Research Update:

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

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## Overview

- Austrian rail infrastructure company OeBB-Infrastruktur benefits from an almost certain likelihood of extraordinary support from the Austrian government, which fully owns it and guarantees its outstanding bonds through a direct financing framework.
- OeBB-Infrastruktur is integrally linked to and plays a critical role for the government because of its responsibility for Austria's rail network.
- 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 23, 2019, 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.

At the same time, we affirmed our 'AA+' issue ratings on OeBB-Infrastruktur's senior unsecured debt.

## Rationale

OeBB-Infrastruktur is responsible for financing, constructing, and operating the Austrian railway infrastructure, including track, tunnels, bridges, railway stations, etc., endowed with comprehensive planning and control functions.

We base our ratings of OeBB-Infrastruktur on our opinion that there is an almost certain likelihood that 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 of an almost certain likelihood of extraordinary government support 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. Since 2017 the company has directly financed itself with loans from Austria's Federal Financing Agency (ÖBFA).

In our view, there is no doubt regarding the Austrian government's continuous willingness and propensity to support OeBB-Infrastruktur, as one of its key GREs, in practically all circumstances. Furthermore, we consider that the government has sufficient financial resources to support OeBB-Infrastruktur. We do not see any transition risk in our assessment of an almost certain likelihood of support.

OeBB-Infrastruktur was created by the federal railway act (Bundesbahngesetz) as s stockholding company and is incorporated in the Austrian Corporate Register. The law states that it must be fully owned by OeBB-Holding AG--which in turn must be fully owned by Austria--and clearly defines the government's role in OeBB-Infrastruktur's operations. Therefore, privatization of the company would require a change in the Bundesbahngesetz. We believe a change in the company's setup and its monopoly position is not likely at present.

The Austrian government is responsible for ensuring that OeBB-Infrastruktur maintains sufficient funds at all times to protect its operations, liquidity, and equity under paragraph 47 of the Bundesbahngesetz. This can be achieved directly through funding from the ÖBFA or through the transfer of government funds.

Because OeBB-Infrastruktur's debt is statistically accounted for as general government debt according to EuroStat rules, its funding has been provided by the ÖBFA since 2017 and by the European Investment Bank (EIB). A framework agreement with the ÖBFA ensures reliable access to long-term funding for the company. The legal foundations for the provision of funds are outlined in the annual federal financing law and the law governing multiannual charges to the federal budget, which takes into account the rail infrastructure investment plan. In addition to long-term financing, ÖBFA also provides short-term liquidity access to OeBB-Infrastruktur. OeBB-Infrastruktur sub-participated in Austria's 70-year (€554 million) and 100-year (€250 million) bond issues and intends to continue sub-participating in longer-term government maturities. In our view, the company's revised funding structure underscores its integral link with Austria.

The changed financing approach has not affected the guarantees on the outstanding bonds, which are directly, unconditionally, and irrevocably contracted by Austria. As of the end of 2018, about 71% of OeBB-Infrastruktur's €18.5 billion of financial debt benefited from a guarantee from Austria. The company owes €3.8 billion of unguaranteed debt to the EIB. OeBB-Infrastruktur's sovereign-guaranteed capital market debt decreased to €12.8 billion as of mid-July 2019, after a bullet maturity. Practically all debt is at fixed rates and issued in euro, limiting interest rate risks and foreign exchange rate risks for the company.

In our view, the company continues to have excellent access to both short- and long-term capital market debt, even though funding will be provided directly by the government. In this respect, it will rely on the direct financing framework with the sovereign to refinance its upcoming significant debt redemptions in 2019-2026, which annually exceed €1 billion. We note that OeBB-Infrastruktur's debt issuance is eligible for the European Central Bank's quantitative easing program implemented in March 2015.

The Austrian government, in its role as owner, exercises operational, management, and financial control over the holding company. The ministries of infrastructure and finance have to approve OeBB-Infrastruktur's annually extended rolling six-year investment master plan. The plan must adhere to the government's national transportation policy plan. Furthermore, OeBB-Infrastruktur is required to submit to the government an annual rationalization and cost-savings plan.

