High Speed Rail Finance (1) PLC

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This report does not constitute a rating action.

Project Description

U.K.-based special-purpose entity High Speed Rail Finance (1) PLC (HSRF1) is a finance vehicle for HS1 Ltd. (the project operating company; not rated), the operator of the U.K.'s sole high-speed rail line since 2007. The rail line connects St. Pancras International station in London with the Channel Tunnel boundary in southeast Kent, providing track access to domestic and international high-speed traffic, plus a small quantity of freight traffic.

HS1 operates under a 30-year concession agreement with the U.K. Secretary of State expiring in December 2040, which will transfer to the Department for Transport (DfT) once it ends. The company is regulated by the Office for Rail and Road (ORR), an independent U.K. transport regulator. HS1 is responsible for the operation, maintenance, and track renewal, and associated infrastructure, along with four railway stations served by the route. Most of these are subcontracted to Network Rail High Speed (NRHS) under a fixed price agreement until 2047.

Credit Highlights

Overview

Key strengths	Key risks
Transparent and supportive regulatory framework underpins around 90% of project's revenue.	One-third of regulated revenue bear full volume exposure to international train paths.
Strong competitive position stems from operating the sole high-speed rail connection between London and continental Europe.	Back-ended amortization profile.
Crucial role in U.K.'s decarbonization strategy.	

A clear and stable regulatory framework supports earning stability and helps protect cash flow during periods of macroeconomic downturn. Domestic train path bookings, corresponding to approximately two-thirds of the regulated revenue, are protected by the U.K. Secretary of State's commitment to pay a so called underpin level--about 52,806 train paths on average per year--which largely mitigates the project's exposure to domestic volume risk. While one-third of revenue is exposed to volume risk on international train paths, the exposure is mitigated by the train operator's obligation to book up to 12 months in advance and paid for quarterly in advanced, irrespective of whether those services are run. Furthermore, regulated track and station related charges are based on retail price index (RPI)-linked revenue payments.

Regulation allows HS1 to pass through most operating costs to track users via fixed-for-life RPI-linked revenue payments. Track access charges are paid quarterly in advance of scheduled train services and include a fixed investment recovery charge (IRC), along with a regulated operation, maintenance, and renewals charge (OM&RC) to cover the cost of the project's track infrastructure. The OM&RC is reviewed every five years by the Office of Rail and Road (ORR) and includes the provision for an in-control period reopener, ensuring near-full cost pass through.

HS1 benefits from its monopoly position as the sole high-speed rail connection between London and Continental Europe. Ongoing government decarbonization strategies, together with growing environmental awareness among consumers, will likely continue generating opportunities for the sector and strengthening HS1's competitive position, given its role in providing a sustainable alternative for short-haul freight and passenger transport.

The project is exposed to revenue volatility driven by fluctuations in international traffic volumes. Demand for train paths is closely linked to macroeconomic conditions, consumer discretionary spending, and travelers' willingness to spend on leisure, introducing a degree of uncertainty to revenue. That said, we view the project's exposure to international market dynamics as partially mitigated by the requirement for train paths to be booked up to 12 months in advance and paid quarterly in advance, regardless of whether the service operates.

The amortization of the debt is relatively back ended for a project reliant on growth assumptions. The majority of the debt facilities do not start amortizing until at least 2027. In addition, the project has a short concession tail of one year, including a bullet repayment of £130 million in December 2039. We reflect this weakness by applying a one-notch negative debt structure adjustment.

Outlook

The stable outlook on the debt issued by HSRF1 reflects our view that the project will continue to deliver stable operational performance and benefit from a stable regulatory regime. The outlook also factors in the project's strong competitive position as the operator of the sole high-speed train route connecting the U.K. to continental Europe, as well as our view that HS1 will be one of the critical infrastructure assets to support the U.K.'s net-zero targets. We expect a minimum annual debt service coverage ratio (DSCR) of 1.4x under our base case as traffic volumes continue to recover.

Downside scenario

We could take a negative rating action on HSRF1's debt if the project's financial profile weakens, causing the minimum annual DSCR to fall materially below 1.4x, or if the performance weakens under our resiliency scenario. This could occur because of operational underperformance or long-term reduced demand for international and domestic train paths, resulting potentially from limited train capacity, subdued demand or insufficient investments to cope with forecast growth.

