



Moody's Investors Service

Rating Action: **Moody's assigns BR-1 rating to Centrovias' promissory notes; outlook stable**

Global Credit Research - 15 Dec 2009

Approximately BRL 260 million in debt securities affected

Sao Paulo, December 15, 2009 -- Moody's assigned a Ba2 corporate family rating on the global scale and Aa3.br on the Brazilian National scale to Centrovias Sistemas Rodoviaros S.A. ("Centrovias"). At the same time, Moody's assigned a BR-1 rating to Centrovias' 150-day BRL 260 million promissory notes issued on November 30, 2009. The outlook is stable for all ratings. This is the first time Moody's has assigned a rating to Centrovias.

The proceeds of the promissory notes will be used to pay off existing short-term debt, originally borrowed to extend an inter-company loan to its holding company, Obrascon Huarte Lain Brasil S.A. ("OHL Brasil"). Centrovias expects to issue long-term debentures with tenors ranging from five to seven years, to take out these promissory notes. The debentures amount is expected to be higher than the promissory notes to complement internal cash generation to meet cash outlays, which Moody's forecast to mostly consist either of dividend payments or inter-company loans. According to management, Centrovias already has a firm commitment from a group of local banks for placement of these debentures.

The Ba2 global scale corporate family rating reflects the strong credit fundamentals of the Centrovias toll road concession as shown by the strong credit metrics for the rating category and the relatively strong track record of operating performance since 1998. The ratings are further supported by the stable regulatory environment in the State of Sao Paulo over the past eleven years.

The Ba2 rating reflects the mature nature of the concession, as evidenced by its solid historic performance. Centrovias serves a relatively small region with supportive demographics although the economic base is relatively small and undiversified. Virtually no comparable competition from alternative routes is foreseen during the remaining life of the concession.

Moody's notes that the user profile consists largely of freight traffic, the behavior of which is more volatile than commuter traffic. Heavy trucks, which represent close to 60% of Centrovias' road traffic in terms of equivalent vehicles, tend to be more volatile than commuter traffic and correlate more highly with GDP performance. The rating is further pressured by the relatively short remaining life of the concession, which expires in nine and a half years and has no likely prospects for renewal or extension.

The risks associated with the huge cash needs of Centrovias' controlling shareholder also constraint the rating. OHL Brasil is forecasted to demand sizeable dividends and occasionally inter-company loans from its state concession subsidiaries in order to meet the large capital expenditure requirements of its other concession subsidiaries.

Moody's notes that Centrovias' distribution of dividends and the extension of inter-company loans will be limited by a covenant restriction embedded in the promissory notes. This limit the maximum amount of net debt to 3.5 times EBITDA calculated over the preceding twelve months.

The Ba2 rating is lower than the global toll road rating methodology grid outcome. This reflects the potential for increasing leverage and also some refinancing needs that may arise leading to additional borrowing over the medium term. Total debt, however, is expected to remain within existing financial covenants.

Centrovias has strong credit metrics for the rating category. Centrovias has steadily posted strong cash flow over the past four years as evidenced by its FFO, which has consistently been above 27% over total debt, while the interest coverage ratio has averaged 4.8x during the same period.

Despite healthy cash generation and also a healthy capital structure, liquidity is Centrovias' weakest financial factor. Centrovias carries sizeable short-term debt. This mostly stems from the practice of borrowing short term funds to meet the cash needs of its shareholders, either through distributing dividends or through extending inter-company loans. If the current promissory notes are taken out by long-term debentures as

planned, liquidity should return to satisfactory levels.

The debt structure offers investors adequate debt protection by limiting the maximum level of debt to the equivalent of 3.5 times EBITDA for the prior 12-month period. Moody's projections show this level being comfortably achieved throughout the projection period.

Assuming that these promissory notes will be taken out by long-term debentures, the major credit risk will be further borrowings, which will not necessarily take place when capital markets are favorable.

The stable outlook reflects Moody's opinion that Centrovias' operational performance will be satisfactory during the remaining life of the concession in light of strong credit fundamentals boosted by expected growth in the Brazilian GDP. Moody's expects that the planned long-term debentures will contain sufficient structural provisions to protect debentures holders such as: restrictive financial covenants that are in line with or stronger than those in the promissory notes, lack of cross default provisions, liquidity reserves, and *pari passu* conditions for new borrowings.

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.

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 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 principal methodology used in rating Centrovias was the Operational Toll Roads Rating Methodology (December 12, 2006), which can be found at www.moody.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.

Centrovias 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.

Centrovias has a 21-year concession to operate the toll road services of two 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 five roads consist of 218 kilometers and 5 toll plazas and have an estimated annual traffic of 22 million of equivalent vehicles. The region covered by the concession comprises twelve cities with an estimated population of around 1.0 million people.

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