S&P Global
Ratings

Industry Top Trends 2022

Global Transportation Infrastructure

Navigating A New Virus Variant While Recovery Paces Vary

This report does not constitute a ratings action

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Authors

Dhaval Shah
Toronto
+1 416 507 3272
dhaval.shah
@spglobal.com

Julyana Yokota
Sao Paulo
+55 11 3039 5731
julyana.yokota
@spglobal.com

Kurt Forsgren
Boston
+ 1 617 530 8308
kurt.forsgren
@spglobal.com

Parvathy Iyer
Melbourne
+61 39 631 2034
parvathy.iyer
@spglobal.com

Stefania Belisario
Madrid
+34 91 423 3193
stefania.belisario
@spglobal.com

See complete list at the end of report

What's changed?

Loosening government restrictions and federal assistance driving recovery. Lockdowns are easing globally amid strong vaccine rollout and booster shots. This, together with economic recovery, is raising demand metrics in the transportation sector. Road and maritime transport segments are recovering very close to or surpassing pre-pandemic volumes. Airport recovery remains sluggish, but we expect it will gradually rise as international border restrictions and travel uncertainty decrease, assuming health and safety conditions improve as existing vaccines provide significant protection against severe illness.

What are the key assumptions for 2022?

Airports recovering at varying paces. Airport traffic recovery continues to vary across regions, and we don't expect aeronautical tariffs to increase substantially in light of airlines' still uncertain and fragile recovery. Airports with larger domestic bases may see passenger numbers recover to 80%-90% of 2019 levels, much higher than for airports exposed to international traffic, like European airports, which could recover up to 65%.

Roads and ports should perform tariff increases, driven by growing demand and higher inflation.

Slow pick up in operating costs and capex, including expansions and ESG-related mitigation plans. Increased focus on climate change and physical risk is leading to adjusted projected revenues and higher expenses to fund mitigation investments.

What are the key risks around the baseline?

Return of government restrictions or border closures due to new variant. Although we consider this unlikely, the possible effects from any new variant could dampen consumer confidence in travel and further delay recovery in the airport sector. Other sectors are likely to remain resilient but could see bumps.

Material structural changes to mobility trends. Remote working, virtual business meetings, online shopping, and blended teaching could affect use of transportation infrastructure. Industry expectations are that air business travel may diminish, but leisure travel could offset this.

Cross-Sector Outlook

Revenue and trends

We expect continued resiliency and stability for most transportation infrastructure assets (other than international airport volume, parking garages, and mass transit).

We remain cautiously optimistic about the sector because in our view, most transportation infrastructure operators are better positioned than in January 2021, with more experience managing in the pandemic's effects (for now) and new variants that may arise.

Assuming omicron's less severe or shorter impact on mobility and travel, as has been generally experienced with each new variant, we anticipate a continued recovery, albeit slower than prior to omicron, across the more affected asset classes.

Current inflation and supply chain risks are largely neutral for the sector or manageable through the pass-through mechanism to end customers.

We expect M&As and new projects to return. Caution will prevail in the sector in terms of operating costs, expansionary investments, and shareholder distributions, but the sector may offer opportunities for M&As due to asset values from cash-rich pension funds and large European operators seeking to recompose portfolios.

Airports

Recovery will vary across continents. Countries with a large amount of domestic travel will see modest to strong recovery compared to those with a high reliance on international traffic, such as Singapore, Hong Kong, or a number of European airports.

For U.S. airports, we expect the uneven enplanement recovery led by the domestic and leisure market segments to slow in the next few months, but then to smooth out as business and international travel recovers. On average, we expect U.S. airports (predominantly domestic) to recover to 85%-90% of pre-pandemic levels in 2022.

The trajectory for rated European airports, which are more exposed to international traffic, is likely to be longer than we initially expected. We forecast traffic to recover to 45%-65% of pre-pandemic levels in 2022 with a full recovery unlikely to occur before 2025. Almost all our rated European airports have negative outlooks, reflecting limited financial headroom on the current ratings amid uncertainty about the speed of their recovery prospects.

In Asia-Pacific (APAC), we expect domestic travel to recover to 60%-80% of pre-pandemic levels by the end of 2022. Full domestic passenger traffic recovery is unlikely before late 2023. International travel will be much slower to recover across the board and we anticipate international passengers at 10%-30% of pre-COVID-19 levels at the end of 2022, and the timing of a full recovery is still unclear. For international Asian hubs recovery will lag behind airports with higher proportions of domestic traffic, such as Australia and India.

Similar to U.S. airports, in Latin America domestic volumes have driven recovery. In aggregate, domestic volumes have recovered to 70%-80% of pre-pandemic levels, with Mexican airports already reaching almost 85% of 2019 domestic volumes in 2021. On average, we forecast airports in the region to recover to 70%-85% of pre-pandemic levels in 2022.

Ports

Volumes should continue to outperform our global GDP growth forecast of 4.2%, considering growth in demand is exceeding supply, as the economic impact of the coronavirus lessens.

U.S. ports are experiencing historic congestion, and cargo tonnage totals have already recovered beyond pre-pandemic levels.

European ports' performance and profitability continue to be resilient, despite the operational challenges from port congestion due to supply chain disruptions and labor shortages related to health issues involving COVID-19. The majority of our rated European ports have stable outlooks.

For origin-destination APAC ports, we estimate container volumes will increase 2%-5% in 2022, supported by consumer demand. Bulk cargo will grow in most APAC markets and be flat in China, as the latter imposes controls to reduce emissions and faces a property market downturn.

Latin American port operations, including the Panama Canal, fully recovered volumes last year to pre-COVID-19 levels. We expect growth to resume the historical elasticity of 1.25x-1.50x GDP from 2022 onward.

Roads

In 2022, we expect continued resilience and stability for toll roads globally. Many toll roads have already had traffic rebound to pre-pandemic levels, driven by heavy traffic. Generally, we expect toll roads that are still navigating through short-term challenges posed by the omicron variant to recover to pre-pandemic traffic levels or even slightly above them in 2022. Overall, commercial traffic will remain stronger than passenger traffic, which is more susceptible to travel restrictions.

However, some commuter toll roads will recover more slowly. For example, in North America 407 ETR will recover more slowly as it navigates through more remote working and stricter lockdowns in 2022. On the other hand, U.S. not-for-profit toll roads that saw traffic rebound in 2021--with some toll agencies raising tolls and fees, restructuring debt, or reducing operating expenses to offset revenue declines (from lower passenger car volumes) as activity recovers--should continue to present resilience and stability through 2022. Finally, COVID-19-related force majeure claims are beginning to be resolved. For example, the May 2021 ruling by the Ontario Supreme Court could be significant for public-private partnerships' (P3) credit quality if it leads to more successful force majeure claims.

