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## Tear Sheet: High Speed Rail Finance (1) PLC

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## Credit Rating(s)

Senior Secured

£246.5 mil 1.566% index-linked bnds due 11/01/2038

*Local Currency*

BBB+/Positive

£610 mil 4.375% bnds due 11/01/2038

*Local Currency*

BBB+/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.

***Eurostar's 2024 bookings support our positive outlook and are aligned with our expectations.*** Eurostar has already booked 97% of its pre-pandemic forward booked timetable in advance for May 2024-December 2024. This translates into 17,600 annualized train paths and represents roughly 25% growth when compared with 2023 bookings, as well as a 22% increase in traffic for fiscal year 2024 (without accounting for highly likely spot bookings).

***In our view, factors like persistent willingness to travel and external events like the upcoming Olympic Games in Paris foster demand.*** However, we recognize some operational challenges that Eurostar must overcome in the near future, such as achieving more efficient immigration control--particularly in peak times as delays could limit capacity deployment--and managing increased competition with other transport. We also think the renovation of Amsterdam Centraal Station over July 2024-December 2024 may discourage some passengers as the closure adds a connection in Brussels. From 2025 onward, we expect growth to slow compared with post-pandemic recovery. We forecast a 2.7% increase in traffic in 2025 and 1.3% thereafter, following the combination of France and U.K. GDP growth prospects.

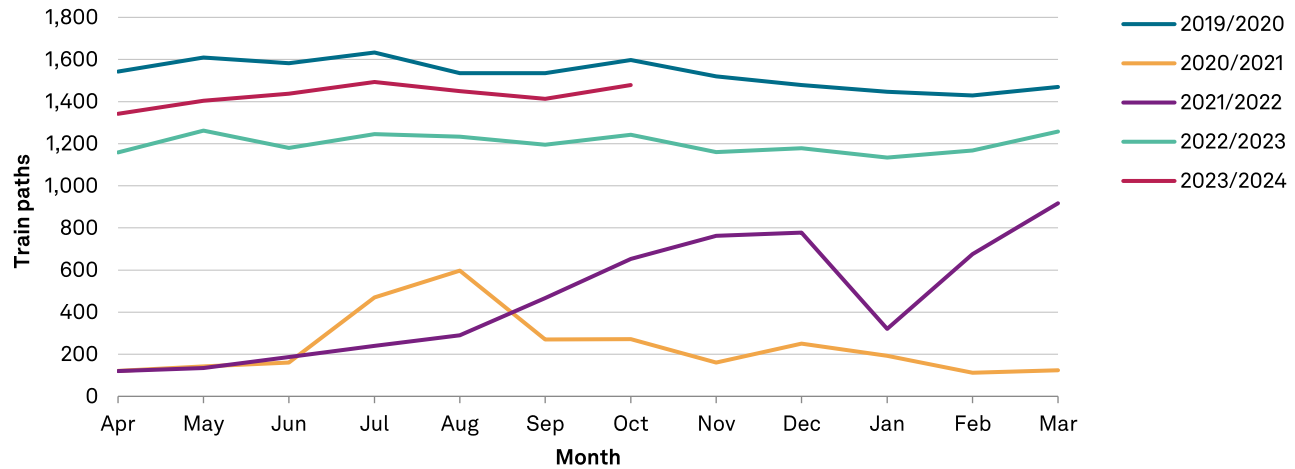
***Despite encouraging international traffic performance, rating upside is limited by our view of Eurostar's creditworthiness.*** We are closely monitoring Eurostar's financial health, considering its latest publicly disclosed financial statements. Our base case assumes Eurostar will take proactive measures to tackle its capital-structure-related matters to at least sustain its creditworthiness. If it fails to manage this risk, it could limit the potential rating upside for HSRF1 in the future (as a material revenue counterparty). For more, see "High Speed Rail Finance (1) Outlook Revised To Positive On Foreseen Operational And Financial Strengths; Rating Affirmed," published Sept. 13, 2023, on RatingsDirect.

***Domestic bookings are moving in the right direction, but we expect they will remain below guarantee levels.*** Domestic train operator Southeastern Trains Ltd (SET) saw an increase in its forward bookings of close to 48,000 annualized paths for fiscal 2024, which is approximately 10% below the minimum level guaranteed by the Department for Transport (DfT). This represents an increase of close to 10% when compared with the previous period covering May 2023-December 2023. Although an increase in domestic volumes is credit positive, it does not materially change our forecast because the project will continue to receive underpinned payments. We expect growth above guarantee levels after March 2028, by when we foresee some operational improvements at SET, underpinned by the implementation of rail reform improvements.

