Research Update:
Portugal-Based Subway Operator
Metropolitano de Lisboa E.P. 'BBB-
Rating Affirmed; Outlook Positive

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Overview

• We think Metropolitano de Lisboa E.P. (Metro Lisboa) has an almost certain likelihood of receiving extraordinary support from the Portuguese government if needed.

• We equalize the long-term issuer credit rating on Metro Lisboa with our long-term rating on Portugal.

• We are affirming our 'BBB-' long-term issuer credit rating on Metro Lisboa.

• The positive outlook on Metro Lisboa mirrors that on Portugal.

Rating Action

On Feb. 22, 2019, S&P Global Ratings affirmed its 'BBB-' long-term issuer credit rating on Portuguese subway operator Metropolitano de Lisboa E.P. (Metro Lisboa, the company). We also affirmed our 'BBB-' issue rating on Metro Lisboa's senior unsecured debt. The outlook is positive.

Rationale

We equalize our long-term issuer credit rating on Metro Lisboa with that on Portugal, based on our view of the almost certain likelihood that Metro Lisboa would receive timely and sufficient extraordinary support from the Portuguese government in the event of financial distress.

We regard Metro Lisboa as a government-related entity (GRE). We base our assessment of the likelihood of government support on our view of Metro Lisboa's critical role for and integral link with Portugal, the company's 100% owner.

We think Metro Lisboa's role for Portugal is critical because the company is key in implementing the government's policy of fostering sustainable urban mobility in the capital city, Lisbon. The company, which falls under the responsibility of the Portuguese Ministry of Environment and Energy Transition, is an essential part of the Portuguese government's strategy to reduce carbon emissions. At the same time, Metro Lisboa's network helps to improve regional inequality by linking peripheral areas to the city's economic
core.

Moreover, Metro Lisboa's debt, which the government guarantees, contains cross-default clauses that apply to all of the company's financial obligations.

Since June 2011, the government has enabled the timely payment of Metro Lisboa's financial obligations through what we see as sufficient, continuing, and well-coordinated extraordinary support. The government has also set up a legal framework and secured sufficient budgetary allocations to facilitate the provision of this support on a timely basis. This track record of active support leads us to consider that a default by Metro Lisboa would have a pronounced impact on the government, which underscores Metro Lisboa's critical role for the government.

We think that Metro Lisboa has an integral link with the government. We continue to see Metro Lisboa as an extension of the Portuguese government, in charge of managing and enlarging the subway network in the Lisbon area, in strict accordance with government plans.

Metro Lisboa builds and operates under a strategy defined and monitored by the government. As an "entidade pública empresarial" (EP; public enterprise entity), Metro Lisboa enjoys a stronger legal status than "sociedades anónimas" (public limited companies). Although EPs are generally subject to private law, they are not subject to the bankruptcy laws applicable to sociedades anónimas. Only the central government can liquidate an EP, and Metro Lisboa cannot be privatized unless its legal status changes.

In our view, Metro Lisboa is a nonseverable arm of the Portuguese government. Metro Lisboa executes strategic government policies in the transport area of Lisbon and the Portuguese government guarantees all of the company's outstanding commercial debt.

In 2018, Metro Lisboa's cash holdings were about €29 million on average, with no access to credit lines or legal authorization to raise debt independently. We do not expect Metro Lisboa will generate free cash flows that could boost cash levels in 2019. The company will therefore continue to rely exclusively on central government transfers to service its debt to private creditors, which is worth €683 million for 2019. We expect that the ratings and outlook on Metro Lisboa will move in line with those on Portugal. Furthermore, we consider that Portugal's contingent liabilities are limited, and so do not constrain its capacity and willingness to support Metro Lisboa in a timely manner in case of financial distress. We do not consider the Portuguese government's propensity to support the GRE sector in general to be doubtful.

Outlook

The positive outlook on Metro Lisboa reflects that on Portugal. If we upgraded Portugal, we would raise our ratings on Metro Lisboa, assuming its role for
and link with the sovereign remained unchanged.

Downside scenario
We could revise the outlook on Metro Lisboa to stable over the next two years if we took the same action on Portugal.

Upside scenario
We could downgrade Metro Lisboa if we thought the likelihood of extraordinary support from the Portuguese government had diminished. In particular, this could happen if we considered that the Portuguese government might reduce its commitment to continue supporting Metro Lisboa's debt service through timely and sufficient capital injections. We currently see this as highly unlikely.

Related Criteria
• General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
• General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List
Ratings Affirmed

Metropolitano de Lisboa E.P.
Issuer Credit Rating     BBB-/Positive/--
Senior Unsecured        BBB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.