

Metropolitano de Tenerife, S.A.

October 30, 2024

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths

Very supportive regulatory framework, with a proven supportive stance from the company's only shareholder, the Cabildo de Tenerife (CIT), the government of the island.

Strong recovery in ridership levels after the pandemic, partially due to free tickets financed by the central government and the CIT, which generate record profits.
Very low funding cost, with all debt in a single bullet bond that was issued at very favorable rates, and for which the entity is constituting a sinking fund to avoid refinancing risk.

Prudent and experienced management and technical team.

Key risks

Exposure to some volatility due to changing electricity costs.

Labor conflicts in recent months, making operations more complex.
Possibility of moderating ridership if free tickets are phased out.

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Outlook

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

Downside scenario

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

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

Upside scenario

We could raise our rating on Metrotenerife if we were to upgrade Spain, while CIT maintained a very strong financial performance and our view on the relations between Metrotenerife and CIT remained unchanged.

Rationale

Metrotenerife is an essential enabler of the government's mobility policies. 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 view CIT's support as not subject to transition risk and 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 operates 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.

An 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 relevance 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 of the island's metropolitan area with TITSA, the bus operator, with market shares of 59% and 41%, respectively. Both entities are wholly owned by the Cabildo, and are well connected thanks to interchanges, to allow for intermodal travel. They therefore cooperate rather than compete.

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 2 on the island, which we expect will be largely financed by CIT over the next few years, and is studying an extension of Line 1 toward Tenerife North--Ciudad de La Laguna Airport. The Cabildo is also analyzing the possibility of building a new train line in the south of the island, to connect Tenerife South Airport with the main tourism centers. This would be a large investment, which would be carried out in several phases, and would require financing likely from external sources such as the central government and the European Union. In any case, we expect Metrotenerife's role in this project would be technical, and that the entity would ultimately be tasked with running the line, but not expected to fund it through its own balance sheet. These network extensions in our view tend to reinforce the entity's role for the Cabildo.

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 and 2024, CIT decided to fully subsidize free rides for some of its passenger passes and will compensate Metrotenerife for the losses in farebox revenue. We therefore believe that subsidies are becoming more relevant in Metrotenerife's revenue structure, and we estimate

these represented about 85% of fare revenue as of year-end 2023. In our view, this highlights Metrotenerife's role for and link with CIT.

Ridership increases and subsidies led to record results in 2023 and most likely will again in 2024. As a result of free services and the 50% discount on some of Metrotenerife's tariffs in 2023 and again in 2024, ridership has grown very rapidly. In 2023 Metro Tenerife saw a total of 22.7 million trips (up 51% on 2022). In 2024 we expect growth to continue, by about 12%, to about 25.3 million, despite the fact that free rides have already been in place since last year.

This will translate into record-high earnings for Metrotenerife in 2024. We forecast earnings to reach about €20.3 million, up from €16.8 million in 2023. It is as yet unclear whether the central government will continue subsidizing public transportation in 2025.

If subsidies continue, we expect ridership growth will moderate and normalize in 2025 and thereafter, driven by population increases. However, if subsidies were phased out or reduced, we expect there would be some reduction in ridership as well. That said, we also believe that years of free rides have contributed to making the service better known and appreciated by the public, so it is likely that ridership will be structurally higher as some of the newer users will remain.

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. As of August 2024, Metrotenerife has already accumulated €18.5 million in its sinking fund. We expect Metrotenerife will continue its policy of endowing its sinking fund and will therefore not need to refinance the bond when due.

We expect Metrotenerife's liquidity position to remain strong over the next few years. Currently, debt service is limited to about €1.5 million in annual interest on the bond. Aside from its sinking fund, the entity has cash reserves of about €18.9 million at year-end 2023. We estimate the combination of sinking fund and cash reserves represents about 29% of outstanding long-term debt at year-end 2023. Given the expected results for 2024, cash should materially increase once again by the end of the year.

Operations do not present any material challenges, but the entity is dealing with an ongoing labor dispute. We do not see any immediate challenges to Metrotenerife's operations that could materially impact its accounts. We understand the entity has been carrying out maintenance of its rolling stock according to schedule and is therefore unlikely to face extraordinary costs in this regard. We expect the entity to carry out some investments to modernize its facilities and systems, such as information systems at its stops, and ticketing or assistance systems for drivers, but these should be spread out over several years and are therefore unlikely to require further indebtedness. We also view favorably Metrotenerife's prudent management of energy contracts; it is trying to identify opportunities to close term contracts to, in turn, stabilize costs.

We note that there is an ongoing conflict with labor unions, which are on strike. This is related to aspects of labor security, as workers are demanding some technical changes to minimize risks

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to the health of the operations workforce. We understand the company is addressing these issues. However, the strike does not materially affect service, as it only takes effect for a few hours a day, and implies a reduction of service to 80% of normal levels, reflecting the essential nature of the metro's services.

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
- Research Update: Metropolitano de Tenerife S.A. 'A/A-1' Ratings Affirmed; Outlook Stable, Oct. 31, 2023

Ratings Detail (as of October 30, 2024)*

Metropolitano de Tenerife S.A.

Issuer Credit Rating	A/Stable/A-1
Senior Unsecured	A

Issuer Credit Ratings History

01-Apr-2022	A/Stable/A-1
25-Sep-2020	A/Negative/A-1
04-Nov-2019	A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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