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## Research Update:

# France-Based Infra Foch And Proposed Notes Rated 'BBB'; Outlook Stable

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## Research Update:

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## Overview

- The immediate parent of Vinci Park S.A., Infra Foch S.A.S., plans to issue bonds totaling up to €950 million.
- We are assigning our 'BBB' long-term rating to Infra Foch, and our 'BBB' issue rating to the senior unsecured notes it proposes issuing.
- We equalize our rating on Infra Foch with that on Vinci Park to reflect our view that debt service of Infra Foch's bonds relies on the cash flows generated by its subsidiaries. We included the debt in Infra Foch in our analysis of Vinci Park's credit quality.
- The stable outlook on Infra Foch reflects that on Vinci Park.

## Rating Action

On Oct. 3, 2014, Standard & Poor's Ratings Services assigned its 'BBB' long-term corporate credit rating to France-based holding company Infra Foch S.A.S., parent company of French parking concession operator Vinci Park S.A. The outlook is stable.

At the same time, we assigned our 'BBB' issue rating to the up to €950 million bonds Infra Foch proposes to issue.

## Rationale

The rating on Infra Foch reflects that on Vinci Park because we view these companies as part of the same corporate group, in line with our group rating methodology. The repayment of Infra Foch's debt relies on the cash flow generated by Vinci Park and its subsidiaries.

The issue rating on the notes reflects our view that the noteholders are not structurally subordinate to significant numbers of other creditors. We therefore align the issue rating on the notes with the corporate credit rating on Infra Foch, in line with our criteria (see "2008 Corporate Criteria: Rating Each Issue," published April 15, 2008, on RatingsDirect).

In our view, although priority obligations exceed the group's total assets by more than 20%, the noteholders benefit from the group's diversity in terms of number of subsidiaries and geographic locations, as well as from material intercompany loans from Infra Foch through Vinci Park to the operating subsidiaries. We could revise our issue rating on the notes if the noteholders' position of structural subordination weakens in future, for

example, because of further secured debt issuance, material repayment of intercompany debt, or a significant increase in operating liabilities at the operating company level leading to priority obligations exceeding 30% of total assets.

The rating on Vinci Park group reflects its strong competitive position in the parking sector in France, where it is the market leader, and that it is one of the largest parking space companies in the world.

The Vinci Park group includes Infra Foch, Vinci Park S.A., and Vinci Park's subsidiaries. Our assessment of the group's business risk profile as "strong," under our criteria, reflects that it operates mainly in the stable and predictable transportation infrastructure industry, through its long-term parking concessions, and that it has a strong competitive position as one of the largest parking space operators globally. Its business risk profile is also supported by its good geographical diversification and high barriers to entry, as each site operates on a local basis. We do not foresee its key town center sites experiencing significant new competition as space for new ventures is limited.

These strengths are somewhat offset by Vinci Park group's significant concentration of revenues in France; potential volatility in parking volumes, as happened during the last recession, and material exposure to business lines with shorter-term contractual agreements--including brownfield concessions and management contract businesses. We expect average contract length to decrease over time as its existing greenfield concessions in France mature, which would lead to lower profitability unless offset by efficiency measures.

We assess Vinci Park group's financial risk profile as "significant." We expect it to be able to maintain a ratio of funds from operations (FFO) to Standard & Poor's-adjusted debt of above 11%. We also view Vinci Park group's supplementary ratios as supporting the core adjusted-FFO-to-debt ratio outcome. We use our low-volatility financial-ratio benchmark table to analyze the financial risk profile because Vinci Park derives most of its revenues from concessions in stable countries, such as France. We would move to the standard ratios if Vinci Park group derived more than one-third of its EBITDA from nontransportation infrastructure business, such as management contracts or leases.

There are no rating modifiers, so the anchor of 'bbb' aligns with the final 'BBB' corporate credit rating.

