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Research Update:

High Speed Rail Finance 1 PLC 'A' Issue Ratings On CreditWatch Negative Following Announced Debt Issuance

Primary Credit Analyst:

Rachel C Goult, Paris 0033 (0) 620 091284; rachel.goult@spglobal.com

Secondary Contact:

Luisina Berberian, Madrid +(34) 91-788-7200; luisina.berberian@spglobal.com

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Overview

- U.K.-based High Speed 1 Ltd. (HS1) has today announced its intention to issue up to £314 million of incremental senior secured debt. The new debt will be issued by High Speed Rail Finance PLC (HSRF) and will rank pari passu with all existing senior secured debt at HSRF and its sister companies High Speed Rail Finance 1 PLC (HSRF1) and HS1.
- The issuance will weaken the project's credit profile, leading to weaker annual debt service coverage ratios and a more back-ended debt repayment profile. In our opinion, this exposes the inflation-linked revenue project to poor performance during periods of sustained low inflation and will lead us to make a one-notch negative rating adjustment.
- We are therefore putting the 'A' issue credit ratings on the debt at HSRF1 on CreditWatch negative.
- We will lower the ratings by one notch to 'A-' following successful completion of the debt issuance, assuming that the terms are in line with our expectations.

Rating Action

On Sept. 26, 2016, S&P Global Ratings placed on CreditWatch with negative implications its 'A' long-term issue ratings on the senior secured debt issued by U.K.-based special-purpose entity High Speed Rail Finance 1 PLC (HSRF1). The debt comprises £246.5 million 1.566% index-linked senior secured bonds and £610.0 million 4.375% fixed-rate senior secured bonds, both due November 2038.

Rationale

The rating action reflects our view that the successful issuance of up to £314 million senior secured debt at High Speed Rail Finance PLC (HSRF), comprising up to £184 million amortizing fixed rate notes and up to £130 million bullet repayment fixed rate notes, will weaken the project's financial profile due to the increase in total debt. HSRF is a sister company of HSRF1 and the new senior debt will rank pari passu with all existing senior secured debt at HSRF, HSRF1, and High Speed 1 Ltd. (HS1). We have assigned a preliminary 'A-' long-term issue rating to the new issuance (see "High Speed Rail Finance PLC Proposed Issuance Assigned Preliminary 'A-' Rating; Outlook Stable," published today on RatingsDirect).

We anticipate that the pricing of the new debt will take place in mid-October, ahead of drawdown in mid-December. If the issuance is successful and the terms are in line with our base-case assumptions, it will represent an 18% increase of total senior secured debt at HS1, HSRF, and HSRF1. This will lead to a weakening of the project's credit profile.

Under our base-case analysis, we project the minimum annual debt service coverage ratio (ADSCR) to fall to 1.44x from 1.46x and the average ADSCR to fall to 1.65x from 1.79x. Although the decline in the minimum ADSCR is limited under our base-case assumptions, the increased debt amount does reduce the average coverage ratio. In addition, the revised amortization of the debt is relatively back-ended for a project reliant on growth assumptions. The new debt issuance has shortened the concession tail to one year from two years, and includes a bullet repayment of up to £130 million in December 2039. Consequently, the financial performance of the project, which has an inflation-linked revenue stream, deteriorates under long-term, sustained low inflation rates. We reflect this weakness by assigning a one-notch negative debt structure adjustment to the preliminary operations phase stand-alone credit profile (SACP).

For more details on the post-issuance structure, see "High Speed Rail Finance PLC," published today on RatingsDirect.

CreditWatch

The CreditWatch placement reflects our expectation that we will lower the ratings on HSRF1's senior debt by one notch to 'A-' from 'A' on the issuance of the new senior debt at HSRF, if terms are in line with our base-case assumptions. We expect to resolve the CreditWatch by mid-December, when the issuance takes place.

Ratings Score Snapshot

Operations Phase SACP (Senior Debt)

- Operations phase business assessment: 4 (1=best to 12=worst)
- Preliminary operations phase SACP: a-
- Downside analysis: aa (+1 notch)
- Debt structure: Neutral (no impact)
- Liquidity: Neutral (no impact)
- Comparable ratings analysis: Neutral (no impact)
- Operations phase SACP: a

Modifiers (Senior Debt)

- Parent linkage: Delinked (no impact)
- Structural protection: Neutral (no impact)
- Senior debt issue rating: A

Related Criteria And Research

Related Criteria

- Key Credit Factors For Road, Bridge, And Tunnel Project Financings, Sept. 16, 2014
- Project Finance Operations Methodology, Sept. 16, 2014
- Project Finance Transaction Structure Methodology, Sept. 16, 2014
- Project Finance Framework Methodology, Sept. 16, 2014
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011

Related Research

- Presale: High Speed Rail Finance PLC, Sept. 26, 2016

Ratings List

Ratings Affirmed; CreditWatch Action

	To	From
High Speed Rail Finance 1 PLC		
Senior Secured	A/Watch Neg	A/Stable

Additional Contact:

Infrastructure Finance Ratings Europe; InfrastructureEurope@spglobal.com

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.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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