We could also lower the rating if the project becomes exposed to additional counterparty risk. Revenue counterparty risk could increase, for example, if existing or new train operators experience a weaker credit quality. Financial counterparty risk could heighten as a result of a downgrade of swap counterparties or working capital facility providers to below the project debt rating level.

Upside scenario

A positive rating action is unlikely without further significant improvement in our base-case projection of traffic volumes and minimum annual DSCR, assuming no counterparty rating constraint. For us to consider an upgrade, we would need to observe a minimum annual DSCR of about 1.80x or a restructured debt repayment profile to make it less back ended.

Performance Update

HS1 keeps delivering a stable operating performance but traffic growth remains slower than expected. We expect a consistent recovery on international trains paths reaching about 17,600 paths by March 31, 2026 (the end of the financial year), representing a 2% growth when comparing to March 2025. We have revised downward our traffic expectations for 2026-2029 to an average of 3% meaning pre-pandemic traffic levels will be reached by March 2027 only compared with our earlier forecast of September 2024. This is driven mainly by our expectations that Eurostar will continue to submit train bookings--First Working Timetable--consistent with previous years and remaining below pre-pandemic levels, as it carries its fleet renewal and expansion program. This forecast revision has had limited impact on credit metrics.

The rail regulator's new open access decision, expected by Oct. 31, could foster competition for international traffic. The ORR has received four applications requesting access to the Temple Mills International depot, a critical piece of infrastructure for new operators seeking to launch services on HS1 tracks. Currently, there is unused capacity at the depot not being utilized by Eurostar, which could potentially be allocated to other operators, supporting traffic growth. According to new operators' plans, alternative services to Eurostar could start operating by 2029. If barriers to entry are reduced, we view this development as supportive of our forecast for traffic growth in line with U.K. GDP. We may revise our forecast once the current conversations were converted into formal slot requests. Lastly, we believe that the creditworthiness of any prospective revenue counterparties will likely not be a limiting factor for the rating on the project, because their expected contribution to total revenue should remain less material than underpinned levels and Eurostar mature traffic base.

Proactive management team positions HS1 for potential rising demand. At the moment, there is sufficient capacity in the line for four trains running per hour. However, if not addressed, station capacity could limit additional growth if a new rail operator were to compete during peak times. Management has already developed the St. Pancras Expansion Program to gain efficiencies and increase capacity within the existing infrastructure. We understand with limited renovations, HS1 could handle about 5,000 passengers per hour, from the current 1,800. In addition, it has launched an incentive scheme to encourage Eurostar and new operators to run more services by offering yearly discounts on fixed cost pass-through payments if run trains are above the baseline.

Possible additional capital expenditure (capex) could weigh on credit metrics over the medium term. We understand that investment costs would be financed by HS1, potentially with some cost recovery through tariffs, considering train operators will benefit from the additional passenger capacity at peek hours. We do not expect these investments to result in an immediate positive impact on revenue, as there is a reasonable ramp-up risk associated with new operators and traffic growth is expected to materialize gradually. Discussions around expansionary capex remain at an early stage and no formal proposal has yet been submitted, therefore, the potential rating implication is uncertain. That said, we think it is reasonable to assume that higher investment spending in a given year, without timely mitigation or cost recovery, would put pressure on debt service coverage ratios (DSCR).

Domestic paths and commercial revenue remain supportive. We expect HS1 to continue receiving underpinned levels for domestic services considering they are still operating slightly below underpinned levels--at about 97% when calculated in minutes--and we think that the current shift from the cost optimization and loss mitigation strategy toward adopting a more growth-driven approach will contribute to increase train paths above these levels. Therefore, our forecast assumes slow-paced traffic growth surpassing underpinned levels after 2027. Commercial performance continues to grow, thanks to leasing available spaces and redesigning others, as well as the higher number of passengers at St. Pancras station.

