

ISSUER COMMENT

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Heathrow Finance plc

Credit profile unaffected for now as approval process for new runway reaches new milestone

On 25 June 2018, the UK Parliament voted on the expansion of Heathrow airport, which envisages the construction of a third runway to the North-West of the existing airport. The Parliament vote, which passed the motion with 415 votes in favour, and 119 against, follows the approval of Heathrow expansion plans by the UK Cabinet on 5 June 2018. The UK Government estimates that the new runway will deliver economic benefits to passengers and the wider economy worth up to GBP74 billion¹, notably by boosting the UK's connections to and enabling increased trade with the rest of the world.

The Parliamentary vote supporting expansion at Heathrow is an important milestone for the airport, which currently operates at capacity, given the limit imposed on the number of air traffic movements that can take place at the airport. The construction of a new runway would allow Heathrow to continue to operate as a hub and reinforce its status as the main airport in London, the largest and most valuable aviation market in the world.

Moody's sees the implications of the approval as broadly credit neutral for Heathrow Finance plc (Ba1, stable outlook), as the benefits of operating an expanded airport are counterbalanced by the challenges of managing and delivering a project that includes the construction of a new runway with a length of up to 3,500 metres, as well as the development of new terminal buildings, at an estimated cost of £14.3 billion. Heathrow has, nonetheless, experience in successfully managing and delivering large and complex capital expenditure projects, such as the construction of Terminals 5 and 2, and has also been able to implement increases to its aeronautical charges in the past without noticeably affecting passenger throughput.

The Parliamentary approval does not mean, however, that the construction of Heathrow's third runway can commence. Heathrow would need to submit a Development and Consent Order application in early 2020. The Planning Inspectorate, an executive agency of the UK Government in charge of providing recommendations and advice on a range of land use planning-related issues, will review the merits of the scheme and submit a recommendation to the Secretary of State for Transport, who has the authority to grant the planning sign-off. We do not expect the final sign-off, which must be obtained before the expansion can take place, until 2021 at the earliest. The scope and timetable of the project are likely to evolve as a result of these processes and we expect that the bulk of construction operations will take place in the early years of the next decade at the earliest.

Given the lengthy approval process related to Heathrow's third runway, the body responsible for economic regulation of Heathrow's applied charges, the Civil Aviation Authority (CAA),

has extended the current price control period to give an opportunity to reflect any decision on runway capacity expansion in the new settlement. The current regulatory period has therefore been extended by three years to the end of 2021. The CAA is still developing its thinking around the appropriate regulatory arrangements that should apply in the next regulatory period in the context of the major expansionary investment taking place.

It is still too early to fully determine the precise credit implications of the runway construction project for Heathrow Finance, as important elements in the final risk allocation, such as the total quantum and phasing of expenditure, any conditions attached to the planning consents or regulatory decisions with respect to the timing and the pace of increases in airport charges, are still unknown at this stage. In this context, we note Heathrow management's endorsement of the Secretary of State's ambition of delivering the project while keeping aeronautical charges at or close to current levels.

Endnotes

1 [Airports National Policy Statement, June 2018.](#)

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