The outlook on European toll road operators remains largely stable, supported by headroom in credit metrics, generally stable capital expenditures (capex) on mature concessions, and traffic volumes close to pre-pandemic levels. In APAC and Latin America, we expect 2022 traffic volume to grow moderately above the 2019 level.

Given high economic growth and high inflation in 2021, some toll roads could see above-average rises in toll rates in 2022, because tariffs are usually adjusted by inflation under the concession agreements. This could make light traffic recovery somewhat volatile in more tariff-sensitive regions, such as Mexico.

Parking lots

Our outlook for parking lots and garages is largely negative due to slower recovery in volumes and weaker ability to raise rates. We expect parking volume to remain below

80%-90% of pre-pandemic levels in 2022. This reflects the segment's significant exposure to local social distancing measures and remote working practices.

For rated European parking lots, the outlooks are mixed between negative and stable, depending on headroom on credit metrics, liquidity, and financial policy. In addition to the pandemic, local sustainability policies aiming at reducing car access to city centers can also hamper volumes, although the rebalancing mechanism mitigates the risk to concessionaires. Although traffic rose near pre-pandemic levels in summer 2021, we think full recovery may take up to 2023 at the earliest. Growth opportunities are also important for parking lot operators, which are constantly required to renew expiring concessions or acquire new assets to maintain the average life of their portfolio.

Railways & mass transit

U.S. mass transit operators--especially those that depend on fare revenues to support large-scale operations--face the greatest long-term challenges. The pandemic exacerbated already declining ridership trends (since 2015) while also rapidly accelerating a rise in remote working. Mass transit volume should reach half of the 2019 baseline in 2021, and we estimate volumes at 55%-60% for 2022 and 60%-75% in 2023. At the same time, a combination of prudent management actions and an unprecedented infusion of federal aid ($69.5 billion) have stabilized mass transit credit conditions for now. However, longer-term issues remain, such as replacing lost fare revenues (if ridership remains low) and where operators should make capital investments.

The fundamentals of our rated European passenger railway operators are already recovering, also on the back of government support, although we expect full recovery in traffic may stretch until 2024 at the earliest. The pandemic-related lockdowns and travel restrictions significantly disrupted the sector. However, given that demand is largely domestic, we expect a quicker rebound than airports. Most of our rated companies in Western and Central Europe generate cash flows primarily in the passenger segment, and regional passenger services typically benefit from subsidies that protect revenues against traffic drops. Also, COVID-19's hit to passenger traffic and therefore to cash flows was, to a large extent, offset by extraordinary government support. Rated entities in Eastern Europe, typically more exposed to freight transportation, were more resilient to the pandemic's impact.

Although the EU's Fourth Railway Package (4RP) aims to reinforce competition and interoperability in the European railway market, we believe the pandemic will delay any rise in competition by several years. The duration of the pandemic has forced governments and railway operators to focus on dealing with its repercussions, and in addition, companies will need time once the pandemic's effects diminish to fully restore their pre-pandemic position. On the other hand, the strong political focus in Europe on the energy transition may favor railway operators because we expect the sector to play a key role in decarbonizing European economies.

In Latin America, mass transit traffic returned to over 50% of the 2019 baseline in 2021, and we think it could reach 75% in 2022, driven by commuters returning to workplaces despite new variants, because the users of mass transit in the region tend to be more sensitive to economic factors, such as affordability.

In Asia-Pacific, recovery for rail travel has been steady but sometimes interrupted by pandemic measures tightening, especially for mass transit in the region.

Airports

Ratings trends and outlook

2022 has not started off on the right foot for the airport sector. In our opinion, the sector will remain under pressure in 2022 until travel somewhat stabilizes. The exception is the Americas (North America, Caribbean, and Latin America) market, which has seen a flurry of domestic traffic that has supported most airports' return to stable outlooks. We have a positive sector view for the U.S. in 2022 after widespread downgrades in 2020.

Although governments have eased mobility restrictions and quarantine rules, rising infections due to the omicron variant of COVID-19 has dampened travel sentiment, particularly international.

Global traffic recovery will vary across countries and regions. Domestic traffic is likely to recover to pre-pandemic levels by late 2023, while we think international recovery could be in 2025 or beyond (see table 1). Total traffic recovery to pre-COVID-19 levels could be drawn out to 2025 in Asia Pacific and not before 2025 in Europe (see table 2).

The wide range of recovery times captures the varying traffic mix and source markets for airports, with competitive domestic airports rebounding quicker while international airports lag behind.

Table 1

Global Trends - Domestic & International (Passenger Volume)

Calendar Year (From 2019 Baseline)	Domestic Traffic	International Traffic
2021e	65%-80%	20%-30%
2022f	75%-100%	40%-60%
2023f	85%-100%	70%-80%
2024f	95%-100%	90%-95%

e--Estimate. f--Forecast. Source: S&P Global Ratings.

Table 2

Total Traffic Recovery In Different Regions (Passenger Volume)

Calendar Year (From 2019 Baseline)	U.S. Airports[1]	European Airports[2]	APAC Airports[3]	LatAm Airports[4]
2021e	70%	20%-35%	50%-70%	50%-70%
2022f	85%-90%	45%-65%	60%-80%	70%-85%
2023f	95%-100%	70%-85%	70%-90%	90%-100%
2024f	100%-105%	80%-95%	85%-100%	100%-105%

[1] Of total market, approximately 80% is domestic traffic.
[2] Of total market, approximately 20%-30% is domestic traffic. European airports have a lower proportion of domestic traffic relative to other regions.
[3] Of total market, approximately 60%-80% is domestic traffic. Varies across the region; reflects rated Australian, New Zealand, and Indian airports.
[4] Of total market, approximately 70%-80% is domestic traffic.
e--Estimate. f--Forecast. Source: S&P Global Ratings.

U.S.: American airports have fared much better than in other regions as measured by recovery trends, with an estimated recovery of 70% of 2019 baseline in 2021. Airport management took actions to limit the financial implications of the drop in passenger traffic. This, combined with an economic rebound, traffic recovery, and one of the largest federal assistance packages in U.S. history (over $112 billion to airports and airlines) stabilized industry conditions and improved airports' market positions. As a result, our 2022 credit view for U.S. airports and special facilities is positive and most of our outlooks on these entities are stable.

Europe: Rising cases of the omicron variant of COVID-19 across Europe and the world have prompted travel restrictions, showing that the recovery path for airports remains volatile and highly susceptible to new virus variants and travel restrictions. Recovery for the first few months of this year will remain sluggish, pushing out a full recovery to 2019 levels to not earlier than 2025 (see table 2 and "A Volatile Recovery Ahead For European Airports," published Jan. 24, 2022).

