

Research Update:

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

July 16, 2019

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 continue to benefit from state guarantees on its debt issuance.
- We are therefore affirming our 'AA+/A-1+' ratings on ASFINAG.
- The outlook is stable, reflecting that on Austria.

Rating Action

On July 16, 2019, 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

ASFINAG is responsible for the financing, construction, maintenance, and operation of the entire Austrian network of motorways and high-speed roads.

We base our ratings on ASFINAG on 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:

PRIMARY CREDIT ANALYST

Ludwig Heinz
Frankfurt
(49) 69-33-999-246
ludwig.heinz
@spglobal.com

SECONDARY CONTACT

Stefan Keitel
Frankfurt
(49) 69-33-999-254
stefan.keitel
@spglobal.com

ADDITIONAL CONTACTS

EMEA Sovereign and IPF
SovereignIPF
@spglobal.com

Infrastructure Finance Ratings Europe
InfrastructureEurope
@spglobal.com

- 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.

We have no doubts regarding the Austrian government's continuing willingness and propensity to support ASFINAG as a key GRE in practically all circumstances. Furthermore, we consider that the government has sufficient financial resources to do so. We do not see any transition risk in our assessment of an almost certain likelihood of support.

The government's support and control of ASFINAG are significant. The company is incorporated under 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 sole owner, exercises operational, management, and financial control over ASFINAG, and approves the company's budget.

In addition, the ratings reflect our assessment of the strong explicit government support provided through timely, unconditional, and irrevocable guarantees for 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. The respective amount is incorporated in the federal financing law and set conservatively, covering ASFINAG's financing needs very adequately.

Founded in 1982, ASFINAG is an incorporated company and fully owned by Austria's federal government, as is required by the AL. It was reformed and given its present structure and function in 1997. ASFINAG is a monopoly and is responsible for the financing, construction, maintenance, and operation of Austria's network of motorways and high-speed roads. The network totals about 2,223 kilometers (2018), mainly motorways and various bridges, tunnels, and mountain passes on other roads.

The company is not slated to be privatized, which would require a change in the AL. Suggestions on how to re-group state holdings emerge from time to time in the political realm, but do not indicate any implications for ASFINAG's status as one of Austria's most important GREs. We therefore believe that a change in the company's setup currently seems unlikely and that any such suggestion would be short lived. This leads us to foresee a very low probability that ASFINAG's monopoly position would be challenged.

According to contractual agreements (usufruct right contract), ASFINAG has the unlimited usufruct over the motorway and high-speed road network, although the motorway network remains the property of Austria. ASFINAG has been granted the unlimited usufruct (the legal right to use and derive profit or benefit from property that belongs to another, as long as the property is not damaged) over the network. This entitles the company to the revenues generated from the road network, namely through tolls and usage fees, fines issued, and the operation of service areas. The contract is of unlimited duration, and the government abstained from any cancellation rights in 2007, which were included in a previous contract. ASFINAG has the right to cancel the contract at the end of each quarter, respecting a three-month notice period, should the government set tolls at a level the company considers unsustainable. If ASFINAG cancels the usufruct right contract, the government would have to assume the liabilities resulting from ASFINAG's obligations as defined in the contract.

The government plays a very dominant and directly supportive and controlling role in ASFINAG's operations. The majority of members on the company's supervisory board are appointed by the government, which also approves the company's budget. The government directly controls large

parts of ASFINAG's expenditure and revenue, and thereby also its profitability and ability to control its debt. ASFINAG's construction expenditure is effectively controlled through the government's right to set targets for construction and safety measures. For 2019-2024 a total construction program of €8.1 billion is envisioned, with peak construction worth €1.6 billion occurring in 2021. After several court rulings in favor of ASFINAG unlocking some major road constructions (S1 in Vienna and A26 in Linz) because of environmental appeals, an increased investment cycle between 2019-2023 will be realized. On construction and maintenance, ASFINAG has to follow the multi-annual investment program as coordinated and agreed with the government. It focuses on average maintenance spend between €450 million-€550 million, new construction between €550 million-€950 million and smaller other investments (electronic devices, etc.).

Although ASFINAG proposes the level of tolls and usage fees, it is set by the government, which gives it control over almost all ASFINAG's revenue. Price increases are regulated by law (Bundesmautstraßengesetz), However, volume projections depend on ASFINAG's assumptions, which affects revenue projections. Last year, toll revenue increased by 6.2% year on year, reflecting robust economic growth and traffic. Toll revenue projections (stickers and trucks tolls) are indexed according to HVPI (harmonized consumer price index). In 2019 sticker and truck tolls increased by +2.2% in price, while volumes are projected to increase by 3.0% for trucks and 0.6% on stickers. In 2020, price increases for stickers and truck tolls are forecast at 1.7%, with reduced volume increases of 1.0% for trucks and 0.5% for stickers. As of 2020, HVPI projections of economic research institutions and observed average volume increases limit price increases to 1.5% annually and volume increases to 1.0% on trucks and 0.5% on stickers.

ASFINAG's revenue is highly predictable overall, owing to moderate but continuous traffic growth over the cycle. The company posts high EBITDA margins of over 50%, thanks to constantly keeping its toll generation systems current, for example with the updated electronic toll generation system and the offer to purchase a digital vignette which was introduced in 2018. In 2019, the company is paying a high dividend of €165 million to the Austrian government for 2018. We think that dividends in the coming years will remain around this high amount over the next few years, which fulfills the government's dividend expectations. We regard this as 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 non-depreciable assets. ASFINAG and the Austrian government are also actively engaged in the ever-evolving regulatory discussions on the European Union level regarding member countries' toll frameworks.

