

Research Update:

# Outlook On Metropolitano de Tenerife Revised To Negative After Similar Action On Spain; 'A/A-1' Ratings Affirmed

September 25, 2020

## Overview

- On Sept. 18, 2020 we revised our outlook on Spain to negative from stable.
- We consider Metropolitano de Tenerife, S.A (MTSA) to be a government related-entity (GRE) of the Cabildo de Tenerife (Cabildo; local government), and we believe MTSA would almost certainly receive extraordinary support from the Cabildo in case of financial distress.
- We do not believe the Cabildo's creditworthiness could be above Spain's, nor do we think that MTSA's creditworthiness could be stronger than that of the Cabildo, from which it receives ongoing support.
- We are therefore revising our outlook on MTSA to negative from stable and affirming our long- and short-term issuer credit ratings at 'A/A-1'.

## Rating Action

On Sept. 25, 2020, S&P Global Ratings revised its outlook on MTSA to negative from stable and affirmed the long- and short-term issuer credit ratings at 'A/A-1'.

## Rationale

The outlook revision on MTSA follows a similar action on Spain (see "Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1'," published on Sept. 18, 2020).

We consider MTSA to be a GRE of the Cabildo, according to our criteria. In our view, local governments in Spain generally cannot be rated above the sovereign and MTSA would not be rated higher than the creditworthiness of its related government, from which it receives ongoing support. We therefore cap our ratings on MTSA at the same level as the rating on Spain, and are aligning our outlook on MTSA with that on the sovereign.

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In our opinion, the Cabildo would almost certainly provide timely and sufficient extraordinary government support to MTSA in the event of financial distress. We base this rating approach on our view of MTSA's:

- Critical role for the Cabildo. MTSA provides public transport services in the metropolitan area of Tenerife and is instrumental to the local government's policy of fostering its use. Public transport is one of the core responsibilities of the Cabildo. In our view, the essential and subsidized nature of MTSA's activities make it highly unlikely that a private entity could undertake its responsibilities.
- Integral link with the Cabildo. The local government fully owns MTSA, and supervises and monitors its strategy and operations regularly. The company executes its investments in close coordination with the Cabildo and operates under an agreement set by both MTSA and the Cabildo in 2003. This stipulates that the Cabildo is responsible for safeguarding the economic and financial balance of MTSA.

The management agreement by which MTSA and the Cabildo operate includes some features that are important to assess the local government's willingness to support MTSA in case of financial distress. First, the agreement sets the technical tariff that MTSA receives for each passenger. This is updated annually based on the consumer price index. Cabildo retains the fare-setting authority and commits to pay the company any difference between the technical tariff and the final fare paid by the user. Secondly, the agreement defines the availability payment that the company receives from the Cabildo. This is subject to the accomplishment of key performance indicators that are audited externally.

We understand that during the COVID-19 pandemic MTSA will continue to receive ongoing support from its government owner, as expected in its 2020 budget. MTSA will receive €5 million from the availability payment and €8 million from tariff settlements. As expected, the 2020 financials of public transport entities, such as MTSA, will suffer from the pandemic-related lockdown and social distancing measures. Nevertheless, we think that MTSA would receive extraordinary support from the Cabildo in case of financial distress, as stated under its management agreement. This support could come via transfers, a modification of the tariffs, or by the Cabildo increasing its availability payment.

We also think that the Cabildo has low contingent liabilities, which therefore do not constrain its capacity and willingness to support MTSA in a timely manner if needed. We do not doubt the owner's general propensity to support its GREs, including MTSA.

### **Environmental, social, and governance (ESG) credit factors for this credit rating change:**

- Health and safety
- Strategy, execution, and monitoring

### **Outlook**

Our negative outlook reflects that on Spain. This reflects our opinion that local and regional governments and their GREs can only be rated above the sovereign in exceptional circumstances.

## Downside scenario

We could lower our ratings on MTSA in the next 24 months if we took same action on Spain. We could also downgrade MTSA if we thought the owner's creditworthiness had deteriorated significantly or if the company's link with, or role for, its local government had weakened.

## Upside scenario

We could revise our outlook on MTSA to stable if we took the same action on Spain.

## Related Criteria

- 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
- Criteria | Governments | General: Mass Transit Enterprise Ratings: Methodology And Assumptions, Dec. 18, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1', Sept. 18, 2020
- Spain's Autonomous Community of Canary Islands Outlook Revised To Negative; 'A' Rating Affirmed, May 29, 2020
- Spain's Metropolitano de Tenerife, S.A. Assigned 'A/A-1' Ratings; Outlook Stable, Nov. 4, 2019

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>Metropolitano de Tenerife, S.A.</b>		
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1

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](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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.

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