Base Case

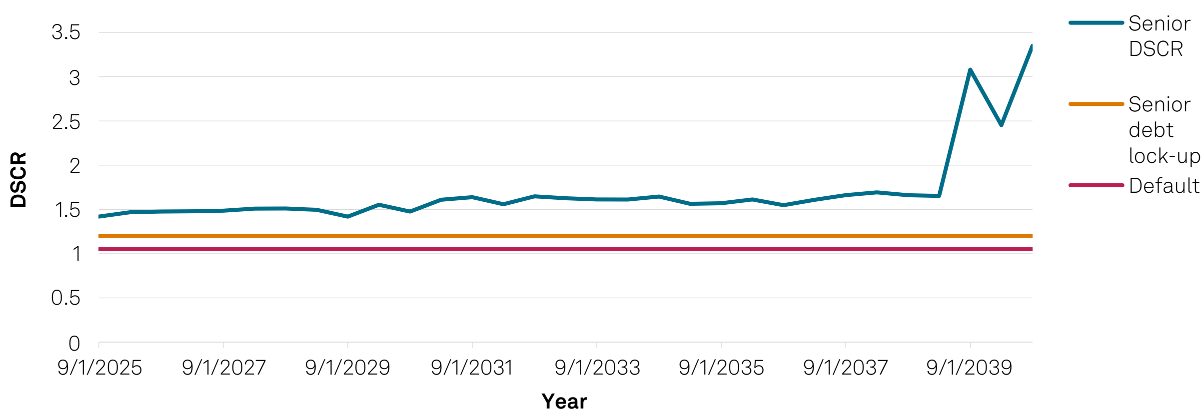
Assumptions

- **International train paths:** A combination of forward and spot bookings, but a higher share of forward bookings. Total train paths in fiscal 2026 (12 months to March 2026): 17,589; 2027: 18,321; and 2028: 19,050. Thereafter, we assume growth will be driven by the combination of France and U.K. GDP growth expectations, which is approximately 1.3% combined.
- We do not include potential service challengers.
- **Domestic train paths:** An underpin amount until March 2028. Thereafter, we assume growth will be in line with U.K. GDP growth expectations.
- **Freight train paths:** 550-750 train paths per year.
- **Unregulated revenue:** We assume retail will remain at about £30 million, while a delayed car park recovery will likely result in revenue reaching the pre-pandemic level by March 2028, but will add £8 million-£9 million. Thereafter we assume revenue will increase with footfall, led by traffic volumes.
- **Operating costs:** In line with management's forecast, including a pass-through of the operations and maintenance recovery charge, power, and station costs.
- A recessionary period between 2035 and 2038, in line with our assumptions in the peer project, Channel Link Enterprise Finance PLC, which is designed to replicate the stress on the underlying volumes in 2008-2009.
- **Cost of letter of credit (LoC)**: To ensure comparability in our cash flow analysis, we assume the liquidity facility is drawn on an amount equal to the next six months of debt service. We also consider £51 million of the working capital facility as being drawn, in line with the project's actual balance.
- **Tax rate:** 25%.
- **RPI:** 3.10% for 2025; 2.60% for 2026; 2.40% for 2027-28; 2.50% for 2029-30; 2.0% after 2031, in line with our macroeconomic forecasts.

Key metrics

- The minimum annual DSCR is 1.42x (March 2025) and median annual DSCR is 1.56x.
- The minimum annual DSCR is consistent with a minimum stand-alone credit profile (SACP) of 'a-' given the project's operations phase business assessment of '3'.

High Speed Rail Finance (1) PLC -- Base Case DSCR



Source: S&P Global Ratings.

Downside Case

Assumptions

- **International train paths:** Slower recovery for the next year at -30% of our base-case traffic assumptions. From March 2028 and thereafter, we forecast flat recovery at 18,000 train paths, plus a two-year shock starting in 2034. The shocks reflect the effect of an incident, such as a tunnel fire, resulting in temporary partial tunnel closures with 20% capacity constraint.
- **Domestic train paths:** Train paths at the underpin level of 52,806 per year through the life of the project.
- **Freight train paths:** Stress follows international traffic volumes.
- **Unregulated revenue:** 20% below our base case.
- **Regulated costs:** As per the base case.
- **RPI:** One percentage point above our base case for 2025-2029. Thereafter, in line with the base case (including the recessionary period 2035-2039).
- **Cost of LoC:** We assume Sterling Overnight Index Average (SONIA) at 6% throughout the life of the project.

