



Tagging Info

## **Fitch Affirms Inversiones Alsacia's Sr. Secured Bonds at 'BB'; Outlook Stable** Ratings

Endorsement Policy  
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Fitch Ratings-Monterrey-14 February 2012: Fitch Ratings affirms the 'BB' rating on Inversiones Alsacia's US\$464 million senior secured bonds due in 2018. The Rating Outlook remains Stable.

### KEY RATING DRIVERS

**STRONG COMPETITIVE POSITION:** Inversiones Alsacia, S.A. (Alsacia) and Express de Santiago Uno, S.A. (Express) have a combined market share of over 30% of Transantiago's bus operations, which constitutes a key service for the city of Santiago. In terms of operational efficiency, both companies are among the strongest in the system.

**ESSENTIAL PUBLIC SERVICE:** A portion of the current government subsidy available to financially support the transport system is supposed to end in 2014. Given the social essentiality of the Transantiago and the solid legal framework in Chile, Fitch believes it is very likely that the Chilean government will continue providing financial support to it beyond 2014.

**COMPLEX OPERATION:** Compared to other availability-based projects, the bus operations are logistically complex. Synergies coming from Alsacia and Express' operational merger may take longer to materialize than what was initially expected by the sponsor. The eventual adoption of additional bus routes may increase such complexity. The project operates based upon a strong contract with indexed pass-through of major cost items, which meaningfully mitigate cost escalation risk.

**LIMITED OPERATOR EXPERIENCE:** Although the sponsor has experience in similar bus lines in Colombia, the size of the Chilean business is much bigger and has rapidly expanded with the acquisition of Express in 2011, increasing the need of having strong logistics and controls.

**CONSERVATIVE DEBT STRUCTURE:** Tight covenants for equity distribution and additional leverage, fixed interest rate, cross-currency swap, among other credit protections. Historical (two biannual payments) financial performance is in line with Fitch's original base expectations, and in accordance to other availability-based projects that are similarly rated.

### WHAT COULD TRIGGER A RATING ACTION

- Lower operating levels: Failure to achieve synergies and similar competitiveness among the two companies may significantly reduce operating performance;
- Cost escalations: Substantial and sustained cost escalations may stress financial flexibility;
- Concession terms: Liquidity and debt coverage levels may be adversely affected by the restatement of current concession titles;
- Government actions: Elimination of subsidies may materially deteriorate the overall credit profile.

### SECURITY

The notes are secured by a first lien interest of total revenues and contract rights, as well as all assets owned by Alsacia and Express, excluding a bus terminal located in Huachuraba.

### CREDIT UPDATE

Twelve months have elapsed since Alsacia and Express started operating under a single administrative team. Fitch believes that the main challenges facing the concessionaires are to gain operational efficiency, to control costs, and to reach certain synergies deriving mainly from scale economies and best practices.

In 2011, even with the students' protests that took place in the second quarter of the year and partially interrupted the operation of their bus routes for some weeks, both concessionaires kept increasing their average operational efficiency

(indicated in the form of Service Fulfillment Index) to 97.6% in the case of Alsacia, and 94.1% for Express. According to information of the Chilean Ministry of Transportation and Telecommunications (MTT), this positive trend has continued and both companies registered 99.1% and 95.8% of efficiency in January 2012.

Such operational performance led to 11.1% increase in revenue during 2011 and 23.5% EBITDA. Debt Service Coverage Ratio (DSCR) for the first debt payment reached 1.30 times (x), which favorably compares with our 1.26x estimation for that specific period. DSCR for the second debt payment to be made in February 2012 is expected in similar levels. The level of cash at the end of December 2011, amounted CLP 47.8 billion (approx. USD 91.9 million) managed by the Secured Party Trustee.

During 2011, the MTT invited all Transantiago operators to express their interest to take over additional routes that previously were operated by underperforming concessionaires. On Dec. 22, the interested concessionaires entered into new concession agreements that are in the process of being approved and are anticipated to occur in February or March 2012. The restated agreements incorporate new routes with the old bus lines and also modify important concepts such as the way revenues and deductions are calculated, the economic stabilization mechanisms, among others. Several paybacks from the MTT in annual installments that amount to approximately CLP 40 billion will also be included in the new documents.

Related to these contractual changes, Express will incorporate in its bus network (Trunk 4 and some routes of Trunk 3, as of today) the routes of Feeder D, which represents about 24% of its current operational size, in terms of travelled kilometers.

Alsacia obtained a Fairness Opinion from an independent consulting firm who analyzed the financial impact of the concessions' adjustments, concluding they are more likely to be beneficial. Also, the CEO and CFO delivered a certificate stating that the restatements could not reasonably be expected to result in material adverse effect.

The affirmation of the 'BB' rating is supported by a combination of increasing operation efficiency, augmented revenue, cost control, and debt coverage in line with Fitch's original projections regarding the transaction's financial flexibility.

The 8% fixed-rate notes were issued by Alsacia under a 7.5-year tenure, with expected maturity in 2018, and secured by all the revenues collected on Alsacia and Express' operations pursuant to their respective concessions.

Alsacia and Express are two of the top bus concessionaires of the Transantiago System, which provides mass urban bus/metro transportation services to the City of Santiago, in Chile since 2005, and is regulated by the MTT. The transaction consisted of the acquisition by Alsacia of the remaining shares of Express, and the refinancing of all the existing debt of both concessionaires.

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**Applicable Criteria and Related Research:**

- 'Rating Criteria for Infrastructure & Project Finance' (Aug. 16, 2011);
- 'Rating Criteria for Availability-Based Projects' (June 20, 2011).

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Rating Criteria for Infrastructure and Project Finance  
Rating Criteria for Availability-Based Infrastructure Projects

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