

Research Update:

Metropolitano de Tenerife S.A. 'A/A-1' Ratings Affirmed; Outlook Stable

October 31, 2023

Overview

- Metropolitano de Tenerife S.A (Metrotenerife), the only provider of rail public transport on the Spanish island of Tenerife, continues to see a recovery in passenger numbers post-pandemic and plans to expand its service coverage.
- We believe there is an almost certain likelihood that Metrotenerife would receive extraordinary support from its government owner, the Cabildo Insular de Tenerife, if needed.
- We affirmed our long- and short-term issuer credit ratings on Metrotenerife at 'A/A-1'.
- The stable outlook mirrors that on Spain.

Rating Action

On Oct. 31, 2023, S&P Global Ratings affirmed its 'A/A-1' long- and short-term issue credit ratings on Metropolitano de Tenerife S.A. (Metrotenerife). The outlook is stable.

Outlook

The stable outlook mirrors that on Spain (unsolicited, A/Stable/A-1).

Downside scenario

We could lower our rating on Metrotenerife if we downgrade Spain.

We could also lower our rating in case of a material weakening of the creditworthiness of the Cabildo Insular de Tenerife (CIT), or if we expect a lower likelihood of support from CIT to Metrotenerife.

Upside scenario

We could raise our rating on Metrotenerife if we upgrade Spain, while CIT's financial performance

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remains very strong.

Rationale

Government-related entity analysis

Our ratings on Metrotenerife reflect our assessment that, as a government-related entity, it would benefit from an almost certain likelihood of support from CIT in a financial stress scenario. As a result of our view of an almost certain likelihood of support, we believe that Metrotenerife's credit quality is equivalent to that of its related government, CIT, which is limited by our rating on Spain.

We believe CIT's support is not subject to transition risk, we think that CIT would provide timely and sufficient extraordinary support to Metrotenerife if needed owing to its critical role for and integral link with CIT.

Metrotenerife provides public transport services, which is one of CIT's core responsibilities, in the island's main metropolitan area of Santa Cruz de Tenerife – La Laguna. It is instrumental to the local government's policy of fostering sustainable and efficient mobility. In our view, the essential and subsidized nature of Metrotenerife's activities, and CIT's ownership of its infrastructure, make it highly unlikely that a private entity could undertake its responsibilities.

The local government fully owns Metrotenerife and supervises its strategy and operations. The company executes its investments in close coordination with CIT and operating under an agreement set by both Metrotenerife and CIT in 2003. This stipulates that CIT is responsible for safeguarding the economic and financial balance of Metrotenerife.

Accumulation of large surpluses, resulting from the combination of tight fiscal rules and robust operating performance, have led CIT to a strong liquidity position and low debt burden. Nevertheless, CIT's creditworthiness is constrained by the sovereign rating.

Metrotenerife benefits from its strong market position and ongoing support from CIT

The company operates in an industry that has low risk and offers an essential service in its catchment area, by linking the two largest cities of Tenerife and helping relieve pressure on the metro area's congested roads. Metrotenerife shares the public transport market with TITSA, the bus operator, with market shares of 53% and 47% respectively. We believe that Metrotenerife will benefit from CIT's mobility strategy to expand Metrotenerife's presence in Tenerife. In this context, CIT has approved the extension of line two on the island, which we expect to be largely financed by CIT over the next few years.

CIT provides ongoing support to Metrotenerife while setting tariffs and providing subsidies and is committed to supporting the entity in case of financial stress, as per their agreement. In 2023, CIT decided to fully subsidize free rides for some of its passenger passes and will compensate Metrotenerife for the losses. Although this measure will finish by year-end 2023, CIT will continue to provide a 50% discount indefinitely on some Metrotenerife passes, with the purpose of promoting public transport on the island, and in line with the mobility strategy. We therefore believe that subsidies are becoming more relevant in Metrotenerife's revenue structure, and we estimate these to represent about 85% of fare revenue by year-end 2023. In our view, this highlights Metrotenerife's role for and link with CIT.

Ridership increases and subsidies will lead to record high earnings in 2023, before stabilizing by 2024

As a result of the free services and 50% discount on some of Metrotenerife's tariffs this year, we estimate ridership will increase over 40%, clearly surpassing pre-pandemic demand. This will translate into record-high earnings for Metrotenerife in 2023, which we expect to reach about €14 million, up from €7.7 million in 2022. Nevertheless, we expect the company to return to more stable earnings performance from 2024, once the free tariffs finish at year-end 2023.

Metrotenerife is protected from the effects of inflation, in our view, because CIT revises its transfers to the company annually according to the consumer price index. This means, for example, that Metrotenerife's exposure to hikes in energy prices is limited, because part of the costs will be covered through higher transfers from CIT.

Prudent financial policies regarding debt and liquidity management have strengthened Metrotenerife's long-term financial and cash position. The company refinanced its long-term debt in 2021 with a €130 million green bond issuance, securing 15-year financing at a 1.23% fixed interest rate. To repay this bond, Metrotenerife has created a sinking fund that it is endowing annually. Current market conditions allow the entity to generate returns above its cost of debt. Having endowed the sinking fund with about €9 million, Metrotenerife already has a guaranteed return of about €12.8 million over the life of the investment.

We expect Metrotenerife's liquidity position to remain strong over the next few years. The entity could use its sinking fund at any time if needed in addition to its cash reserves, which were €14.7 million at year-end 2022. We estimate cash to outstanding long-term debt was about 21.3% at year-end 2022.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- Industry Top Trends 2023: Transportation Infrastructure, Jan. 23, 2023

Ratings List

Ratings Affirmed

Metropolitano de Tenerife S.A.

Issuer Credit Rating A/Stable/A-1

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Ratings Affirmed

Senior Unsecured	A
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