Key metrics

- The project has proven its robust performance under our downside conditions, and we expect this to support our resiliency assessment of very high, providing an additional notch to the SACP.

Liquidity

We assess the project's liquidity as neutral. The project maintains a 12-month liquidity facility agreement through March 2040, equal to the upcoming 12 months of scheduled debt service, including swaps. In addition, HSRF1 has a £112 million working capital facility available.

For the maintenance of assets and replacement capex, the project maintains escrow accounts where it deposits the renewals component of the regulated revenue.

Peer Comparison

	High Speed Rail Finance (1) PLC	Channel Link Enterprise Finance PLC	Verdun Participation 2 S.A.
Operations phase SACP (senior debt)			
Asset class operations stability	2	3	3
Operations phase business assessment	3	4	4
Preliminary operations phase SACP	a-	a-	bbb-
Downside resiliency assessment	Very high (+1 notches)	Moderate (capped at 'bbb' category)	Moderate (neutral)
Median DSCR impact	No impact	No impact	No impact
Debt structure impact	Negative (-1 notch)	No impact	No impact
Liquidity	Neutral	Neutral	Neutral
Refinancing	No impact	No impact	No impact
Future value modifier	No impact	No impact	Positive (+1 notch)
Holistic analysis impact	No impact	No impact	Negative (-1 notch)
Structural protection impact	Neutral	Neutral	Neutral
Counterparty assessment impact	Neutral	Neutral	Neutral
Operations phase SACP	a-	bbb+	bbb-
Parent linkage and external influences			
Parent linkage	De-linked	De-linked	De-linked
Project SACP	a-	bbb+	bbb-
Extraordinary government	Not applicable	Not applicable	Not applicable
Sovereign rating limits	AA	AA	AA
Full credit guarantee	Not applicable	Class G3 and G6 notes only: AGUK (AA/Stable)	AGE (AA/ Stable)
Senior debt issue rating	A-	BBB+;Class G3 and G6 notes only: AA	AA

Rating Component Scores

Senior debt issue rating	A-
Asset class operating stability	2
Operations phase business assessment	3
Preliminary operations phase SACP	a-
Downside resiliency assessment and impact:	Very high (+1 notch)
Median DSCR impact:	Neutral

Senior debt issue rating	A-
Debt structure impact:	-1 notch
Liquidity impact:	Neutral
Refinancing impact:	N/A
Future value modifier impact:	N/A
Holistic analysis impact:	N/A
Structural protection impact:	N/A
Counterparty assessment impact:	Neutral
Operations phase SACP	A-
Parent linkage and external influences (senior debt)	
Parent linkage:	Delinked
Project SACP:	A-
Extraordinary government support:	N/A
Sovereign rating limits:	N/A
Full credit guarantees:	N/A
DSCR--Debt service coverage ratio. N/A--Not applicable.	

Operations phase SACP

We assess the project to have low to moderate operating risk and assign an operations phase business assessment of '3'. The project's transparent and supportive regulatory framework helps to mitigate operational risk and, combined with a strong competitive position and very low market risk, leads to a strong operational performance. This, together with the minimum DSCR of 1.4x, results in a preliminary operations phase SACP of 'a-'.

Operation counterparties

Revenue counterparty

HS1's revenue comprises approximately 90% regulated revenue and 10% nonregulated revenue. The nonregulated revenue is generated by multiple station retail units and car park users and there is not, in our opinion, a rating dependency on any individual nonregulated customer.

The regulated revenue comprises the fixed IRC, the OM&RC, and the qualified station expenditure charges (QX). HS1 passes the OM&RC and QX charges through to the train operators and therefore it is the IRC, which represents about 55% of total revenue under our base case, that fuels HS1's profitability and cash flow performance.

The majority of the IRC (approximately 70%) is provided by the domestic train operating companies (TOCs) and is directly guaranteed by the U.K. government under the agreement put in place in January 2015. Furthermore, the DfT maintains step-in arrangements that would enable it to take over a failing domestic TOC and directly operate its service. We therefore view the domestic TOC as a material and irreplaceable counterparty, with credit quality in line with our view of the U.K. government (unsolicited; AA/Stable/A-1+).

