

# Heathrow Funding's Proposed Guaranteed Class A Notes Assigned 'AA' Rating; Outlook Stable

November 14, 2023

- Heathrow Funding Ltd. is planning to issue two guaranteed class A notes of £70 million each, maturing in 2058 and 2059. Proceeds will fund general corporate purposes.
- Assured Guaranty Municipal Corp. (AGM; AA/Stable/--) and Assured Guaranty UK Ltd. (AGUK; AA/Stable/--) will guarantee 85% and 15% of the notes' principal and interest payment obligations, respectively.
- We assigned our 'AA' issue ratings and 'BBB+' S&P Underlying Rating (SPUR) to the proposed notes.
- The stable outlook on the issue rating reflects that on the guarantor. The stable outlook on the SPUR reflects our expectations that Heathrow will continue demonstrating solid operating performance given its importance as the main airport hub for Europe.

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LONDON (S&P Global Ratings) Nov. 14, 2023--S&P Global Ratings today took the rating actions listed above.

**We equalize the 'AA' long-term issue ratings with the issuer credit rating on the guarantors.**

The proposed notes of £70 million each benefit from payment guarantees from AGM and AGUK until the final maturity. Our issue ratings on the notes reflects the higher of our SPUR and our issuer credit rating on the guarantor. In this case, the 'AA' issue rating reflects the long-term issuer credit rating on both AGM and AGUK, which is higher than the class A 'BBB+' SPUR.

The stable outlook on the long-term issue rating reflects that on the guarantors, AGM and AGUK. The ratings will move in line with the weaker of our ratings on both entities.

The stable outlook on the SPUR ratings reflects our view that Heathrow will continue demonstrating solid operating performance, given its importance as the main airport hub for Europe. The outlook further reflects our opinion that, despite lower tariffs and higher investments, Heathrow will achieve metrics in line with the ratings--notably funds from operations (FFO) to senior debt of at least 7% and FFO to junior debt of at least 5% until the end of the H7 regulatory period in 2026. We base this on greater certainty on the tariff for H7, a recovery in passenger volumes, and Heathrow's financial discipline.

We could take a negative rating action on the SPUR if Heathrow cannot achieve and sustain FFO to senior debt at 7%, with no immediate likelihood of recovery. This could happen, for example, if:

- There are significant cash outflows from the ring-fenced structure, in addition to the interest payments relating to the debentures with Heathrow Finance PLC. Outflows could include the partial repayment of the Heathrow Finance debt, or dividends to shareholders, resulting in a

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less supportive financial policy.

- Inflation fails to return to a long-term average of 2% and Heathrow cannot mitigate the negative effects.

In our view, ratings upside is limited until the end of H7. However, we could raise the SPUR if Heathrow achieved and maintained FFO to senior debt consistently above 8% from 2024. This could happen if the airport increases commercial revenue and reduces operating expense to be in line with, or more efficient than, the Civil Aviation Authority anticipated in its final decisions from March 2023.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Utilities: Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses, Feb. 24, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

## Related Research

- Tear Sheet: Heathrow Funding Ltd., Oct. 27, 2023
- Industry Top Trends Update Europe: Transportation Infrastructure, July 18, 2023
- Heathrow Funding Ltd., May 5, 2023
- Bulletin: Appeals Regarding CAA's Airport Fees Ruling Expected To Be Broadly Credit Neutral For Heathrow, April 21, 2023
- Credit FAQ: Lower Tariffs Will Leave A Thin Cushion Around Heathrow's Debt Metrics, April 6, 2023
- Research Update: Heathrow Funding Class A 'BBB+' And Class B 'BBB-' Ratings Affirmed On CAA Decision; Off CreditWatch; Outlook Stable, March 22, 2023

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

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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.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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