



Moody's Investors Service

## Rating Action: **Moody's assigns Aa3.br rating to Vianorte' debentures; outlook stable**

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Global Credit Research - 05 Mar 2010

### **Approximately BRL 200 million of debt instruments affected**

Sao Paulo, March 05, 2010 -- Moody's América Latina Ltda (Moody's) assigned a Ba2 rating on the global scale and Aa3.br rating on the Brazilian National scale to the 5 to 7-year BRL 200 million senior secured debentures to be issued by Vianorte S.A. (Vianorte). At the same time, Moody's assigned to Vianorte issuer ratings of Ba2 on the global scale and Aa3.br on the Brazilian national scale. The outlook is stable for all ratings. This is the first time Moody's has assigned ratings to debt issued by Vianorte

The current debentures are guaranteed by a security package that includes the pledge of the concessionaire's common stocks, future receivables of its tolled revenues and the indemnification rights over the concession assets. The regulator ARTESP approved the guarantee package but an eventual change of control would be subject to further approval of the concession authority in accordance with the current legislation.

The proceeds of the debentures will be used to pay off existing short-term debt and strengthen its cash position to help meet other cash outlays, which Moody's forecast to mostly consist either of dividend payments or inter-company loans.

The Ba2 and Aa3.br issuer ratings of Vianorte reflect the mature nature of its concession, as evidenced by its solid historic performance. Vianorte serves a relatively small but wealthy region with virtually no comparable competition from alternative routes foreseen during the remaining life of the concession. The rating is supported by solid credit metrics for the rating category and the relatively strong track record of operating performance since 1998 in the stable regulatory environment of the State of Sao Paulo. The rating is pressured by the relatively short remaining life of the concession, which expires in eight years and has no likely prospects for renewal or extension.

The risks associated with the huge cash needs of Vianorte's controlling shareholder, Obrascon Huarte Lain Brasil S.A. (OHL Brasil), constrain the rating. OHL Brasil is forecasted to demand sizeable dividends and inter-company loans from its well-performing state concession subsidiaries in order to meet the large capital expenditure requirements of its other concession subsidiaries.

The Ba2 issuer rating is in line with the toll roads methodology model outcome and reflects the implied corporate family rating of OHL Brasil on a consolidated basis.

The existing early maturity clauses in the debentures comprise a cross default provision with the parent company. In the event that OHL Brasil goes bankrupt or files for reorganization under the Brazilian bankruptcy law, the debenture holders could call an early maturity event and execute their rights derived from the debentures' guarantees.

Further credit enhancements include a sinking fund provision to meet interest and principal payments of the debentures that will be kept on an escrow account at Itau bank, and restrictive financial covenants that limit the maximum amount of net debt to 3.5 times EBITDA over the preceding twelve months and require cash coverage of short term debt obligations higher than 1.2x. According to Moody's projections these covenant levels should be comfortably achievable throughout the duration of the debentures.

The stable outlook reflects Moody's opinion that Vianorte' operational performance will be satisfactory during the remaining life of the concession in light of supportive credit fundamentals boosted by expected growth in the Brazilian GDP. Moody's expects that the payment of dividends and extension of inter-company loans are likely to continue for the next few years but are expected to be prudently managed so that credit metrics remain within the proposed financial covenants.

The rating or the outlook could be upgraded if the company were to steadily improve its liquidity profile and produce sustained credit metrics in line with or exceed historical performance so that FFO to debt ratio remains in the high twenties and interest coverage stays above 3.5x on a consistent basis.

The rating or the outlook could be downgraded if there is a significant and sustained deterioration in credit metrics so that FFO to debt ratio falls below 20% and interest coverage ratio remains below 2.5x on a consistent basis. Deterioration in the credit quality of OHL Brasil could also exert negative rating pressures.

The principal methodology used in rating Vianorte was the Operational Toll Roads Rating Methodology (December 12, 2006), which can be found at [www.moodys.com](http://www.moodys.com) in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Vianorte is a full subsidiary of OHL Brasil, which is a holding company with interests in the toll roads business, as it has four state and five federal toll road concessions.

Vianorte has a 20-year concession to operate the toll road services of four small adjacent roads in the interior of the state of São Paulo, which the state regulatory agency ARTESP granted under a single concession in 1998. The four roads consist of 237 kilometers and 4 toll plazas and have an estimated annual traffic of 29 million of equivalent vehicles. The region covered by the concession comprises fourteen cities with an estimated population of around 1.1 million people.

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