



## Rating Action: Moody's assigns B1 rating to Heathrow Finance's proposed senior secured notes

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11 Mar 2024

London, March 11, 2024 – Moody's Ratings (Moody's) has today assigned a B1 rating to the proposed senior secure notes of a benchmark GBP350 million to be issued by Heathrow Finance plc (HF). Concurrently, Moody's has affirmed the Ba2 long-term corporate family rating (CFR), the Ba3-PD probability of default rating and the B1 senior secured ratings on the company's existing senior secured notes. The outlook remains stable.

The new notes will be pari passu with the company's existing senior secured notes. Net proceeds from the notes' issuance will be used for general corporate purposes.

HF indirectly owns Heathrow Airport Limited (HAL), the airport company owning London Heathrow airport, through its shares in Heathrow (SP) Limited (HSP).

### RATINGS RATIONALE

The affirmation of the B1 rating of the existing HF notes and the Ba2 CFR, and the assignment of the B1 rating to the proposed HF notes, reflects Moody's expectation that the HF group will maintain a financial profile commensurate with the current ratings underpinned by robust passenger traffic growth and solid performance against the regulatory settlement in terms of expenditure and commercial revenue.

In 2023, Heathrow airport's total passenger traffic reached 79.2 million, an increase of nearly 29% year-on-year to 98% of 2019 levels, indicating a strong recovery. Growth in traffic was an important driver of an increase in the group's earnings, with reported 2023 EBITDA reaching around GBP2.2 billion. The HF group's gearing of net debt to regulated asset base (Group RAR) stood at 84.9%, which compares with the event of default covenant of 92.5%. While Moody's expects traffic trends to remain positive despite a weak macroeconomic environment, the group's EBITDA will fall this year because of the 15% cut in aeronautical charges. Given an increase in capital expenditure and the regulatory determination until 2026, Moody's expects the group's financial profile to remain highly-leveraged but with good headroom against financial covenants included in the terms of its financing structure.

Overall, HF's Ba2 CFR recognises (1) its ownership of London Heathrow airport, which is one of the world's most important hub airports and the largest UK airport; (2) its long established framework of economic regulation; (3) strong demand for the airport's services reflected in fairly resilient traffic characteristics excluding the period of the pandemic and travel restrictions; (4) its highly-leveraged financial profile; and (5) the features of the HSP secured debt financing structure which puts certain constraints around management activity, together with the protective features of the HF debt which effectively limit HF's activities to its investment in HSP.

HF's B1 senior secured rating takes into account the structural subordination of the HF debt in the HF group structure versus the debt at operating company, HSP. The rating positively reflects Moody's expectation that the HSP group will continue to be able to upstream cash flows under the terms of its debt structure or otherwise manage its liquidity to maintain sufficient coverage of HF's debt service obligations throughout the regulatory period to 2026. In this regard, issuance of the new notes will strengthen HF's liquidity following the repayment of the company's GBP300 million notes due on 1 March 2024.

Moody's notes the November 2023 announcement by Ferrovial SA of an agreement to sell its 25% stake in FGP Topco Limited (FGP), the ultimate parent company of Heathrow Airport Holdings Limited (HAH) for close to GBP2.4 billion to Ardian and the Public Investment Fund. [1] In January 2024, other shareholders decided to sell an additional 35% stake in FGP, exercising their tag along rights. [2] It is currently uncertain when and if the sale will be completed. While HF's ratings are not directly driven by the ownership considerations, the terms of HF's senior secured notes include change of control clauses, which could be triggered if a new shareholder, or a group of new shareholders acting in concert, were to acquire more than 50% of the FGP Topco shares. In this regard, Moody's ratings assume that HF and its ultimate shareholders will be able to navigate any such potential process without compromising the integrity of the group's capital structure and its liquidity.

#### RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that the HF group will be able to exhibit credit metrics with good headroom against its covenants and the company will continue to maintain strong liquidity.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive rating pressure would develop if the HF group's financial profile and key credit metrics were to sustainably strengthen, such that it maintained an appropriate headroom under its covenants and an adjusted interest cover ratio (AICR) consistently higher than 1.0x, while continuing to maintain a good liquidity profile.

Downward pressure on HF's ratings could develop if (1) the group appeared likely to experience a material and persistent reduction in headroom under its event of default financial covenants; (2) the HSP group's ability to upstream cash were significantly reduced, without adequate mitigating factors at the holding company; or (3) there were concerns about the group's or the company's liquidity.

The principal methodology used in these ratings was Privately Managed Airports and Related Issuers published in November 2023 and available at <https://ratings.moodys.com/rmc-documents/410952>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The only asset of HF is its shares in HSP, a holding company which in turns owns the company that owns LHR, Europe's busiest airport in terms of total passengers before the pandemic. HF is indirectly owned by Heathrow Airport Holdings Limited (HAH). HAH is ultimately owned 25% by Ferrovial SA, 20% by Qatar Holding LLC, 12.62% by Caisse de depot et placement du Quebec, 11.2% by the Government of Singapore Investment Corporation, 11.18% by Australian Retirement Trust, 10% by China Investment Corporation and 10% by the Universities Superannuation

Scheme.

## REGULATORY DISCLOSURES

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## REFERENCES/CITATIONS

[1] [https://newsroom.ferrovial.com/en/press\\_releases/ferrovial-announces-agreement-to-sell-stake-heathrow/](https://newsroom.ferrovial.com/en/press_releases/ferrovial-announces-agreement-to-sell-stake-heathrow/)

[2] [https://newsroom.ferrovial.com/en/press\\_releases/tag-along-rights-exercise-in-the-framework-of-the-agreement-for-the-sale-of-heathrow/](https://newsroom.ferrovial.com/en/press_releases/tag-along-rights-exercise-in-the-framework-of-the-agreement-for-the-sale-of-heathrow/)

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