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Ratings

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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/Positive/--

Strengths:	Weaknesses:
• The funding needs of Metropolitano de Lisboa E.P. (Metro Lisboa) are covered by the central government in a sufficient and timely manner. • We consider Metro Lisboa as a non-severable arm of the central government. Metro operates under 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 business hub.	• There is a substantial need for additional investments to complete network extension, with tight deadlines. • Operating costs will increase, mainly due to the expansion of the network.

Outlook

The positive outlook on Metro Lisboa reflects that on Portugal.

Upside scenario

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 stable 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. 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. .

The government's ownership of Metro Lisboa is not in question.

We believe the Portuguese government will continue to be the sole owner of Metro Lisboa. The company executes a key public policy role. Furthermore, the central government supports repayment of a substantial amount of Metro Lisboa's outstanding debt.

Metro Lisboa will continue to be 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 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 highligh Metro Lisboa's importance on the national agenda. The current investment plan for Metro includes expanding the network, improving signalling, and buying new trains. The works--an estimated investment of €343 million--are financed by the EU and Portugal, including proceeds from the latter's asset sales. We understand Metro's management is strongly committed to finishing the works by 2023, but we recognize that the renovations are progressing slowly.

We assume the central government will continue to offset pressure on Metro Lisboa's revenues.

Transportation tariffs are determined with social goals in mind, supporting relatively weak population segments, such as large and lower-income families. While this may contrain the company's operating revenues, we note that the Portuguese government's transfers to the company cover operating deficits.

We believe the government will maintain its strong track record of providing Metro Lisboa ongoing and extraordinary support when needed.

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 set up a legal framework and secured sufficient budgetary allocations to promptly facilitate the provision of this support. Metro Lisboa's private creditor's debt, which the government guarantees, contains cross-default clauses that apply to all of the company's financial obligations.

We expect Metro Lisboa to maintain its strong 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 sociedades anónimas. Only the central government can liquidate an EP, and Metro Lisboa cannot be privatized unless its legal status changes.

The Portuguese government's direct monitoring of Metro Lisboa, and its strategic, financial, and operational involvement will remain important.

The debt management office and the treasury continuously provide abundant cash injections to Metro Lisboa. At end-2019, Metro Lisboa's cash holdings stood at €29.7 million, with no access to credit lines or legal authorization to raise debt independently, but with continuous central government support. In fact, without central government loans, given the negative operating and investment cash flows, Metro Lisboa cash would have depleted as soon as March 2019. We do not expect Metro Lisboa will generate free cash flows that could boost cash levels in 2020, also given the increase expected of operating costs and investment costs linked to the investment program put in place with the central government. The company continues to rely exclusively on central government transfers to service its debt to private creditors, which we estimate at €415.9 million in 2020, including interest payments.

Related Criteria

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

Related Research

- Sovereign Risk Indicator, Dec. 12, 2019. An interactive version is also available at www.spratings.com/sri.
- Portugal Outlook To Positive On Strong Policy Commitment, More Resilient External Position; 'BBB/A-2' Ratings Affirmed, Sept. 13, 2019

Ratings Detail (As Of February 26, 2020)*	
Metropolitano de Lisboa E.P.	
Issuer Credit Rating	BBB/Positive/--
Issuer Credit Ratings History	
16-Sep-2019	BBB/Positive/--
18-Mar-2019	BBB/Stable/--
18-Sep-2018	BBB-/Positive/--
19-Sep-2017	BBB-/Stable/--
22-Sep-2015	BB+/Stable/--
23-Mar-2015	BB/Positive/--

*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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