

RATING ACTION COMMENTARY

Fitch Affirms High Speed Rail Finance (1) Notes at 'A-'; Outlook Stable

Tue 15 Oct, 2024 - 12:25 ET

Fitch Ratings - London - 15 Oct 2024: Fitch Ratings has affirmed High Speed Rail Finance (1) PLC's senior secured notes and programme ratings at 'A-' with a Stable Outlook.

The issuer is the funding vehicle for HS1 Limited, which is the concessionaire of the only high-speed railway in the UK.

RATING RATIONALE

HS1 continues to benefit from a robust operating profile and its critical nature as the high-speed railway connection between the UK and continental Europe. Domestic volumes remain substantially underpinned by the UK government, which mitigates volume risk and supports cash-flow stability. We view the demand for international traffic as robust in the long term, supported by the strong recovery in recent years.

KEY RATING DRIVERS

Revenue Risk - Volume - Stronger

Domestic Underpinned, International Recovering: The UK government guarantees around 95% of pre-pandemic domestic train paths as part of the underpinned volume scheme, making domestic revenue effectively availability-based. International volumes are based on dominant Eurostar train services from London to the continent, which is subject to demand risk. However, it is somewhat mitigated by the critical nature of the infrastructure.

Revenue Risk - Price - Stronger

RPI Link, Costs Pass-Through: The concession framework allows HS1 sponsors to recover their invested capital including debt through an RPI-linked investment recovery

charge, which represented around 65% of EBITDA in the financial year ending March 2024 (FY24). Unlike most regulated assets in the UK, this is not subject to periodic regulatory review. The RPI revenue swap mitigates potential risks of low inflation, as HS1 receives cash flows at fixed growth while the payable portion accretes as per realised RPI.

The operations, maintenance and renewal (OMR) component of revenues is designed to recover HS1's OMR costs, and is subject to benchmarking and review every five years. The OMR costs can also be 'reopened' before the five-year review cycle under certain circumstances, such as where traffic is +/- 4% the forecasts presented at the beginning of the control period.

Infrastructure Development and Renewal - Stronger

High Capex Visibility: HS1's assets have continuously outperformed operational expectations and are generally well maintained but gradually ageing. Major maintenance services are largely the responsibility of the service provider (Network Rail (High Speed)), while HS1's responsibilities are limited and predictable. Forward-looking escrow arrangements for track and station capex provide high visibility of renewal costs. The five-year concessionaire's review of asset conditions is expected to prevent HS1 incurring unexpected handover liabilities at concession maturity.

Debt Structure - 1 - Stronger

Solid Debt Structure: The rated debt is senior secured and fully amortising, with more than 95% at fixed or swapped interest rates. A dedicated 12-month liquidity facility within the ring-fenced group, together with covenanted lock-up and default ratios, provide strong creditor protection. The amortisation of legacy swaps' crystallised mark-to-market value is fixed and reflected in the debt service coverage ratio (DSCR). As of September 2024, HS1 had a committed undrawn GBP160 million liquidity facility and a GBP84 million revolving credit facility (of which GBP36 million was drawn).

Financial Profile

Under the Fitch Rating Case (FRC), HS1's DSCR profile remains robust, averaging 1.60x between FY25 and FY39, with a minimum DSCR of 1.43x in FY25. HS1's credit metrics remain well above our negative sensitivity trigger of 1.4x.

PEER GROUP

Channel Link Enterprises Finance Plc (CLEF; rail/transportation, 'BBB'/Stable) has the same catchment area as HS1's international traffic. CLEF has a 'High Midrange' assessment on Volume Risk, weaker than HS1, driven by higher demand volatility. CLEF

has a lower average DSCR (1.50x) than HS1 and a 'Midrange' debt structure. We view HS1 as stronger than CLEF in terms of lower expected volatility in revenue, as well as lower operating costs and infrastructure renewal costs, which explains the two-notch difference in their ratings.

Given the stable revenue profile and metrics, HS1 compares well with Meridian Hospital Company PLC (hospital PFI concession), whose bond is rated 'A-/Stable with an average DSCR of 1.51x. Meridian benefits from 100% availability-based revenues, which underpin the 'A-' rating, despite having a lower DSCR than HS1's 1.60x.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- Material underperformance of the FRC, resulting in an average DSCR well below 1.40x.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- An upgrade is currently unlikely due to HS1's ability to raise additional debt.

Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ⇅

RATING ⇅

PRIOR ⇅

 High Speed Rail Finance
 (1) PLC

High Speed Rail Finance (1) PLC/Train Operators Revenues - Senior Secured Debt/1 LT	LT	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
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APPLICABLE CRITERIA

[Infrastructure & Project Finance Rating Criteria \(pub. 17 May 2023\) \(including rating assumption sensitivity\)](#)

[Transportation Infrastructure Rating Criteria \(pub. 18 Dec 2023\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Third-party Model ([1](#))

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High Speed Rail Finance (1) PLC

UK Issued, EU Endorsed

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