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Research Update:

**Austrian Road Operator
Autobahnen-und
Schnellstrassen-Finanzierungs-AG
'AA+/A-1+' Ratings Affirmed; Outlook
Stable**

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Overview

- We see an almost certain likelihood of Autobahnen-und Schnellstrassen-Finanzierungs-AG (ASFINAG) receiving timely and sufficient extraordinary support from the Austrian government if needed.
- In our opinion, ASFINAG will retain its monopoly position as Austria's road operation and construction company and will continue to benefit from state guarantees on its debt issuance.
- We are therefore affirming our 'AA+/A-1+' ratings on ASFINAG.
- The stable outlook reflects that on Austria, and our view that there will be no significant changes to the likelihood that the Austrian government would offer support to ASFINAG if needed.

Rating Action

On July 13, 2018, S&P Global Ratings affirmed its 'AA+/A-1+' long- and short-term foreign and local currency issuer credit ratings on Austrian road operator Autobahnen-und Schnellstrassen-Finanzierungs-AG (ASFINAG). The outlook is stable.

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

Rationale

The ratings on ASFINAG reflect our opinion that there is an almost certain likelihood that Austria (AA+/Stable/A-1+) would provide timely and sufficient extraordinary support to ASFINAG in the event of financial distress. In accordance with our criteria for rating government-related entities (GREs), our view of an almost certain likelihood of extraordinary government support is based on our assessment of ASFINAG's:

- Critical role for Austria as its sole agent with a monopoly position as constructor and operator of the Austrian motorway and high-speed road network; and
- Integral link with the government as a wholly owned subsidiary of the government that is subject to a tight legal, planning, and control framework.

In addition, the ratings indicate that Austria provides strong explicit government support through timely, unconditional, and irrevocable guarantees on ASFINAG's bond issues. Every year, the Austrian ministry of finance, in cooperation with ASFINAG, sets a maximum amount for refinancing and new issuance for ASFINAG that is explicitly guaranteed by the Austrian government. It incorporates the amounts, which are set conservatively to cover ASFINAG's financing needs very adequately, in the federal financing law.

We consider that the Austrian government is willing to support ASFINAG, one of its key GREs, in practically all circumstances, and it has sufficient financial resources to do so. We think that the Austrian government generally has a strong propensity to support its GREs.

ASFINAG is responsible for the financing, construction, maintenance, and operation of the entire Austrian network of motorways and high-speed roads. Although the motorway network remains the property of Austria, ASFINAG has been granted an unlimited legal right to use and derive profit or benefit from property that belongs to another, as long as the property is not damaged (usufruct) over the network. This entitles ASFINAG to the revenues generated from the road network, namely through tolls and usage fees, fines issued, and the operation of service areas.

The government's support and control of ASFINAG are significant. The company is incorporated under the ASFINAG Law (AL), which states that the Austrian government is responsible for ensuring that ASFINAG has sufficient funds at all times to protect its liquidity and equity and pursue its agreed activities. The government, as the owner, exercises operational, management, and financial control over ASFINAG, and approves the company's budget.

We do not think that the legal framework for ASFINAG and more broadly, the likelihood of support by the Austrian government, is subject to transition risk.

ASFINAG's €12 billion euro medium-term note (EMTN) program, which is its main source of debt financing, has the benefit of a full, explicit, direct, unconditional, and irrevocable guarantee from the government. Austria's budget law specifies the maximum annual guarantee threshold for ASFINAG, and the master guarantee from the sovereign, which forms part of the EMTN program documentation, references the maximum annual guaranteed amount.

As ASFINAG has no significant refinancing needs or issuance plans in 2018, the EMTN program and the associated master guarantee from Austria have not been renewed for this year, which we view as a mere technicality. A guarantee amount of €1.3 billion is already included in the Federal Financing Law for 2019. We expect ASFINAG to issue under its EMTN program again next year, when sizable debt maturities are coming up--the exact issuance amounts will depend on the company's liquidity buffers. The program and the master guarantee will be updated ahead of the issuance. ASFINAG can finance most of its construction program from own cash flows; it needs to tap capital markets mainly for

refinancing.

Privatization of the company is not on the agenda, and would require a change in the AL. In the first half of 2015, the Austrian government reorganized some of its state holdings and formed a new holding structure. However, ASFINAG's legal structure was not changed after laborious discussions. Suggestions on how to re-group state holdings emerge from time to time in the political realm, but do not carry implications for ASFINAG's status as one of Austria's most important GREs. We therefore consider a change in the company's setup as both unlikely and unviable. This leads us to foresee a very low probability that ASFINAG's monopoly position would be challenged.

For 2017, the company paid a dividend of €170 million, higher than the €100 million it usually pays, to the Austrian government. We anticipate that dividends will remain close to this higher level for the next few years, which fulfills the government's dividend expectations. In our view, higher dividend payments are feasible, given our forecast of continued profits at ASFINAG. However, we believe the reported results overstate the company's financial strength because the costs of motorway and high-speed road construction are accounted for as nondepreciable assets.

We expect the company's cash flow before financing will be slightly negative on average over 2019-2021, during which period investments will be high. During these three years, the company plans investments totaling €4.3 billion in new construction, refurbishment, and network maintenance. Thereafter, we expect cash flows to turn positive. We anticipate that if it relies on debt financing in the coming years at all, ASFINAG's only needs would be €100 million-€300 million, to help finance its investments. That said, it will need to tap capital markets to refinance its €1 billion debt maturities in 2019 and 2020. ASFINAG's debt issuance is eligible for the quantitative easing program that the European Central Bank implemented in March 2015.

Year on year, revenues from tolls increased by 5.8% across all categories last year, as a result of price adjustments and volume increases, indicating sound economic growth. The company bases its toll revenue forecasts for 2018 on moderate price increases in the coming years and modest volume increases of 1% after 2019 for heavy vehicles, the most important toll source. The economic forecast is based on external projections by the Austrian Institute of Economic Research. Overall, ASFINAG's revenues are highly predictable, owing to moderate, but continuous, traffic growth over the cycle. ASFINAG posts high EBITDA margins of over 50% but continues to have high and rising debt associated with its infrastructure construction program. Currently, the debt is projected to peak in 2022. Furthermore, the company constantly modernizes its toll generation systems, for example, by updating its electronic toll generation system and making available a digital version of its toll sticker (Vignette) from 2018 on. ASFINAG and the Austrian government are also actively engaged in the ever-evolving regulatory discussions at the EU level regarding member countries' toll frameworks.

Outlook

The stable outlook on ASFINAG reflects that on Austria. Therefore, any rating action on the sovereign would result in a corresponding action on ASFINAG.

The outlook also reflects our assessment that, given ASFINAG's strategic importance to the Austrian government, there will be no significant changes to extraordinary government support for the company, state guarantees, or the legal framework governing its operations. We also believe the company will maintain its monopoly position and that there is no risk of privatization.

We could lower the ratings on ASFINAG over the next one or two years if we concluded that the likelihood of support from the Austrian federal government had weakened. A change in laws, privatization plans, or the refusal of future guarantees could trigger such a reassessment of the company's role for and link with the government. However, we view these developments currently as unlikely.

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 'AA+/A-1+' Ratings Affirmed; Outlook Stable, March 16, 2018

Ratings List

Ratings Affirmed

Autobahnen-und Schnellstrassen-Finanzierungs-AG

Issuer Credit Rating	AA+/Stable/A-1+
Senior Unsecured*	AA+

*Guaranteed by Austria.

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

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