The target is mainly on supply, grids and energy efficiency businesses. We expect the weight of generation (including incentives) in total EBITDA to decrease to around 43% in 2021 from around 60% in 2016. However, we do not foresee major shifts in terms of regulated and quasi regulated activities contribution, due to sizeable investments expected in the unregulated supply activity.

Ambitious Business Plan: We view the growth plan as ambitious. A reduction in investment plans would probably result in stronger credit metrics and be neutral to positive for the rating. The rating case also takes into account an average dividend payout of more than 70% of net income. We deem this a conservative assumption, as the shareholders are committed to a flexible dividend policy, based on the electricity price trend and investments realised. The company has an internal guideline of maximum financial leverage (net debt/EBITDA) of 3.0x, which we see as feasible and consistent with our guidelines for a 'BBB' rating.

Deleveraging From 2018: Alperia's FFO net adjusted leverage stood at 4.1x in 2016, with net debt of around EUR550 million. We forecast it will remain broadly flat in 2017, when we expect a drop in EBITDA due to low hydro production. Alperia should maintain broadly stable leverage at 3.5x in 2018-2021, notwithstanding negative free cash flows for a total of around EUR270 million in 2019-2021 (including capex for external growth). This is due to the immediate contribution of the acquired or new activities and to annual savings gradually rising to EUR28 million in 2021, leading to an FFO of EUR207 million in 2021, from EUR118 million in 2016.

Parent Linkage Considerations: Alperia derives from the merger at the beginning of 2016 of SEL S.p.A. and AE S.p.A., two utilities focused on Alto Adige. The company's majority shareholder is PAB with a 54.45% stake, with the remaining stakes held by local municipalities. PAB currently guarantees around EUR135 million of Alperia's debt, but we expect the guaranteed debt to be refinanced in the short term and for there to be no more guarantees in the future.

Standalone Basis: We rate Alperia on a standalone basis, on the back of limited legal ties, limited-to-moderate operational ties and moderate strategic ties between the company and the main shareholder. However we consider the presence of PAB as a stabilising factor for the company's credit profile, in part due to its prudent approach to the company's strategy.

DERIVATION SUMMARY

Alperia is a local utility based in the North of Italy (Alto Adige) and its closest peer is Compagnia Valdostana delle Acque S.p.A. (CVA, 'A-'/Negative). The two companies have a similar business mix, a generation fleet composed of hydro and to a lesser extent other renewables and solid public shareholders. We see them as having the same debt capacity for a given rating. Therefore the rating differential is entirely explained by different leverage (around 1.0x expected for CVA against around 3.5x for Alperia).

Compared to the large hydro producer Statkraft AS (BBB+/Stable), which benefits from a one-notch uplift for sovereign support), Alperia has the same rating on a standalone basis, as the lower size is compensated by better business mix (Statkraft's activities are almost completely unregulated). The two companies have the same positive guideline of 3.0x for the same rating on a standalone basis.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:
-electricity prices in the range of EUR44-47/MWh for the whole period;
-EBITDA of the existing activities growing at a CAGR 2016-21 of almost 3%;
-total investments of around EUR900 million over the period 2017-2021;
- we expect new or acquired activities to contribute to EBITDA for around EUR75 million in 2021
- average dividend pay-out of more than 70% of net income over the course of the plan.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
-FFO adjusted net leverage below 3x on a sustained basis;
-improvement of the business mix with regulated and quasi-regulated activities representing more than 50% on a structural basis could lead to a positive revision of the guidelines.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
-FFO adjusted net leverage above 3.7x, FFO fixed charge cover below 5x on a sustained basis, for instance as a result of lower than expected operating cash flows and lack of capex and dividend adjustments;
-structural deterioration of the business environment or lower predictability of the regulatory framework;
-deterioration of the business mix with regulated and quasi-regulated activities representing less than 35% on a structural basis could lead to a negative revision of the guidelines.

LIQUIDITY

Healthy Liquidity: As of 30 June 2017, Alperia had cash and cash equivalents of EUR64.8 million, an undrawn committed facility of EUR50 million maturing in December 2018, compared with debt maturing within twelve months of EUR31.2 million. The group could structurally generate neutral to positive free cash flows in the absence of external growth. Alperia is in the process of issuing a EUR100 million bond, further strengthening its liquidity profile.
Alperia benefits from diversified sources of funding with privately held bonds for EUR375 million and bank loans of EUR200.6 million. The debt is largely issued at the Alperia level, its average life stands at 6.4 years and 80% is fixed rate.

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Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017) (https://www.fitchratings.com/site/re/895493)
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