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Research Update:

Austria-Based OeBB-Infrastruktur AG 'AA+/A-1+' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:
Ludwig Heinz, Frankfurt (49) 69-33-999-246; ludwig.heinz@spglobal.com

Secondary Contact:
Stefan Keitel, Frankfurt +49 69 33999 254; stefan.keitel@spglobal.com

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Overview

- Austrian rail infrastructure company OeBB-Infrastruktur benefits from an almost certain likelihood of extraordinary support from the Austrian government.
- OeBB-Infrastruktur plays a critical role for the government because of its responsibility for Austria's rail network and is integrally linked to the government through full ownership, sovereign guarantees for outstanding debt issued under its euro medium-term note program, and through a direct financing framework with the federal financing agency from 2017.
- We are consequently affirming our 'AA+/A-1+' ratings on OeBB-Infrastruktur.
- The stable outlook on OeBB-Infrastruktur reflects that on Austria.

Rating Action

On July 21, 2017, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term issuer credit ratings on Austrian rail infrastructure company OeBB-Infrastruktur AG. The outlook is stable.

Rationale

The ratings on OeBB-Infrastruktur reflect our opinion that there is an almost certain likelihood that the Republic of Austria (AA+/Stable/A-1+) would provide timely and sufficient extraordinary support to the company in the event of financial distress.

In accordance with our criteria for government-related entities (GREs), our view that there is an almost certain likelihood of extraordinary government support for OeBB-Infrastruktur is based on our assessment of OeBB-Infrastruktur's:

- Critical role for the government as the owner, constructor, and operator of most of the Austrian rail network; and
- Integral link with the government, owing to the state's indirect full ownership of OeBB-Infrastruktur, which subjects the company to tight legal, planning, and operational controls, as well as a strong support framework. The company enacts the government's railway investment plan, which leads to a planned peak in financial debt of about €30 billion in 2025-2026, as agreed with the government.

The company is making an important shift to its funding. As OeBB-Infrastruktur's debt is statistically included in general government debt under Eurostat rules, the responsible ministries and the company decided in 2016 that the company will finance itself via loans from the Republic of Austria to benefit from the sovereign's lower interest costs. For the loan provision, OeBB-Infrastruktur concluded a framework agreement with the federal treasury (ÖBFA).

In the past decade, OeBB-Infrastruktur had used its euro medium-term note (EMTN) program as its main financing tool, and outstanding bonds with a federal government guarantee amount to €14.2 billion. The change in financing approach does not affect the guarantees on the outstanding bonds.

In addition to the unconditional and irrevocable guarantee on the EMTN program, the Austrian government is also responsible for ensuring that OeBB-Infrastruktur maintains sufficient funds at all times to protect its operations, liquidity, and equity under paragraph 47 of the Federal Railway Act. This can be achieved directly through funding from the Federal Financing Agency or through the transfer of government funds. The act also clearly outlines the framework for government transfers, which OeBB-Infrastruktur receives for operations and maintenance, as well as for network expansion. These government transfers according to section 42 of the act accounted for 57% of the company's revenues in 2016. In addition, the government exercises operational, management, and financial control over the holding company. The company is incorporated under the Federal Railways Act (Bundesbahngesetz), which states that OeBB-Infrastruktur must be fully owned by OeBB-Holding AG (not rated), which in turn must be fully owned by the state. The act clearly defines the government's role in OeBB-Infrastruktur's operations and its operational, management, and financial control over the holding company.

Currently the Austrian government guarantees 72% of all financial debt outstanding, with the remainder mainly consisting of loans from the European Investment Bank (EIB). In the future, OeBB-Infrastruktur's funding will be in close coordination with the federal treasury. The framework agreement with the treasury ensures the reliable access to long-term funding for the company. The legal foundations for the provision of funds are created in the annual federal financing law and the law governing multi-annual charges to the federal budget, which takes into account rail infrastructure investment plans. In addition to long-term financing, the federal treasury also provides short-term liquidity access to OeBB-Infrastruktur. In our view, the revised funding structure of the company further underpins the integral link of OeBB-Infrastruktur with the Republic of Austria.