Almost all our ratings on European airports remain on negative outlooks, reflecting limited financial headroom. So far, our ratings in the sector remain underpinned by solid liquidity and financial flexibility, which have been critical to buffer the weak cash flows. We expect different credit recovery paths for each European airport, depending on each one's specific characteristics and regulatory circumstances. The main drivers will be travel restrictions, the efficiency of booster vaccine rollouts against new variants, upcoming regulatory decisions, and mitigating measures to partly offset impacts to cash flow and liquidity.

Asia-Pacific: Most APAC airports have negative outlooks, reflecting further risk of a sluggish recovery (see table 2) that could delay an improvement in metrics. Most Asian countries face stricter travel restrictions than the U.S. and Europe. However, healthy recovery in domestic passenger traffic and property revenues at some airports are somewhat offsetting anemic international traffic. Government support underpins the credit profiles for airports in Hong Kong, Taiwan, and Korea. While the airports manage liquidity well, in our view, credit metrics will remain weaker in 2022 and likely start improving in 2023.

Latin America: The recovery of Latin American airports has been driven by the large proportion of total flights that are domestic--these flights make up an aggregate 70%-80% share. We have observed passenger volume shifting to domestic from international, for example in Brazilian airports, which had 94% domestic share in 2021, from a historical 80% pre-pandemic. In addition, domestic flights at Mexican airports already reached almost 85% of 2019 volumes in 2021. International short-haul traffic has also driven the recovery in the Caribbean, mainly driven by leisure traffic from the U.S. We've seen international traffic recover to over 50% of 2019 levels for the Dominican Republic, Panama, and Mexico. Most airports have managed liquidity cautiously during the pandemic and have stable outlooks.

Main assumptions about 2022 and beyond

1. Traffic recovery will continue to vary among regions and airports

We base our traffic recovery assumptions--as outlined in the tables above--on the current status of the booster vaccine rollout, low risk of a return to strict lockdowns and largely quarantine-free travel. Visiting friends and relatives and some leisure travel will primarily drive traffic, with business travel likely to remain sluggish, especially offshore travel. Airlines are ramping up capacity across routes as travel booking picks up, but we don't expect them to significantly discount fares. In China and Hong Kong, strict quarantine protocols driven by the zero-COVID strategy will hold back both aeronautical and commercial revenue recovery, which will stay substantially behind global peers.

2. Flat tariffs, but some growth in opportunistic commercial revenues

We expect airport tariffs to remain relatively flat in 2022. We believe any negotiation for increases may be difficult to achieve given the uncertainty in traffic volumes and weakened credit quality of airlines. In Europe, some airports are entitled to tariff increases to compensate for investments and loss in passenger volumes. We believe regulators will have a hard job reconciling the requests of the different stakeholders and may avoid sharp tariff increases until operating conditions become stronger.

Retail and parking revenues may slightly grow on the back of domestic traffic, but a material lift in retail revenues will have to wait for a larger recovery in international traffic. Airports with a property land bank, particularly in Australia and India, could benefit due to a higher need for industrial and commercial space as demand for distribution services rises.

3. Cautious operating expenses (opex) and capex and lack of dividends will be key to preserve liquidity and control leverage

We expect most rated airports to remain cautious about opex until there's some stability in traffic. Airports are likely to defer expansionary and discretionary capital investments and will time them to traffic recovery and ability to recover costs through airline tariffs or regulatory rulings. In contrast, regulated airports, like those in India that were operating above capacity pre-pandemic, will continue to complete their expansions. Likewise, the Hong Kong airport will continue with its runway works.

Credit metrics and financial policy

Airports' trajectory back to pre-pandemic financial performance could require more than just a rise in passenger traffic. Despite government support, canceled dividends, deferred capital spending, and cost reduction programs, many European airports have experienced high cash burn since the early stages of the pandemic. This has prompted airports to take on additional debt to shore up liquidity. To offset the implications of high debt levels, a recovery in credit metrics to pre-pandemic levels will depend on the extent of financial flexibility and/or government and regulatory support.

Australia and New Zealand airports have bolstered liquidity and funding through fund raising. We think capital management and flexibility in distributions and capex will remain the main lever for mitigating downside rating pressures. On the other hand, committed capex spending and regulated tariffs will expose Indian airports more directly to passenger traffic trends. Airport Authority Hong Kong's (AA+/Stable/--) credit metrics will remain weak in 2022, and we expect its traffic volume to remain low until the end of the year or even later. Its total debt will climb further due to sizeable investments for the three-runway system.

Key risks or opportunities around the baseline

1. Stricter or periodic restrictions could delay traffic recovery further

As government policies on borders continue to change and with the omicron variant of COVID-19 spreading widely, international travel is a clear short-term risk for all airports; especially airports with higher proportion of international traffic. China and Hong Kong's zero-COVID policy will pose operational challenges to airport operators, adding to their costs while limiting their ability to pass the costs to users in the next one to two years. Strict local and regional restrictions could continue to hurt domestic passenger traffic in India, Australia, and New Zealand.

2. Regulations and tariff resets remain key issues to watch for many of our rated European airports

A large majority of our rated European airports expect tariff increases to support their credit metrics, such as Heathrow Funding Ltd. and Royal Schiphol Group N.V. Various regulatory decisions for European airports are due in 2022, and regulators will have a hard job reconciling the affordability of the airport services for the airlines/passengers with the airports' financial ability to cover their investments and operating costs for the next several years.

Airports expecting higher tariffs to compensate for hefty capital spending, lower passenger traffic, or both could see pushback from airlines that have also suffered financially throughout the pandemic. We see flexibility in most regulatory regimes that could balance sharp tariff increases, including phased tariff implementation, when recovery has become more certain. However, this could mean that airports may not benefit from the cash flow when they need it most.

3. Domestic passenger traffic remains a key recovery driver in Asia-Pacific

We assume moderate growth in passenger volumes in 2022, but if it plateaus or slows down, it could significantly hamper the financial metrics of most APAC airports. In contrast, faster recovery than we expect due to vaccinations, boosters, and changes in restrictive policies could improve financial metrics beyond what we currently anticipate.

4. Counterparty risk to airlines

While most airlines have weathered the pandemic shock, they are yet to return to full service and cost base. Unwinding of government support could expose them to further risk.