New construction is reflected in increased usufruct rights in the balance sheet, though high debt is stabilizing despite an increased infrastructure construction program. Currently, the debt peak is projected at €11.8 billion in 2023 compared with €11.2 billion in 2018.

We expect the company's cash flow before financing will cover most of its financing needs in coming years, except for 2021-2022. The planned investments in these two years should total €3.1 billion in new construction, refurbishment, and network maintenance. Therefore, we anticipate that ASFINAG would only have to rely partly on debt financing for its new investment expenditures in the €40 million-€150 million range but refinance maturing debt entirely in the coming years. The €1 billion maturity in 2019 was partly refinanced and we expect that ASFINAG will need to tap capital markets to refinance part of its €1 billion 2020 debt maturity. We note that ASFINAG's debt issuance is eligible for the quantitative easing program that the European Central Bank implemented in March 2015.

ASFINAG's €12.0 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. The program is usually extended annually (as part of Austria's budget law), including a predetermined drawdown amount. We expect ASFINAG to issue under its EMTN program again next year when a further €1 billion debt maturity is due. Exact amounts will also hinge on the company's liquidity buffers. Both the program and the master guarantee will be updated ahead of the issuance. We note that ASFINAG can almost fully finance its construction program with own cash flows and needs to tap capital markets only for refinancing.

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 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.

Autobahnen- und Schnellstrassen-Finanzierungs-Aktiengesellschaft -- Key Statistics

(Mil. €)	--Year ended Dec. 31--									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Consolidated IFRS Balance Sheet										
Total assets	17,084	16,510	16,197	15,650	15,217	14,814	14,446	14,337	14,233	13,159
Non-current assets	16,545	16,162	15,697	15,324	14,909	14,466	14,172	13,937	13,767	12,745
Of which usufructuary title	14,749	14,250	13,783	13,607	13,073	12,860	12,532	12,248	12,120	10,847
Of which down payment on usufruct	845	973	999	770	911	741	742	738	610	993
Current assets	545	367	500	326	307	347	274	400	466	413
Of which cash and equivalents	167	12	179	17	23	61	12	11	203	167
Equity	5,839	5,185	4,575	4,061	3,613	3,294	2,922	2,551	2,211	1,872
Liabilities	11,245	11,325	11,622	11,589	11,604	11,520	11,525	11,786	12,022	11,287
of which LT and ST liabilities from bonds	8,250	8,250	8,800	8,800	9,055	9,305	9,216	9,066	9,059	8,681
of which LT and ST liabilities from loans	1,902	1,991	1,940	2,057	1,750	1,535	1,767	2,136	2,307	1,801
of which LT and ST trade and other payables	371	365	340	249	270	254	178	196	194	242
of which other liabilities	722	719	542	483	529	426	364	389	462	563

Autobahnen- und Schnellstrassen-Finanzierungs-Aktiengesellschaft -- Key Statistics (cont.)

(Mil. €)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Consolidated IFRS Income Statement										
Revenues	2,702	2,648	2,494	2,422	2,354	2,166	2,078	1,972	2,588	2,124
Of which revenues from invoicing to the Austrian government	368	438	402	392	381	326	288	255	907	595
Of which sticker revenues	502	492	472	449	428	406	383	368	357	338
Of which special toll revenues	189	168	173	157	155	147	136	131	124	122
Of which truck toll revenues	1,465	1,370	1,274	1,253	1,242	1,135	1,103	1,062	1,031	926
Of which section control service	32	32	32	31	29	26	27	24	23	19
Of which from rent/lease	33	32	32	30	31	32	31	31	29	35
Of which other revenues	113	116	110	111	87	94	110	101	117	89
Operating expenses	(1,273)	(1,324)	(1,280)	(1,278)	(1,239)	(1,054)	(980)	(871)	(1,640)	(1,271)
Of which expenses for raw materials, consumables and services	(890)	(953)	(918)	(925)	(912)	(730)	(674)	(548)	(1,318)	(941)
Of which personnel expenses	(199)	(189)	(188)	(180)	(175)	(171)	(167)	(162)	(161)	(152)
EBIDTA	1,430	1,324	1,214	1,145	1,115	1,112	1,096	1,101	947	853
Depreciation and amortization	(72)	(71)	(70)	(68)	(63)	(62)	(63)	(73)	(86)	(75)
EBIT	1,358	1,253	1,144	1,076	1,052	1,053	1,032	1,028	861	778
Financial result	(158)	(203)	(326)	(348)	(360)	(424)	(405)	(444)	(411)	(393)
Profit for the period	824	709	615	549	519	471	472	440	339	290
(Mil. €)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Consolidated IFRS Cash Flow Statement										
Cash flow from operating activities	894	888	761	555	596	570	513	457	416	420
Cash flow from investing activities	(481)	(502)	(404)	(470)	(451)	(382)	(346)	(351)	(419)	(449)
Cash flow from financing activities.	(258)	(553)	(196)	(90)	(183)	(140)	(166)	(297)	39	18
Cash and equivalents at year-end	167	12	179	17	23	61	12	11	203	167

IFRS--International Financial Reporting Standards. e--estimated. f--forecast. LT--Long term. ST--Short term. N/A--not available.

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

**Autobahnen-und
Schnellstrassen-Finanzierungs-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.

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