Industry Top Trends Update

Transportation Infrastructure

Weakened economies and inflation may undo recovery

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What's changed?

Solid comeback following lifted restrictions. A strong summer season and pent-up demand for travel have ushered airports, railways, and toll roads onto a solid recovery path. Still, the speed of recovery will differ by asset class: Toll roads should reach pre-pandemic levels first, by end-2022, followed by rail by end-2023. Airports are unlikely to fully bounce back until 2025.

Prices on the rise. Escalating inflationary pressure, higher energy costs, and expected increases in capital expenditure could squeeze margins. In 2022, inflation for the eurozone and the U.K. could reach 7.0% and 8.7%, respectively, from about 2.0% before the Russia-Ukraine conflict started.

What to look out for?

Weaker economic prospects may constrain mobility. Despite a rebound in traffic in the first half of 2022, the prospects of low economic growth, less disposable incomes, and higher inflation could curb the momentum, especially after the summer. The rising cost of living could deter travel and passenger transport, and weaker consumption and imports/exports may hit the freight industry.

The ability to pass through real-cost inflation will vary. Depending on the regulatory framework for each asset class and country, the ability to pass through real-cost inflation in a timely manner via higher tariffs will mark each company's ability to withstand inflationary pressures. A strong competitive position to support higher prices without sacrificing volumes will be vital to sustain credit quality. Social pressure may lead governments to mitigate tariff increases on toll roads, despite generally solid contractual framework.

Cost controls and financial flexibility will be critical. Companies that have sustained cost-savings during the pandemic and still have flexibility in capital spending will likely have stronger liquidity buffers against rising costs.

What if there's a recession?

Airports are likely to be most vulnerable. Developments in 2023 will be key for the recovery of European airports, most of which are on negative outlooks. A recession could slower recovery and tighten margins more than anticipated as airports try to revive credit metrics from pandemic impacts.

Rail companies might rely further on the government. Often seen as an essential service and an instrument for climate change goals, railways have received extraordinary government support when needed. Without this help or the rail companies' own countermeasures, recessionary pressure could stunt profitability and cash flow metrics given their high fixed costs.

Toll roads would be more resilient. Despite the negative impact a recession would have on heavy vehicles' traffic, toll roads' strong balance sheets are likely to buffer their credit quality in a downturn. Higher tariffs may trigger discussions on the affordability of some assets.

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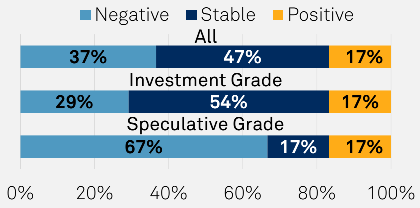
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	24	6	30
Downgrades	0	1	1
Upgrades	1	0	1

Ratings data as of end-June 2022. * Year-to-date. Only issuer-level ratings shown.