**Chart 1**

**Monthly international traffic**

Historical values



Source: S&P Global Ratings.

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**Outlook**

The positive outlook indicates we could raise the rating on HSRF1 by one notch in the medium to long term if our expectations of consistent solid operating and financial performances are sustained, on the back of improvements of its revenue counterparty Eurostar's financial health, and more specifically Eurostar's ability to find a long-term solution for its capital structure and reducing its short-term refinancing risk.

**Downside scenario**

We could revise the outlook to stable if international traffic stalled or we see increasing risk of operating disruption from international train operators that could affect traffic recovery or lead to a deterioration in our view of Eurostar's creditworthiness, which in turn would limit rating upside. We would likely revise the outlook to stable if the results of the regulatory review that determines track charges for the next regulatory period starting in March 2025 are detrimental to the project.

**Upside scenario**

We could raise the rating if, contingent to our view of Eurostar's enhanced creditworthiness, HSRF1's projected minimum annual debt service coverage ratio is comfortably above 1.40x while maintaining a strengthened performance in our resiliency analysis. This could happen if our base case materializes with international traffic fully recovering to pre-pandemic levels by 2025, on the back of an improved operating and financial position from critical counterparty Eurostar. We would also need to gain some visibility on the regulatory review outcomes.

## Project Summary

|                                     |                     |
|-------------------------------------|---------------------|
| Project status, type (year started) | Rail Infrastructure |
| Location                            | U.K.                |
| Outstanding debt (as of March 2023) | 1,779.3             |
| Debt maturity                       | Nov. 31, 2038       |
| Project rating                      | BBB+                |

DSCR--Debt service coverage ratio. OPBA--Operation phase business assessment.

## Project Description

U.K.-based special-purpose entity HSRF1 is a finance vehicle for HS1 Ltd. (HS1, the project operating company; not rated), the operator of the U.K.'s sole high-speed rail line. HS1 operates under a 30-year concession agreement with the U.K. Secretary of State expiring December 2040 and is regulated by the Office for Rail and Road, an independent U.K. regulator. HS1 is responsible for the operation, maintenance, and renewal of track and associated infrastructure, along with four railway stations served by the route, which it subcontracts to Network Rail High Speed under a fixed-price agreement until 2047. Once HS1's concession ends in 2040, this contract will revert to the DfT.

The rail line, which connects St. Pancras International station in London with the Channel Tunnel boundary in Southeast Kent, provides track access to domestic and international high-speed traffic, plus a small quantity of freight traffic. HS1 has been in operation since 2007.

## Ratings Score Snapshot

|   |                 |
|---|-----------------|
| <b>Senior debt issue rating</b>                             | <b>BBB+</b>     |
| <b>Operations phase (senior debt)</b>                       |                 |
| Asset class operating stability:                            | 3               |
| Operations phase business assessment:                       | 4               |
| Preliminary operations phase SACP                           | bbb+            |
| Downside resiliency assessment and impact:                  | High (+1 notch) |
| Median DSCR impact:   | No impact       |
| Debt structure impact:                                      | -1 notch        |
| Liquidity impact:   | Neutral         |
| Refinancing impact:   | N/A             |
| Future value modifier impact:                               | N/A             |
| Holistic analysis impact:                                   | No impact       |
| Structural protection impact:                               | No impact       |
| Counterparty assessment impact:                             | No impact       |
| Operations phase SACP                                       | a-              |
| <b>Parent linkage and external influences (senior debt)</b> |                 |
| Parent linkage:   | Delinked        |

| <b>Senior debt issue rating</b>   | <b>BBB+</b> |
|-----------------------------------|-------------|
| Project SACP:                     | a-          |
| Extraordinary government support: | Neutral     |
| Sovereign rating limits:          | AA          |
| Full credit guarantees:           | No          |

DSCR--Debt service coverage ratio. ICR--Issuer credit rating

## Related Criteria

- Criteria | Infrastructure | General: General Project Finance Rating Methodology, Dec. 14, 2022
- Criteria | Infrastructure | General: Sector-Specific Project Finance Rating Methodology, Dec. 14, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Industry Credit Outlook 2024: Transportation Infrastructure, Jan. 9, 2024
- Industry Credit Outlook 2024: Transportation, Jan. 9, 2024
- High Speed Rail Finance (1) Outlook Revised To Positive On Foreseen Operational And Financial Strengths; Rating Affirmed, Sept. 13, 2023
- High Speed Rail Finance (1) 'BBB+' Rating Affirmed And Removed From Under Criteria Observation; Outlook Stable, Jan. 31, 2023

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