Ratings trends and outlook

Global airports

Chart 1

Ratings Distribution

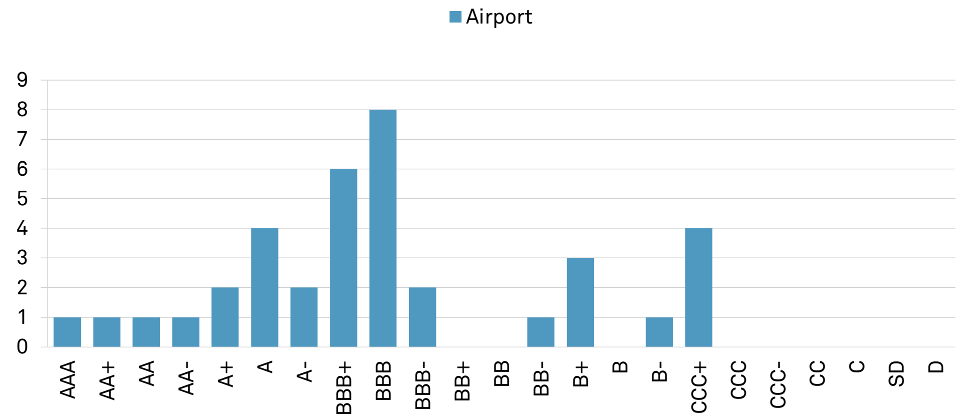


Chart 2

Ratings Outlooks

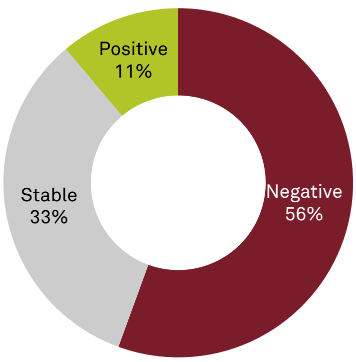
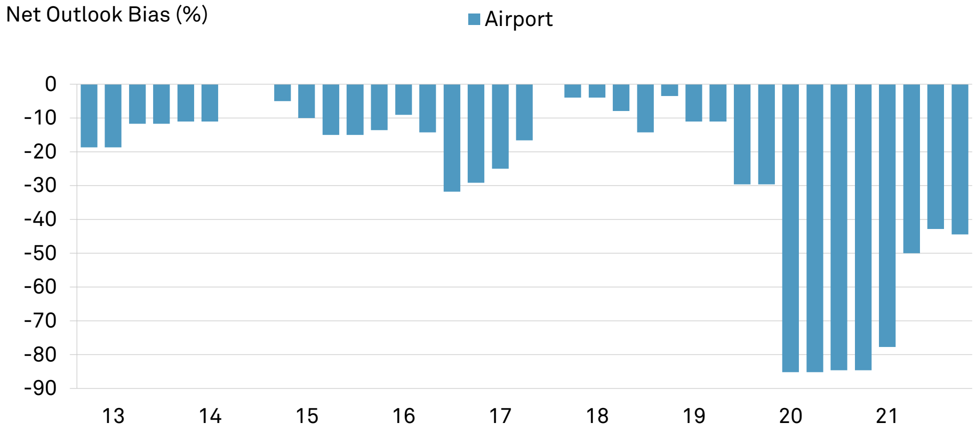


Chart 3

Ratings Outlook Net Bias



Source: S&P Global Ratings. Ratings data measured at quarter end.

Industry Credit Metrics

Global airports

Chart 4

Debt / EBITDA (median, adjusted)

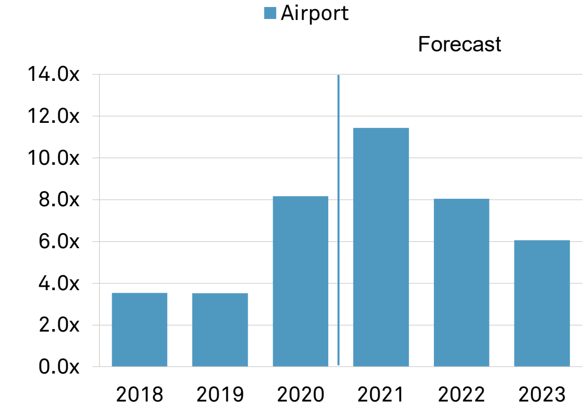


Chart 5

FFO / Debt (median, adjusted)

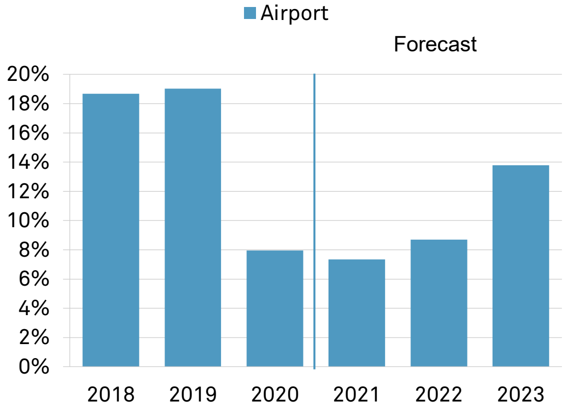


Chart 6

Cash flow And Primary Uses

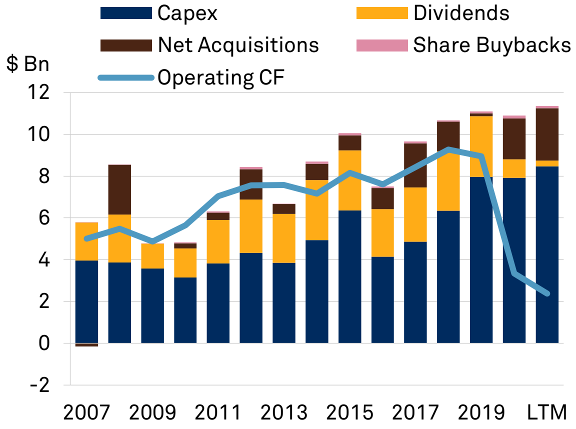
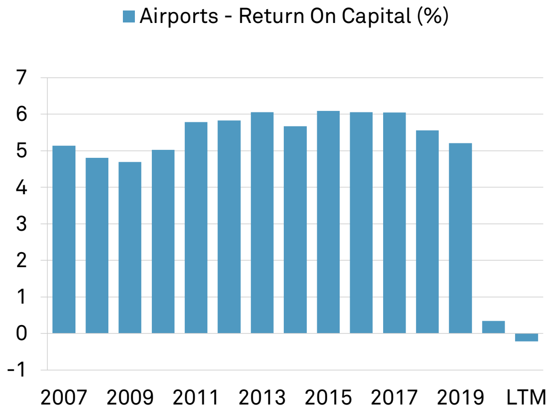


Chart 7

Return On Capital Employed



Source: S&P Global Ratings, S&P Global Market Intelligence. Most recent (2021) cash flow and ROCE figures are using last 12 months (LTM) data. All non-forecast figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Ports

Ratings trends and outlook

The segment's stable ratings and outlook are driven by strong domestic demand and a sharp recovery in key export commodities, supporting relatively strong operating performance for most ports globally. Moderate economic growth will continue to support trade growth in 2022. Key challenges this year could stem from supply-chain disruption, trade sanctions, and inflationary pressure on costs.