The Austrian government also approves, through a process of annual extension, OeBB-Infrastruktur's six-year master plan. Under the master plan for 2014-2019, the government has committed to reimbursing 75% of OeBB-Infrastruktur's investment expenses spent until 2016 by transferring debt service contributions for the next 30 years. From 2017, the share of reimbursements will increase to 80%. Furthermore, the government has acknowledged responsibility for 100% of the investment costs of the Brenner base tunnel. The subsidy for each year's investment is to be paid as a 30-year annuity and for the Brenner base tunnel in a 50-year annuity. These modalities also remain valid under the current transfer framework for 2016-2021, and the Austrian government has recently already decided on the framework for 2017-2022--which foresees investments of €15.2 billion in Austrian rail infrastructure. The largest investment projects will be the new southern Austrian connection (Koralmbahn), the Brenner base tunnel, and the Semmering base tunnel. The importance of these national and international connections underpins OeBB-Infrastruktur's critical role as an instrument for Austrian public transport and economic policy.

Since 2009, OeBB-Infrastruktur has been the sole owner, constructor, and operator of virtually the entire Austrian railway network.

Privatization of the company would require a change in the act. We believe a change in the company's set-up and its monopoly position is neither likely nor viable at present. In this regard, we note that OeBB-Infrastruktur was not affected by the reorganization of Austrian state holdings in 2015, nor do we anticipate any changes ahead of or after Austria's parliamentary elections in October 2017.

Furthermore, we currently do not doubt the Austrian government's willingness to support OeBB-Infrastruktur, as one of its key GREs, in practically all circumstances. In addition, the government has sufficient financial resources to support OeBB-Infrastruktur. Regarding changes to the regulatory framework on the EU level, to foster the European railway market (so-called 4th railway package), we understand that OeBB-Infrastruktur would not be significantly affected if it ensures and maintains independence from the railway operator.

In our view the company has excellent access to both short- and long-term capital markets even though funding will be provided directly from the government. The EMTN program remains in place although we do not think there will be issuance under the program in the coming years. All short-term and long-term debt with the EIB (€3.8 billion as of year-end 2016) is currently not guaranteed by the Republic of Austria. We note that OeBB-Infrastruktur's debt issuance is eligible for the European Central Bank's quantitative easing program implemented in March 2015.

Outlook

The stable outlook on OeBB-Infrastruktur reflects that on Austria. Given the highly predictable legal support framework, the irrevocable guarantee on most of the company's debt, and the funding framework with the government, we do not expect its role for and link with the government will change over the next two years. We therefore expect our ratings and outlook on OeBB-Infrastruktur will move in line with those on Austria.

We could lower the ratings on OeBB-Infrastruktur if we believed the supportiveness of the Austrian federal government had weakened, leading to a change in OeBB-Infrastruktur's role for or its link with the government. A change in laws, privatization plans, or the refusal of future funding or guarantees could trigger such a revision. However, we currently view these developments as unlikely, as we understand that the government intends to keep the company in its current shape and set-up.

Additionally, we could raise the rating if Austria's credit quality were to improve and the likelihood of support for OeBB-Infrastruktur remained almost certain.

Related Criteria And Research

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Republic of Austria 'AA+/A-1+' Ratings Affirmed; Outlook Stable, March 17, 2017

Ratings List

	Rating	
	To	From
OeBB-Infrastruktur AG		
Issuer Credit Rating		
Foreign and Local Currency	AA+/Stable/A-1+	AA+/Stable/A-1+
Senior Unsecured		
Foreign and Local Currency[1]	AA+	AA+
Local Currency[1]	AA+	AA+
Local Currency[2]	AA+	AA+

[1] Dependent Participant(s): Austria (Republic of)

[2] Dependent Participant(s): Austria (Republic of), Citibank N.A.

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 spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at 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.

Additional Contact:
SovereignEurope; SovereignEurope@standardandpoors.com