

Research Update:

# Metropolitano de Tenerife Outlook Revised To Stable From Negative After Similar Action On Spain

April 1, 2022

## Overview

- On March 18, 2022, we revised our outlook on Spain to stable from negative.
- We consider Metropolitano de Tenerife S.A (MTSA) a government related-entity of the Cabildo de Tenerife (the local government), and believe MTSA would almost certainly receive extraordinary support from the Cabildo in case of financial distress.
- We do not believe the cabildo's creditworthiness could be above Spain's, nor do we think that MTSA's creditworthiness could be stronger than that of the cabildo, from which it receives ongoing support.
- We therefore revised our outlook to stable from negative and affirmed our long- and short-term issuer credit ratings at 'A/A-1' on MTSA.

## Rating Action

On April 1, 2022, S&P Global Ratings revised its outlook on Metropolitano de Tenerife S.A (MTSA) to stable from negative and affirmed its 'A/A-1' long- and short-term issuer credit ratings on the company.

## Rationale

The outlook revision on MTSA follows a similar action on Spain (for more information, see "Spain Outlook Revised To Stable From Negative On Balanced Growth; 'A/A-1' Ratings Affirmed," published March 18, 2022, on RatingsDirect).

MTSA is a public transport company that operates the tramlines in the metropolitan areas of Tenerife, and is fully owned by its local government. We consider MTSA a government-related entity (GRE) of the Cabildo de Tenerife, a local government in the Autonomous Community of the [Canary Islands](#).

In our opinion, local governments in Spain generally cannot be rated above the sovereign, and in this case, we also believe MTSA could not be rated higher than the creditworthiness of its related

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government, from which it receives ongoing support. Consequently, we cap our ratings on MTSA at the same level as the rating on Spain, and are aligning our outlook on MTSA with that on the sovereign.

In our view, the cabildo would almost certainly provide timely and sufficient extraordinary support to MTSA in the event of financial distress. We base this on our view of MTSA's:

- Critical role for the cabildo. MTSA provides public transport services in the metropolitan area of Tenerife and is key to the local government's efforts in promoting and increasing its use. Public transport is one of the core responsibilities of the cabildo. In our view, the essential and subsidized nature of MTSA's activities make it highly unlikely that a private entity could undertake its responsibilities.
- Integral link with the cabildo. The local government fully owns MTSA and supervises and monitors its strategy and operations regularly. The company executes its investments in close coordination with the cabildo and operates under an agreement set by both MTSA and the cabildo in 2003. This stipulates that the cabildo is responsible for safeguarding the company's economic and financial balance.

As a result of our view of an almost certain likelihood of support, we believe MTSA's credit quality is equivalent to that of its related government, the cabildo, which in turn is limited by Spain's. In addition, we assess the company's stand-alone credit profile (SACP) above the long-term rating, at 'a+'. This reflects our view of MTSA's very strong enterprise risk profile and strong financial risk profile.

## **Outlook**

The stable outlook mirrors that on Spain (unsolicited; A/Stable/A-1). This reflects our opinion that local and regional governments and their GREs can only be rated above the sovereign in exceptional circumstances.

## **Downside scenario**

We could lower our rating on the company if we downgrade Spain.

## **Upside scenario**

We could upgrade MTSA if we took the same action on Spain.

## **Related Criteria**

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Global Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions, Nov. 2, 2020
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Spain Outlook Revised To Stable From Negative On Balanced Growth; 'A/A-1' Ratings Affirmed, March 18, 2022
- Research Update: Metropolitano de Tenerife, S.A. Ratings Affirmed At 'A/A-1'; Outlook Negative, Oct. 21, 2020
- Research Update: Outlook On Metropolitano de Tenerife Revised To Negative After Similar Action On Spain; 'A/A-1' Ratings Affirmed, Sept. 25, 2020

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>Metropolitano de Tenerife S.A.</b>		
Issuer Credit Rating	A/Stable/A-1	A/Negative/A-1

### Ratings Affirmed

<b>Metropolitano de Tenerife S.A.</b>		
Senior Unsecured	A	

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