As the economic situation improves in European countries, port volumes should continue to follow. We think shipping costs and container rates will likely stay elevated in 2022 amid port congestion due to supply chain disruptions and labor shortages related to COVID-19. While many European ports have benefited from increased volume growth and the spike in container rates, this scenario remains a challenge for the ports' management as they battle record levels of congestion.

Pandemic-related factors aside, the sector continues to face the challenge of growing capacity and pressure from shipping line alliances that increase competition among ports. We believe there is still moderate uncertainty about when the current operational challenges and tariff hike will normalize. In our view, the high demand for goods might be offset by the recovery of discretionary consumer sectors, such as travel and hospitality.

Main assumptions about 2022 and beyond

1. Resilient demand to support volume growth

For origin-destination APAC ports, we estimate container volumes will grow 2%-5% in 2022, supported by consumer demand. Strict measures to control the pandemic in China could lead to temporary disruptions of port operations, which could be manageable but likely would divert some volumes to transshipment ports like Singapore.

For European ports, tradable goods will continue to be critical to global and regional economies, supporting our estimate of 3%-4% annual revenue growth, which is benefiting from the economic performance in catchment areas.

We expect Latin American port operations to resume growing at historical elasticity of 1.25x-1.5x GDP from 2022 onward.

The U.S. not-for-profit port sector experienced some weakness before the pandemic, but as consumers remained at home and substituted discretionary spending on services by spending on online purchases (including durable products), cargo and container activity increased at most ports. Consequently, many large port operators are experiencing activity and revenue performance at or better than pre-pandemic levels, except for those with material exposure to cruises.

2. Growth patterns of bulk cargo volume will diverge

Increasing local demand necessitating imports--particularly for coal and iron ore in South and Southeast Asia--will likely support growth of bulk cargo volumes in APAC ports (excluding China). In China, bulk cargo could suffer from lackluster growth under the Chinese government's effort to contain the carbon footprint and manage the property sector downturn, although liquified natural gas and crude oil could be the exception, driven by growing consumption of gas and energy security considerations.

3. Stable earnings trend

We expect profitability to stabilize for most ports in 2022. Higher pandemic-related costs will start to decline and strong demand with port congestion could allow some uptick in tariffs (like seen in Australia, New Zealand) to pass on the higher costs due to inflation.

For some ports, we think that profitability could be negatively impacted by inefficiencies from port congestion. On the other hand, the increased shipping rates could offset the impact, resulting in stability of margins for 2022.

Credit metrics and financial policy

Most of our rated European ports have solid business fundaments and strong financial metrics--compared to other transportation infrastructure sectors--that have historically provided cushion to absorb volatility. We also note that the rated ports have flexible financial policies that enable them to respond quickly to challenging conditions. That said, ports with limited credit headroom for the rating might be more exposed to the hit from congestion on port volumes, which could lead to customers avoiding certain ports. They are also more exposed to efficiency and ability to manage available capacity.

Strong balance sheet flexibility will allow ports in China and South and Southeast Asia to manage leverage, although aggressive growth appetite and acquisitions could pressure financial metrics. Smaller regional Chinese port operators still rely on short-term financing as onshore funding is tightening, which could stress liquidity. For Australian ports, the landlord model, with index-linked tariffs and steady property portfolio income, will continue to support their credit profile. New Zealand ports will continue to have stable credit metrics in 2022, supported by demand in end markets for key forestry and agricultural commodities.

Key risks or opportunities around the baseline

1. Supply chain disruptions and sanctions

For APAC ports, a slower-than-expected recovery in global trade volumes and continuing supply chain disruptions could affect volumes. Supply chain disruptions and changes in consumer demand patterns could also hamper volumes. Chinese sanctions on certain Australian commodities could continue to weigh on trade volumes; although credit impact has been muted for Pacific ports with some products finding alternative markets in the region.

2. Growth aspirations may lead to high capex and acquisitions

Strong demand and congestion could make it more attractive for ports to add capacity and improve diversification (including international greenfield and brownfield ports). Strong profitability and favorable funding conditions may encourage more aggressive leverage. Heavy investments in acquisitions or capacity expansion for single assets, along with innovation and climate change-related initiatives, could pressure leverage.

3. Automation investments to boost efficiency

Capacity and labor constraints may also require investments in infrastructure, digitalization, and mitigation of cyber risk.