The government has reappraised the investment plan. While large-scale projects in tunnels for trans-European rail networks will proceed, we think that some lower-profile extensions could be postponed and we understand that the government is requiring OeBB-Infrastruktur to seek efficiency gains because government transfers will be lower under the updated framework. But new challenges arise from extending city rail networks in urban areas and environmental/climate change issues have been added to priorities: by 2030 OeBB-Infrastruktur's operating sister companies will have 100% sustainable energy usage, and the whole holding by at least 2050. In this respect, OeBB-Infrastruktur's reservoir power stations are extremely important.

Under the master plan for 2014-2019, the government committed to reimbursing 75% of OeBB-Infrastruktur's investment expenses through 2016 by transferring debt service contributions. For investments from 2017, the share of reimbursements was increased 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.

OeBB-Infrastruktur's governing act clearly outlines the framework for government transfers, which OeBB-Infrastruktur receives for operations and maintenance, as well as for network expansion. Consistently more than half of OeBB-Infrastruktur's revenue comes from government transfers for annuities, maintenance contributions, and other transfers. These government transfers under section 42 of the Bundesbahngesetz accounted for 58% of the company's revenue in 2018.

The modalities for transfers remain valid under the transfer framework for 2018-2023, which foresees investments of €13.9 billion in Austrian rail infrastructure. The largest investment projects will be:

- The Baltic-Adriatic Corridor (Koralmbahn with tunnel, 33 kilometers [km] by 2025; and the Semmering base tunnel, 27km by 2026); and
- The Scandinavian-Mediterranean Corridor (Brenner base tunnel, longest global rail tunnel, 64km by 2027).

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.

Due to OeBB-Infrastruktur's mission, its profitability remains low, at roughly €25 million in annual earnings before taxes expected in the next few years. Although revenue will be boosted by increasing levels of government transfers, we believe that expenditure will be burdened by rising depreciation, but not at the same pace.

In addition, OeBB-Infrastruktur's balance sheet will be boosted by investments in infrastructure accompanied by similarly rising debt. Therefore, the company's balance sheet will be dominated be high debt levels for many decades.

Thanks to government transfers, operating cash flows will remain positive, while cash flows from investment activities will be highly negative due to high investment expense. Any cash flow mismatch will be financed by ÖBFA, based on the framework agreement.

Regarding efforts on the EU level to foster the European railway market (the so-called fourth railway package), OeBB-Infrastruktur is adapting to an increasingly complex regulatory framework and increasing competition between railway operators on its network. We also understand that the structure of OeBB-Holding AG, the parent company of OeBB-Infrastruktur AG, would not be significantly affected if it ensures and maintains independence from the railway operator.

## Outlook

The outlook on OeBB-Infrastruktur is stable because the outlook on Austria is stable. Given the highly predictable legal support framework, the irrevocable guarantee on most of the company's capital market 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.

### Downside scenario

Hence, we could lower our rating on OeBB-Infrastruktur if the sovereign's creditworthiness were to deteriorate. We could also lower the rating 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 by ÖBFA or extension of 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 setup.

