Metropolitano de Lisboa E.P.

February 22, 2022

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This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths	Key risks
Funding needs covered by the Portuguese central government in a sufficient and timely manner.	Reduced mobility linked to the COVID-19 pandemic is pressuring revenue, although central and local government support is compensating for this.
A nonseverable arm of the central government, in our view.	Uncertainty about the timing of a recovery to pre-pandemic ridership levels and possible structural changes in mobility demand after the pandemic ends.
Plays a critical role, as it enables the government to fulfil its public-policy mandate to promote sustainable mobility and improve accessibility to the city of Lisbon.	

Metropolitano de Lisboa (Metro Lisboa) remains crucial for the government to promote sustainable and affordable mobility. The company falls under the responsibility of the Portuguese Ministry of Environment and Energy Transition, and it is essential to the government's strategy to reduce carbon emissions. Notably Metro Lisboa is one of the key enablers of the government’s decarbonization strategy within the context of the Portuguese Recovery and Resilience program agreed with the EU, giving it access to European funds.

As is the case with many transportation systems worldwide, it is difficult to predict when ridership levels will return to pre-pandemic levels. Nevertheless, S&P Global Ratings expect the Portuguese government will continue to support Metro Lisboa through what may be a protracted recovery period. Central government support to Metro Lisboa is sized to cover operating deficits as well as debt service requirements.

Outlook

Our stable outlook on Metro Lisboa mirrors that on Portugal.

Downside scenario

We could revise the outlook on Metro Lisboa to negative over the next 12 months if we take the same action on Portugal. We could downgrade Metro Lisboa if we see a decreased likelihood of extraordinary support from the Portuguese government. In particular, this could happen if we consider that the Portuguese government has a weaker commitment to support Metro Lisboa's debt service through timely and sufficient capital injections. We currently see this as unlikely.

Upside scenario

We could revise the outlook on Metro Lisboa to positive over the next 12 months if we take the same action on Portugal.

Similarly, if we upgrade Portugal, we would raise our ratings on Metro Lisboa, assuming the company's role for and link with the government are unchanged.

Rationale

We regard Metro Lisboa as a government-related entity. 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 effects 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. It fulfills this mission by managing subway network operations in the Lisbon area, as well as executing 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 remains crucial for the government to promote sustainable and affordable mobility. We have not assigned a stand-alone credit profile to Metro Lisboa because of our assessment of the almost certain likelihood of extraordinary government support. We believe Metro Lisboa's operations are strategically important to Portugal and that the central government's support is not subject to transition risk.

Metro 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 the government's strategy to reduce carbon emissions. The company is one of the key enablers of the government's decarbonization strategy within the context of the Portuguese Recovery and Resilience program agreed with the EU, giving it access to European funds.

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. Investments related to the subway network are decided by the central government and highlight Metro Lisboa's importance to 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 Portugal's general government remit with respect to excessive deficit procedure statistics and 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 and the Lisbon Metropolitan Area are supporting Metro Lisboa's operations as the pandemic continues to constrain demand. Metro Lisboa's passenger numbers declined to about 77 million in 2021 from 81.4 million in 2020. However, this is partly explained by first-quarter 2020 ridership figures not being affected by the pandemic. Despite lower ridership, farebox revenue has increased slightly, due to a change in the ticketing mix, away from monthly passes (with a lower average price per trip) toward single tickets.

Metro Lisboa's expenses are fairly inflexible, given most operating costs relate to personnel expenditure. In our view, the central government has shown its commitment to sustaining employment at Metro Lisboa despite weak demand. At the same time, maintenance of rolling stock has proceeded according to plan, to avoid lowering transport capacity and ensure social distancing during trips.

Metro Lisboa continues to post weak financial results, with a negative adjusted EBITDA of about €18.6 million in 2021, which is nevertheless an improvement from negative €30.6 million in 2020. We note, however, that Metro Lisboa has received support not just from the central government, but also the Lisbon Metropolitan Area (close to €31 million). This latest support reflects the municipalities' interest in maintaining the availability of transport services, with undiminished quality.

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 population habits 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 a protracted recovery period. Central government support to Metro Lisboa is sized to cover operating deficits as well as debt service requirements.

The central government continues to cover debt service with sufficient and timely transfers. This comes on top of support for operating deficits, provided alongside the city of Lisbon. Central government support materializes each year as a combination of capital increases and loans from the Portuguese Treasury.

Metro Lisboa shares a detailed treasury plan with the central government, providing full visibility of its liquidity needs during the year. This allows the central government to include required support amounts in its annual budget, and 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.

In 2021, the Portuguese Treasury provided €373 million in support to Metro Lisboa (€253.9 million in capital increases and €119 million in loans), which was more than sufficient to cover its debt service of about €281 million.

We estimate Metro Lisboa's debt service needs in 2022 at about €1.63 billion (€1.48 billion in maturities and €156 million in interest). However, 85% of the debt service relates to loans from the Portuguese Treasury. We expect these maturities to either be rolled over or absorbed by the treasury through a capital increase.

Following a long track record of support, the central government has become the main creditor of Metro Lisboa, with €2.1 billion or about 61% of the company's €3.5 billion total debt. The remaining debt (€910 million in bonds, schuldchein, and European Investment Bank loans) carries a guarantee from the central government. In our view, this gives clear incentives to the central government to continue providing support and avoid any calls on the guaranteed debt if Metro Lisboa cannot face repayment on its own.

Metro Lisboa's 2021-2024 investment plans have greatly expanded thanks to the availability of EU funds. The company was already working on the extension of one of its lines from Rato to Cais do Sodre, in the southwest area of central Lisbon. This investment is already covered by central government investment subsidies and EU funds, and in our understanding needs to be finished before year-end 2023.

However, Metro Lisboa has secured access to fresh EU funds within the context of the Recovery and Resilience Fund, which will allow it to embark on two more ambitious network upgrades:

- An extension between S. Sebastião station and the Alcàntara area of Lisbon, which will provide better connections to Lisbon commuters from the Cascais and Sintra areas to the west; and
- The construction of a new light rail line between Odivelas and Loures, in northern Lisbon.

Between 2021 and 2024, Metro Lisboa expects to receive over €420 million from these funds, which will be sufficient to cover the two projects (combined investment of €330 million), as well as several smaller ones related to network upgrades, signaling, and various refurbishments.

The overall estimated investment for the 2022-2024 period is close to €750 million. We expect the investment plans that are not covered by EU funds will be financed through central government capital increases or loans, in line with recent years.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of February 22, 2022)*

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.