Ratings trends and outlook

Global ports

Chart 8

Ratings Distribution

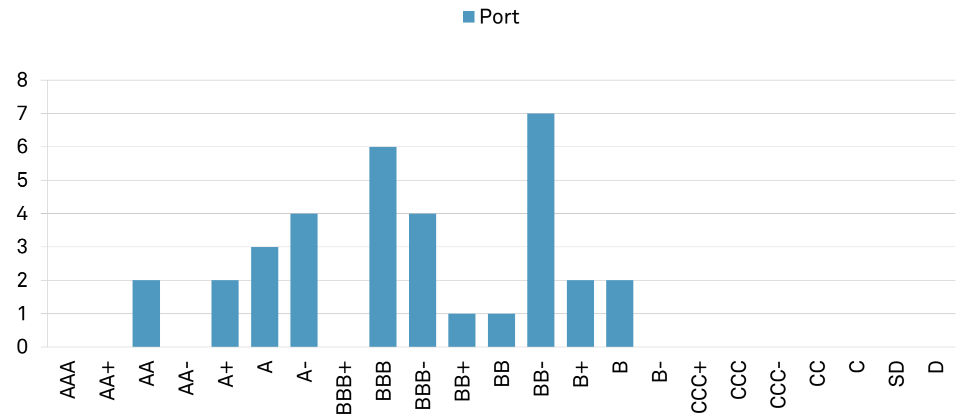


Chart 9

Ratings Outlooks

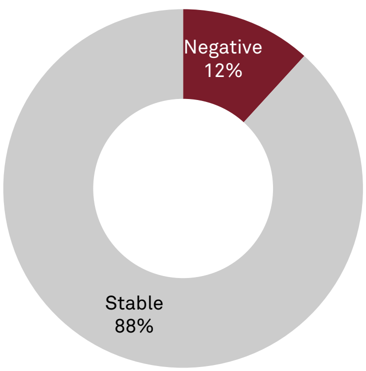
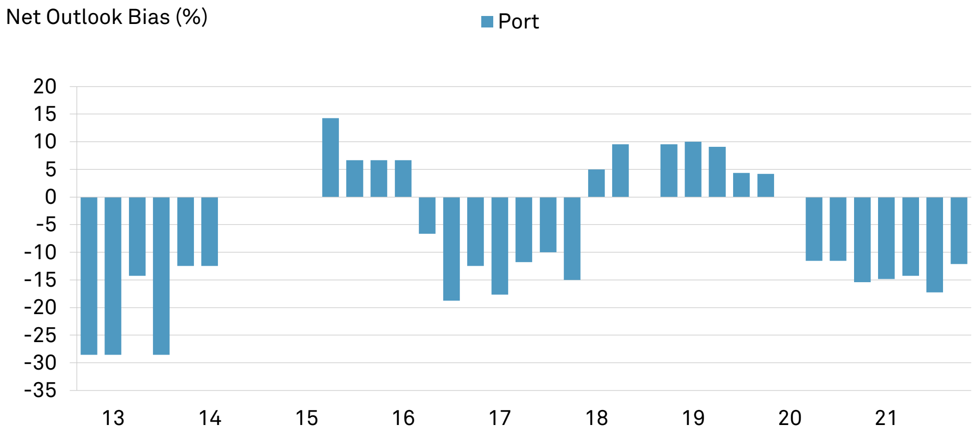


Chart 10

Ratings Outlook Net Bias



Source: S&P Global Ratings. Ratings data measured at quarter end.

Industry Credit Metrics

Global ports

Chart 11

Debt / EBITDA (median, adjusted)

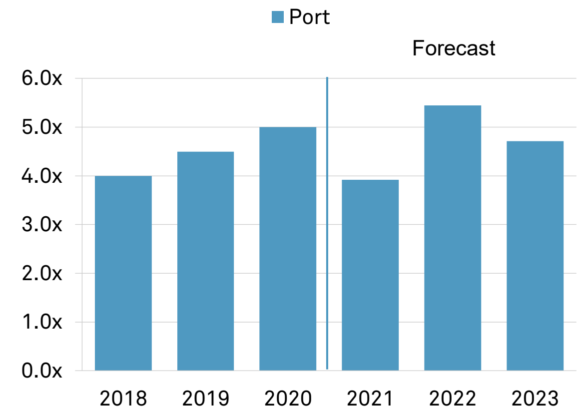


Chart 12

FFO / Debt (median, adjusted)

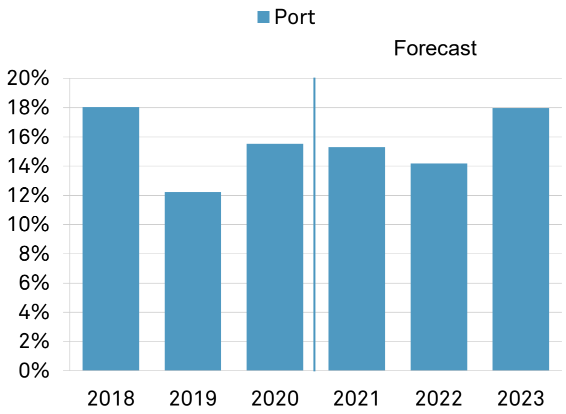


Chart 13

Cash Flow And Primary Uses

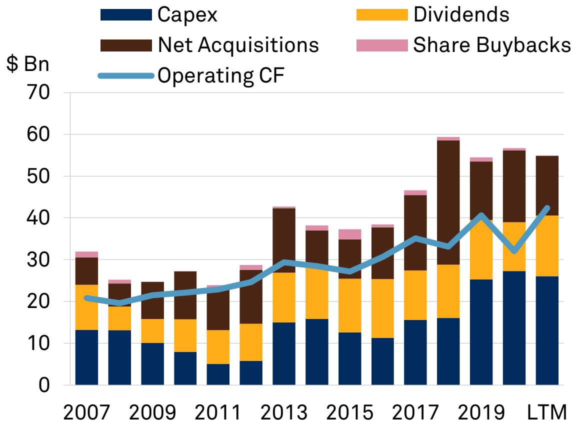
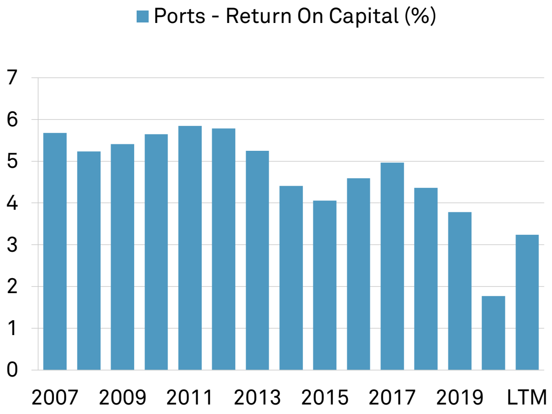


Chart 14

Return On Capital Employed



Source: S&P Global Ratings, S&P Global Market Intelligence. Most recent (2021) cash flow and ROCE figures are using last twelve months (LTM) data. All non-forecast figures are converted into U.S. Dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Roads

Ratings trends and outlook

Our outlook for North American toll roads is stable. Many of toll roads that we downgraded at the onset of pandemic have now returned to their pre-pandemic rating level, with traffic rebounding to close to pre-pandemic levels and in some cases, surpassing it. A few toll roads still have negative outlooks; however, in those cases, it reflects concerns beyond traffic recovery.

The majority of our ratings on toll road operators in EMEA have stable outlooks. This reflects the solid traffic recovery, which we expect to continue in 2022, reflected in solid credit metrics and available liquidity. Traffic on rated European toll roads rebounded to 85%-90% of pre-pandemic levels in 2021, supported by easing of national mobility restrictions, resilient heavy traffic, and preference for individual means of transport and for close-by leisure destinations. The recent spread of the omicron variant suggests that new containment measures imposed by some governments have a relatively small effect on traffic (volumes declined to 5%-10% below 2019 levels in the last few weeks of December, after reaching pre-pandemic level or low single-digit growth starting in the summer). Thus, we expect traffic on European toll roads to converge toward pre-pandemic levels in 2022, although assets more exposed to leisure traffic and alternative routes may not see a full recovery until 2023.

Steady operating and economic conditions support volume recovery and the stable outlook for Australian, Chinese, and Latin America toll roads operators.

Main assumptions about 2022 and beyond

1. We expect toll roads to navigate short-term challenges posed by the omicron variant and achieve pre-pandemic traffic levels or above in 2022

At this point, we do not expect omicron or new variants to have a notable disruptive effect on the global recovery trend of toll roads. We forecast traffic after 2022 to grow in line with historical elasticity to economic activity, linked to our GDP expectations. We expect commercial traffic to remain more resilient, while potential tighter restrictions could hurt passenger traffic volumes.