### Upside scenario

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

### OeBB-Infrastruktur AG -- Key Statistics

| | -- Year ended Dec. 31 -- | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(Mil. €)** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** |
| **Consolidated balance sheet** | | | | | | | | |
| Total assets | 24,166 | 23,155 | 22,654 | 22,100 | 21,341 | 20,133 | 19,725 | 19,029 |
| Noncurrent assets | 23,638 | 22,666 | 21,850 | 21,376 | 20,547 | 19,520 | 18,673 | 18,163 |
| of which tangible assets | 22,537 | 21,615 | 20,785 | 20,075 | 19,271 | 18,246 | 17,211 | 16,135 |
| of which intangible assets | 517 | 463 | 464 | 370 | 370 | 368 | 369 | 362 |
| of which financial assets | 439 | 438 | 455 | 778 | 741 | 699 | 913 | 1,522 |
| of which other non-current assets | 144 | 150 | 146 | 153 | 166 | 207 | 180 | 144 |
| Current assets | 528 | 489 | 804 | 724 | 794 | 613 | 1,052 | 866 |
| of which receivables | 129 | 140 | 152 | 128 | 178 | 152 | 142 | 164 |
| of which other receivables | 256 | 217 | 202 | 206 | 243 | 250 | 203 | 244 |
| of which cash and equivalents | 18 | 23 | 126 | 226 | 231 | 28 | 421 | 102 |
| of which other current assets | 126 | 109 | 324 | 164 | 142 | 183 | 286 | 357 |
| Equity | 1,427 | 1,338 | 1,269 | 1,206 | 1,199 | 1,174 | 1,149 | 1,116 |
| Liabilities | 22,739 | 21,818 | 21,386 | 20,894 | 20,143 | 18,960 | 18,577 | 17,914 |
| of which financial liabilities | 20,673 | 20,221 | 19,879 | 19,542 | 18,874 | 17,704 | 17,112 | 16,522 |

## OeBB-Infrastruktur AG -- Key Statistics (cont.)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| of which provisions | 333 | 334 | 339 | 357 | 409 | 318 | 315 | 318 |
| of which payables | 628 | 471 | 602 | 581 | 529 | 593 | 649 | 710 |
| of which other liabilities | 1,105 | 791 | 565 | 414 | 331 | 345 | 501 | 364 |
| **(Mil. €)** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** |
| **Consolidated income statement** | | | | | | | | |
| Revenues | 2,105 | 2,102 | 2,108 | 2,044 | 2,176 | 2,155 | 2,130 | 2,063 |
| of which revenues from invoicing to §42 of the Bundesbahngesetz (operations) | 1,056 | 1,065 | 1,110 | 1,100 | 1,154 | 1,151 | 1,086 | 1,033 |
| Internally produced and capitalized assets | 306 | 294 | 300 | 292 | 287 | 305 | 312 | 310 |
| Other revenues | 893 | 806 | 747 | 715 | 649 | 587 | 522 | 516 |
| of which revenues from invoicing to §42 of the Bundesbahngesetz (infrastructure) | 822 | 753 | 692 | 635 | 577 | 518 | 454 | 391 |
| Total revenues | 3,304 | 3,202 | 3,155 | 3,051 | 3,113 | 3,047 | 2,963 | 2,889 |
| Operating expenses | 2,701 | 2,606 | 2,528 | 2,437 | 2,480 | 2,441 | 2,369 | 2,345 |
| of which material, consumables and services | 414 | 412 | 379 | 391 | 423 | 416 | 486 | 545 |
| of which personnel expenses | 1,183 | 1,126 | 1,111 | 1,037 | 1,075 | 1,044 | 1,063 | 1,041 |
| of which depreciation | 777 | 752 | 726 | 690 | 645 | 616 | 540 | 482 |
| of which other operating expenses | 327 | 316 | 313 | 320 | 337 | 364 | 281 | 277 |
| EBIT (excluding associated companies) | 603 | 596 | 627 | 614 | 635 | 606 | 594 | 544 |
| Financial result | 558 | 549 | 577 | 602 | 599 | 581 | 582 | 536 |
| of which interest | 566 | 575 | 589 | 600 | 602 | 643 | 667 | 624 |
| Eearnings before taxes | 45 | 47 | 50 | 13 | 34 | 26 | 12 | 8 |
| Result of the year | 64 | 62 | 57 | 1 | 29 | 30 | 33 | (14) |

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Austria Affirmed At 'AA+/A-1+'; Outlook Stable, March 15, 2019

## Ratings List

**Ratings Affirmed**

| **OeBB-Infrastruktur AG** | |
|---|---|
| Issuer Credit Rating | AA+/Stable/A-1+ |
| Senior Unsecured | AA+ |

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website 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.