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Metropolitano de Lisboa E.P.

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Metropolitano de Lisboa E.P.

Major Rating Factors

Issuer Credit Rating
BBB/Stable/--

Strengths:

- The Portuguese central government covers the funding needs of Metropolitano de Lisboa E.P. (Metro Lisboa) in a sufficient and timely manner, including via extraordinary support due to revenue shortfalls arising from the COVID-19 pandemic.
- We consider Metro Lisboa as a non-severable arm of the central government. Metro operates under the central government guidelines, and we believe this will not change in the medium term.
- Metro Lisboa's role for Portugal is critical, in our view, because it enables the central government to fullfill its public policy mandate to promote sustainable mobility and improve accessibility to the city of Lisbon, the country's largest business hub.

Weaknesses:

- The pandemic has led to a sharp reduction in mobility in the Lisbon area and hence in Metro Lisboa's revenues, despite support from the central government.
- There is uncertainty regarding the timing of a recovery to previous ridership levels, and possible structural changes in demand for mobility after the pandemic.
- Ongoing network extension works, with tight deadlines, require substantial additional investments to reach completion.

Outlook

S&P Global Ratings' stable outlook on Metro Lisboa reflects that on Portugal (BBB/Stable/A-2).

Upside scenario

We could revise the outlook on Metro Lisboa to positive over the next two years if we took the same action on Portugal. Similarly, if we upgraded Portugal, we would raise our ratings on Metro Lisboa, assuming the company's role for and link with the government remained unchanged.

Downside scenario

We could revise the outlook on Metro Lisboa to negative over the next two years if we took the same action on Portugal. We could downgrade Metro Lisboa if we saw a decreased likelihood of extraordinary support from the Portuguese government. In particular, this could happen if we considered that the Portuguese government had a weaker commitment to supporting Metro Lisboa's debt service through timely and sufficient capital injections. We currently see this as unlikely.

Rationale

We regard Metro Lisboa as a government-related entity (GRE). We believe there is an almost certain likelihood that Metro Lisboa would receive timely and sufficient extraordinary support from the Portuguese government in the event of financial distress. This materialized recently through the central government's extraordinary transfers to Metro Lisboa to offset COVID-19-related impacts on the company's financials. We therefore equalize our long-term issuer credit rating on Metro Lisboa with that on Portugal.

We base our view of an almost certain likelihood of support on our assessment of Metro Lisboa's:

- Critical role for Portugal. The company is a key tool for the government's policy of fostering sustainable and affordable urban mobility in the capital city of Lisbon. Metro fulfills this mission by managing the operations of the subway network in the Lisbon area, as well as by executing the plans to enlarge the network, in strict accordance with government plans; and
- Integral link with Portugal as a fully owned, and directly controlled public entity, that largely operates as an extension of the Portuguese government and executes its directives.

Metro Lisboa continues to be crucial for the government to promote sustainable and affordable mobility.

Metropolitano de Lisboa is 100% owned by the Portuguese government. The company falls under the responsibility of the Portuguese Ministry of Environment and Energy Transition, and it is essential to support the government's strategy in reducing carbon emissions.

The subway network also fulfills a social policy role, since Metro Lisboa's network helps to reduce regional inequality by linking peripheral areas to the city's economic core. The investments linked to the subway network are decided by the central government and highlight Metro Lisboa's importance on the national agenda.

We expect Metro Lisboa to maintain its strong public legal status of "entidade pública empresarial." As a public enterprise entity (EP), Metro Lisboa enjoys a stronger legal status than public limited companies. Although EPs are generally subject to private law, they are not subject to the bankruptcy laws applicable to incorporated companies. Only the central government can liquidate an EP, and Metro Lisboa cannot be privatized unless its legal status changes.

Metro Lisboa is within the Portugal's general government remit with respect to excessive deficit procedure statistics and the government finance statistics, according to the European System of Accounts (ESA2010)

Consequently, we expect the Portuguese government will continue to closely monitor Metro Lisboa, and maintain its involvement in strategic, financial, and operational decisions.