2. Above-average toll rate growth and stable operating margins

Given high economic growth and inflation in 2021, some toll roads could see above-average toll rate increases in 2022, because tariffs are usually adjusted by inflation under the concession agreements. Historically, tariff increases help sustain revenue and, although inflation is rising, we expect concessionaires to be able to pass it to final users. This could make light traffic recovery volatile in more tariff-sensitive regions, such as Mexico. In China, traffic growth will largely drive toll revenue growth, while toll fare increases are unlikely. In Australia, the combination of steady traffic and toll increases linked to concessions will assist revenue growth.

3. Capex rising for most operators

We expect operators to increase capex plans in 2022-2023, particularly the noncontracted investments that they had postponed to mitigate the impact of the pandemic on cash flows and margins.

4. Dividend distributions and leverage will remain high

We anticipate toll road operators to continue distributing large amounts of dividends considering their covenant-light capital structure and solid cash flow. Therefore, we expect financial leverage to remain elevated, in line with past trends, as toll roads continue to undertake capex or distributions.

Credit metrics and financial policy

In North America, the credit metrics for many toll roads have returned to or surpassed pre-pandemic levels and so have returned to either stable outlooks or pre-pandemic rating levels. We rate all our North American toll roads at investment grade, excluding one, supported by reasonably conservative capital structures, structural mitigants like hybrid revenues, and significant liquidity.

We continue to expect credit metrics on European operators to largely return to pre-pandemic levels in 2022, assuming that new pandemic strains won't significantly hamper traffic. We anticipate credit metrics may improve in the coming years for mature European concessionaires, where capex drops as concession maturities approach. Operators proved their ability to access capital markets in early 2022, with large issuances made in convenient conditions, for example those by Abertis French's subsidiary HIT and Italian toll road operator Autostrade per l'Italia. In general, we continue to see robust liquidity in the sector.

Australian toll roads remain positioned in the investment-grade category, while Chinese toll roads' credit profile largely depends on government support. Credit metrics are trending back to pre-COVID-19 levels but distributions and re-leveraging will limit improvement in financial metrics.

Accelerated traffic recovery across Latin America toll roads in 2021 has led to better credit metrics and liquidity, in particular in Mexico and Brazil, driven by heavy vehicle volumes that compensated for the slower recovery of light vehicle traffic. We cap many of our ratings on toll roads in the region at the level of the respective sovereign, limiting the potential rating upside from better traffic and tariff performance.

Key risks or opportunities around the baseline

1. Material structural change to mobility trends

In our view, there are likely to be structural changes to where people work and live and how and when they travel. While it is too early to draw conclusions about these patterns, the next one to two years will demonstrate if there's any lasting impact on toll road use.

Remote working, virtual business meetings, online shopping, and blended teaching could affect road use. For example, if commuters work remotely for two days a week and assuming about half of traffic is work trips, that could translate to about a 20% permanent weekday demand loss for toll roads and downtown parking garages. Traffic consultants are already adjusting their forecasts to assume remote working will double compared to pre-pandemic levels. However, accelerated e-commerce activity would boost revenues for toll roads with heavy vehicle traffic.

Increasing electric car fleets may require investments from toll road operators to accommodate charging stations. It remains to be seen how long distances may be affected by this shift and how this type of investment may be remunerated under the terms of the concessions.

2. Debt service depends on local government support in less developed regions in China

Some Chinese toll road players in underdeveloped provinces could struggle to meet interest payments on their own due to weak traffic volume and heavy debt burden. After a toll fee moratorium of nearly three months in 2020, traffic has strongly rebounded in 2021 but has yet to reach 2019 levels in China. However, support from local governments and extended debt maturities after multiple debt replacement/restructuring transactions should support funding needs.

3. M&A appetite

We expect global infrastructure groups will seek investment opportunities to replenish assets in their portfolios, especially large European infrastructure players such as Abertis and Atlantia. Abertis has expiring concessions in Spain and we expect Atlantia to complete its ASPI disposal in the first half of 2022.

At the same time, single asset toll road operators, such as French concessionaires, would look for opportunities to extend their concession's life beyond expected maturities (2031-2036), although additional capex has been typically remunerated by tariff increases and we don’t anticipate significant concession extensions at this stage.