Our base case assumes:

- Slow improvement in the French economy, with GDP growing by 0.5% in 2014 and 1.5% in 2015 (see "Credit Conditions: Europe Decelerates (Again) Amid Rising Geopolitical Risks," published Sept. 16, 2014). We also forecast that Vinci Park's other major markets will show some macroeconomic improvement.
- Still-weak GDP growth in France in 2014 leading to slight growth in parking volumes in 2014 but, in line with our forecast that consumer

price index inflation will be low, overall revenue growth likely being muted. We also expect margin squeeze in France due to contract renewals being less profitable.

- International operations showing revenue growth of 4%-6%. We forecast EBITDA margin to be down about 2% in 2014 based on increasing costs.
- Capital expenditure (capex) at about €120 million-€125 million in 2014 and similar in 2015.
- The company group paying dividends of about €15 million in 2014, increasing to between €60 million-€66 million in 2015.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted EBITDA margin around 44% in 2014, declining to about 40%-42% in 2015;
- Weighted-average adjusted FFO to debt of about 12%; and
- Weighted average adjusted FFO interest cover of about 7x.

### **Liquidity**

We consider Vinci Park group's liquidity to be "adequate," under our criteria. We currently foresee the group's sources of funds exceeding its uses of funds by about 2x in the 12 months to June 30, 2015, and by more than 1x in the following 12 months. We do not assess Vinci Park's liquidity as "strong" because it lacks a track record as an independent company group and its covenant headroom is 20%-30% in our base case, rather than above 30%, as we would expect where liquidity is "strong." However, after the refinancing we do not expect covenants to be present in the company's financial agreements.

Principal sources of liquidity at June 30, 2014, included:

- Reported cash and cash equivalents of €10 million after the refinancing;
- About €300 million of unused headroom under its committed bank facilities; and
- Unadjusted FFO between €130 million-€140 million in 2014.

Principal uses of liquidity at June 30, 2014, included:

- Debt maturities of about €20 million;
- Capex of about €120 million-€130 million;
- Anticipated dividends of about €20 million; and
- Negative working capital movements of about €10 million-€15 million, including seasonal working capital needs.

### **Outlook**

The stable outlook reflects our view that Vinci Park group will be able to maintain adjusted FFO to debt above 11% and "adequate" liquidity over the next 24 months.

### **Downside scenario**

We could take a negative rating action if Vinci Park group were not able to maintain contributions of greenfield concessions and owned parking above 70% of total EBITDA, resulting in adjusted EBITDA margins falling below 30%. This

would likely weaken our view of its competitive position and lead us to revise down its business risk profile to "satisfactory."

We could also consider a downgrade if we came to assess liquidity as "less than adequate" or if adjusted FFO to debt deteriorated below 11%. The latter could occur if revenues declined by 7% via a mix of volume and pricing and if operating costs increased modestly. FFO to debt might also fall below 11% if dividend payments or acquisitions were materially higher than we assume in our base case, all other things remaining equal.

### **Upside scenario**

We could take a positive rating action if adjusted FFO to debt increased on a sustainable basis to above 13%. In our view, this would require a moderation in financial policies and healthy economic growth in Vinci Park group's operating markets, leading to greater use of parking facilities. We do not view an upgrade as likely in the next 24 months, based on our economic forecasts for the group's countries of operation, especially France. Furthermore, we do not view Vinci Park's investment plans as conducive to an improvement in FFO to debt.

## **Ratings Score Snapshot**

Corporate Credit Rating: BBB/Stable/--

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: Adequate (No impact)
- Financial policy: Neutral (No impact)
- Management and governance: Satisfactory (No impact)
- Comparable rating analysis: Neutral (No impact)

## **Related Criteria And Research**

### **Related Criteria**

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013

- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

### **Related Research**

- French Car Park Concession Operator Vinci Park Assigned 'BBB' Rating; Outlook Stable, Sept. 30, 2014

## **Ratings List**

New Rating; CreditWatch/Outlook Action

Infra Foch

Corporate Credit Rating  
Senior Unsecured

BBB/Stable/--  
BBB

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