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Research Update:

Transport for London 'AA-/A-1+' Ratings On CreditWatch Negative On Delayed Opening Of The Elizabeth Line

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Overview

- On Aug. 31, 2018, Transport for London (TfL) announced that central section of the Elizabeth Line between Paddington and Abbey Wood will be delayed until Autumn 2019.
- We estimate this will lead to lower-than-projected revenues for the next two-to-three years and potentially increase costs given the extended schedule. The magnitude of cost increases remains unknown at this stage.
- The delay adds to the already challenging environment in which TfL operates: impending Brexit; a fare freeze until 2020; reduced grants from the central government; and subdued growth in passenger volumes.
- Consequently, we are placing our 'AA-/A-1+' long- and short-term issuer credit ratings on TfL on CreditWatch with negative implications.
- We aim to resolve the CreditWatch within 90 days, after we examine the impact of the Elizabeth Line delay on TfL's financial position and our assessment of its management and governance.

Rating Action

On Sept. 5, 2018, S&P Global Ratings placed its 'AA-' long-term and 'A-1+' short-term issuer credit ratings on London-based transport operator Transport for London (TfL) on CreditWatch with negative implications.

At the same time, we also placed on CreditWatch negative our 'AA-' issue rating on TfL's senior unsecured debt.

Rationale

The CreditWatch negative placement follows the announcement of a material delay to the opening of the central section of the Elizabeth Line (Crossrail) between Paddington and Abbey Wood. TfL has not provided a firm revised date but now expects to open the section in Autumn 2019. It was previously planned for December 2018. We understand the delay is due to TfL needing more time to test the line and do the required safety checks. Upon opening, the Elizabeth Line is still expected to add 10% capacity to London's rail network and significantly increase TfL's operating revenues.

A previous cost overrun estimate, announced in July 2018, was for up to £590 million above the total estimated project cost of £14.8 billion, with £300 million related to Crossrail Ltd. works and £290 million for Network Rail works. The U.K.'s Department for Transport (DfT) agreed to contribute £150 million of the £300 million of additional funding made available to Crossrail Ltd. The July update also noted that 93% of the Elizabeth Line was completed. We understand that TfL is well advanced in exploring options for selling and leasing back the Elizabeth Line rolling stock.

We will evaluate how the delay will affect TfL's financial position--particularly its liquidity coverage--and our assessment of its management and governance. While we do not know the full magnitude of the cost implications, we believe Elizabeth Line operating revenues over the next two-to-three years will likely be lower than our current projections. We also foresee further cost overruns arising from the extension of the working schedule.

TfL's management is in discussion with key stakeholders on potential solutions should further funding be required. We anticipate further information on the impact on revenues and cost increases will be available within the next 90 days. Our assessment of a very high likelihood of extraordinary support from DfT, via the Greater London Authority (GLA), remains unchanged at this point. Therefore, we continue to incorporate a two-notch uplift to the stand-alone credit profile of 'a'.

CreditWatch

We expect to resolve the CreditWatch within the next 90 days. We will focus on evaluating the cost implications from the Elizabeth Line delay, both operationally due to lost revenues, and from potential cost overruns on the project.

We could lower the rating on TfL if its liquidity position comes under pressure due to higher costs or major delays in capital-intensive projects. We could also lower the rating if our view of TfL's management and governance weakened, resulting in a weaker enterprise risk profile.

We could also lower the rating if we believed there is lower likelihood of timely extraordinary support coming from the U.K. government.

Conversely, we could affirm the ratings if we believe the cost implications from the Elizabeth Line delay are not going to negatively affect TfL's operational revenues or liquidity position.

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
- Criteria - Governments - General: Mass Transit Enterprise Ratings: Methodology And Assumptions, Dec. 18, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- No Stress: Rated LRGs In Europe, Canada, And Argentina Can Cope With Possible Interest Rate Rises, Jan. 29, 2018
- Ratings On The United Kingdom Affirmed At 'AA/A-1+'; Outlook Remains Negative, April 27, 2018
- Greater London Authority Ratings Affirmed At 'AA/A-1+'; Outlook Remains Negative, March 23, 2018

Ratings List

Ratings Affirmed; CreditWatch Action

	To	From
Transport for London		
Issuer Credit Rating	AA-/Watch Neg/A-1+	AA-/Stable/A-1+
Senior Unsecured	AA-/Watch Neg	AA-
Commercial Paper	A-1+/Watch Neg	A-1+

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