HS1 regulated revenue is generated by two TOCs: London & Southeastern Railway Ltd. and Eurostar International. TOCs running on HS1 tracks have to enter into a track access agreement with HS1 and pay a regulated charge. We view the project's exposure to the IRC counterparties as material and our analysis to assess the dependency of HS1 to these counterparties adopts a rating to principles approach, using our criteria "General Criteria: Principles Of Credit Ratings," Feb. 16, 2011, in conjunction with our "General Project Finance Rating Methodology," Dec. 14, 2022. Under the rating to principles approach we determine the overall revenue counterparty credit quality by calculating the weighted average creditworthiness of the two revenue counterparties in proportion to their regulated revenue contribution. The revenue counterparty credit quality under this approach does not constrain the rating on the debt.

Operations and maintenance counterparty

We consider the operations and maintenance counterparty, NRHS, to be irreplaceable, and we weak link the project's debt rating to the credit quality of NRHS, which is not a rating constraint. NRHS retains performance risk and the responsibility for safety under railway regulation, in line with the operator's role in transport projects. NRHS's payment and performance obligations benefit from a guarantee granted from its parent company, Network Rail Infrastructure Ltd. (Network Rail). Network Rail is funded by the debt program of Network Rail Infrastructure Finance PLC, which is a government-related entity, and rated in line with our rating on the U.K. government.

U.K. Power Networks (UKPN) operates the electricity distribution infrastructure and supplies electricity under a finance lease agreement (through to 2057) with HS1. The electricity distribution market is wide in the U.K. and we believe that UKPN could be replaced if necessary, without material disruption. We therefore do not weak link the project's debt rating to the credit quality of UKPN.

Financial counterparties

The ratings on the project debt are weak linked to the ratings on the swap counterparties, as the terms of the swap do not fulfil our criteria requirements for collateral and timely replacement. The project's hedging policy states that HS1 may enter into swaps with counterparties rated 'A-' or above and that the swap counterparty is committed to taking corrective action when its rating falls below investment grade. The agreement does not, however, require the counterparty to post collateral or provide a timely replacement. The project maintains interest rate and cross-currency swaps with a number of rated counterparties: National Australia Bank, BNP Paribas, Bank of Nova Scotia, Royal Bank of Canada, and Lloyds Bank. We rate all of these entities at least one notch higher than HSRF's debt and therefore they do not constrain the project's debt rating. Should the rating on any of the entities fall below the issue rating, we would assess the fallout from this counterparty failing to fulfil its obligations under the swap.

The 12-month forward-looking liquidity facility is provided by three financial counterparties: ING Bank N.V., National Australian Bank, and BNP Paribas. The terms of the liquidity facility require that we rate the counterparties at least 'BBB' and that, should the rating on any counterparty fall below this level, HS1 must replace it within 60 days. The replacement period is in line with the required remedy period stipulated in our criteria to support transactions rated at 'A-'.

The ratings on the project debt are weak linked to the ratings on the five £112 million working capital facility providers, each of which provides £22.4 million: The Royal Bank of Scotland PLC, Lloyds Bank, ING Bank N.V, BNP Paribas, and HSBC UK Bank. We rate these entities at least one notch higher than HSRF's debt.

Related Criteria

- Criteria | Infrastructure | General: Sector-Specific Project Finance Rating Methodology, Dec. 14, 2022
- Criteria | Infrastructure | General: General 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
- 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

- Channel Link Enterprises Finance PLC Note Ratings Raised To 'BBB+' On Expected Stronger Credit Metrics; Outlook Stable, March 25, 2025
- Tear Sheet: High Speed Rail Finance (1) PLC, March 6, 2025
- EMEA Transportation Infrastructure: Handbook 2025, Jan. 23, 2025
- Industry Credit Outlook 2025: Transportation Infrastructure, Jan. 14, 2025

Ratings Detail (as of October 28, 2025)*

High Speed Rail Finance (1) PLC	
��246.5 mil 1.566% index-linked bnds due 11/01/2038	
Local Currency	A-/Stable
��610 mil 4.375% bnds due 11/01/2038	
Local Currency	A-/Stable

*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.