Ratings trends and outlook

Global roads and parking lots

Chart 15

Ratings Distribution

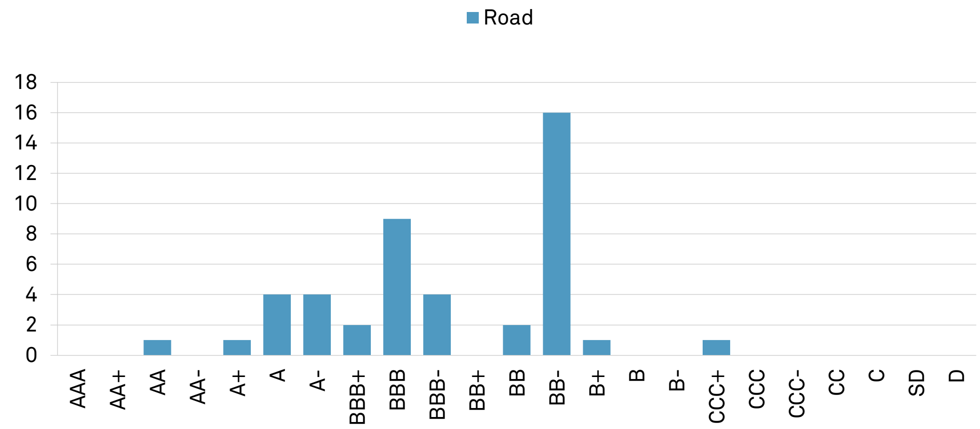


Chart 16

Ratings Outlooks

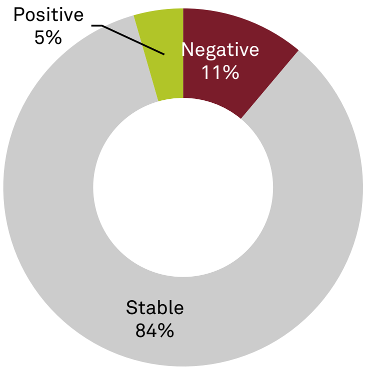
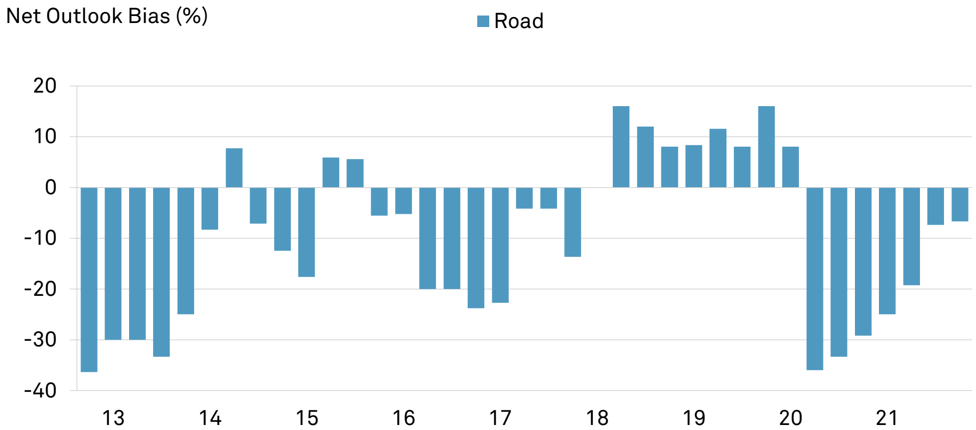


Chart 17

Ratings Outlook Net Bias



Source: S&P Global Ratings. Ratings data measured at quarter end.

Industry Credit Metrics

Global roads and parking lots

Chart 18

Debt / EBITDA (median, adjusted)

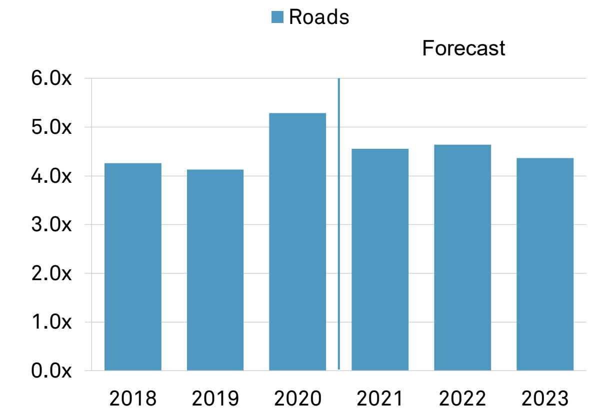


Chart 19

FFO / Debt (median, adjusted)

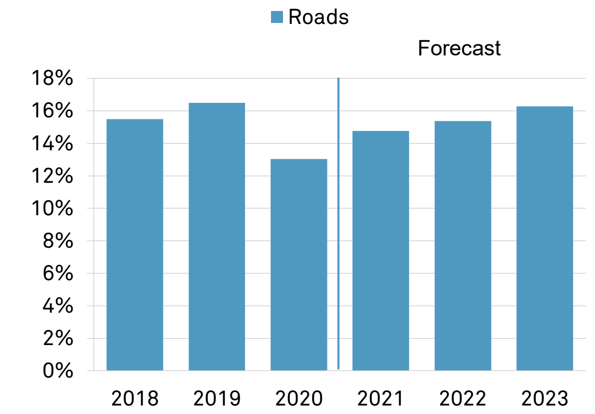


Chart 20

Cash Flow And Primary Uses

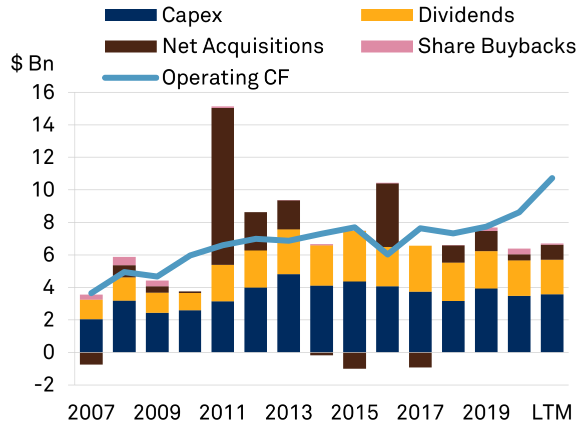
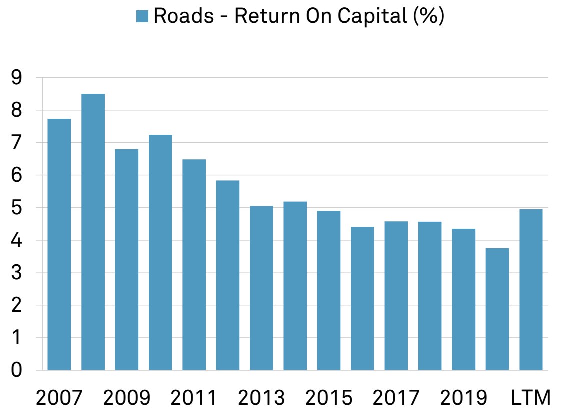


Chart 21

Return On Capital Employed



Source: S&P Global Ratings, S&P Global Market Intelligence. Most recent (2021) cash flow and ROCE figures are using last 12 months (LTM) data. All non-forecast figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Related Research

- A Volatile Recovery Ahead For European Airports, Jan. 24, 2022
- Outlook For U.S. Not-For-Profit Transportation Infrastructure: Mostly Stable; Airports Remain Positive As Operators Navigate A New Variant And A New Normal, Jan. 12, 2022
- Updated U.S. Transportation Infrastructure Activity Estimates Show Air Travel Normalizing By 2023 And A Stymied Transit Recovery, Jan. 12, 2022
- Economic Outlook Q1 2022: Rising Inflation Fears Overshadow A Robust Rebound, Nov. 30, 2021

Authors

North America

Dhaval Shah
Toronto
+1 416 507 3272
dhaval.shah
@spglobal.com

Kurt Forsgren
Boston
+ 1 617 530 8308
kurt.forsgren
@spglobal.com

Trevor D'Olier-Lees
New York
+ 1 212 438 7985
trevor.dolier-lees
@spglobal.com

Europe

Juliana Gallo
London
+44 20 7176 3612
juliana.gallo
@spglobal.com

Livia Vilela
Madrid
+34 91 423 3181
livia.Vilela
@spglobal.com

Stefania Belisario
Madrid
+ 34 91 423 3193
stefania.belisario
@spglobal.com

Asia-Pacific

Abhishek Dangra
Singapore
+65 6216 1121
abhishek.dangra
@spglobal.com

Laura Li
Hong Kong
+852 2533 3583
laura.li
@spglobal.com

Parvathy Iyer
Melbourne
+61 39 631 2034
parvathy.iyer
@spglobal.com

Richard Timbs
Sydney
+61 2 9255 9824
richard.timbs
@spglobal.com

Latin America

Julyana Yokota
Sao Paulo
+55 11 3039 5731
julyana.yokota
@spglobal.com