The central government supports Metro's operations in the face of the pandemic.

The lockdowns to curb the spread of the coronavirus have drastically reduced mobility in the Lisbon Metropolitan area. Metro de Lisboa's passenger numbers for 2020 were about 45% lower than in 2019, and farebox revenues have declined accordingly.

This has materially constrained Metro de Lisboa's 2020 financials. However, the central government has provided Metro Lisboa with extraordinary support to cover part of these losses. Metro Lisboa's expenses are fairly inflexible, as the majority of its operating costs relate to personnel expenditure. In our view, the central government has shown its commitment to sustaining employment at Metro Lisboa by ensuring the timely payment of wages. At the same time, maintenance of rolling stock has proceeded according to plan, to avoid lowering transport capacity, ensuring social distancing during trips.

As is the case with many transportation systems worldwide, it is difficult to predict when ridership levels will return to pre-pandemic levels, or whether changes in the habits of the population may structurally reduce demand for mass transit (for example, through a permanent increase in remote working and learning). Nevertheless, we expect the Portuguese government will continue to support Metro Lisboa through what may be protracted period of recovery.

The central government continues to cover debt service with sufficient and timely transfers.

In addition to providing support for lost ticket revenue, the central government has continued to provide Metro Lisboa with necessary resources to make debt service payments. Central government support materializes each year as a combination of capital increases and loans from the Portuguese Treasury.

Metro Lisboa shares with the central government a detailed treasury plan, providing full visibility of its liqudity needs during the year. This allows the central government to include required support amounts in its annual budget, and to provide transfers to Metro Lisboa in a timely way. Central government transfers are scheduled to closely match the company's liquidity needs, particularly its debt maturities.

At end-2020, about 56% of Metro Lisboa's debt is owed directly to the central government, while the rest of its debt carries a government guarantee. This, in our view, gives clear incentives to the central government to continue providing support, in order to avoid any calls on the guaranteed debt, in the event that Metro Lisboa can not face debt repayment on its own.

We estimate Metro's debt service needs in 2021 amount to about €1.8 billion. However, about €1.5 billion of this amount correspond to loans from the Portuguese treasury, which we expect to either be rolled over or transformed into a capital increase.

Metro's investment plans continue

Despite the difficulties imposed by the pandemic, Metro Lisboa has continued to execute its multi-year investment plan. The main priorities of the plan are the extension of the line network, linking the stations of Rato and Cais do Sodré; improving the signalling of the entire network; and acquiring new rolling stock. The overall investment estimated for the next 3 years is close to €600 million euros.

Metro Lisboa has secured financing for these projects from both the EU (cohesion funds) and the Portuguese government, through investment funds aimed at achieving environmental goals (Fundo Ambiental). We assume the remaining, smaller investment projects, will likely be funded through central government capital increases or loans.

The Rato-Cais do Sodré project, financed by the aforementioned cohesion funds, needs to be finished by 2023 in order to get the EU funding. We therefore expect Metro Lisboa will keep the project on track.

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: Portugal 'BBB/A-2' Ratings Affirmed; Outlook Stable, Sept. 11, 2020
- Sovereign Risk Indicators, Dec. 14, 2020
- Research Update: Metropolitano de Lisboa E.P. Outlook Revised To Stable After Similar Action On Portugal; 'BBB' Rating Affirmed, April 29, 2020
- Metropolitano de Lisboa E.P., Feb. 26, 2020

Ratings Detail (As Of February 17, 2021)*	
Metropolitano de Lisboa E.P.	
Issuer Credit Rating	BBB/Stable/--
Issuer Credit Ratings History	
29-Apr-2020	BBB/Stable/--
16-Sep-2019	BBB/Positive/--
18-Mar-2019	BBB/Stable/--
18-Sep-2018	BBB-/Positive/--
19-Sep-2017	BBB-/Stable/--

*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.