

## RESEARCH

## Research Update: 407 International Inc. Ratings Affirmed At 'A' On Strong Financials; Outlook Stable

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**Credit Rating:** A/Stable/--

### Rationale

On May 5, 2006, Standard & Poor's Ratings Services affirmed its ratings on Toronto-based toll highway operator 407 International Inc., including its 'A' long-term issuer credit and senior secured debt ratings, and its 'A-' junior and 'BBB' subordinated debt ratings. The outlook is stable.

The ratings on 407 International primarily reflect:

- The company's consistent and ongoing strong financial and operating performance in the past five years;
- The toll highway's favorable concession and ground-lease agreement, which allows tolls to be raised without penalty, provided certain traffic thresholds are met during the concession's 99-year life span;
- The strategic location of the highway asset in a key transportation corridor within the Greater Toronto Area, with demonstrated strong demand characteristics;
- The strength of the consortium's participants, which provide strong technical capabilities for facilities management and significant financial capacity; and
- The removal of uncertainty pertaining to political risk from the company's outlook as a result of the March 31, 2006, agreement between the Ontario government and 407 International.

These factors are offset by:

- The 407 International's capital structure, which includes the use of deferred pay and inflation-indexed instruments such as real return bonds and inflation linked-securities.
- The company's financial policy that has led to increasing dividend distributions to equity holders over time, while boosting leverage through borrowing for capital spending requirements. This level of accelerated dividend payments was not incorporated into Standard & Poor's assumptions at the time the rating was first assigned and represents a risk to the ratings. Although current coverage ratios remain healthy, this is in part a consequence of the company's past issuance of deferred pay obligations.
- Uncertainties still pertaining to the long-term sustainable traffic and revenue growth rates, as the highway continues to transition to a mature asset despite strong traffic performance to date.

### Outlook

The stable outlook reflects Standard & Poor's expectation of continued strong traffic growth in the medium term that will continue to meet or exceed expectations, thus contributing to an improvement in the company's

revenues and EBITDA over time.

## Ratings List

407 International Inc.

Ratings Affirmed	
Issuer credit rating	A/Stable/--
Senior secured debt	A
Junior debt	A-
Subordinated debt	BBB

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