S&P Global Ratings

Transportation Infrastructure

A generally stable outlook with rising megaprojects

This report does not constitute a rating action.

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What's changed?

First-of-its-kind private rail project financing. We assigned an investment-grade rating on the first private railway project in North America in over 100 years; a 235-mile, high speed rail system that runs from Miami to Orlando with full ridership risk.

Re-leveraging despite higher interest rates. Transportation infrastructure entities typically maintain their credit quality by re-leveraging on the back of improvement in credit metrics (based on large inflation-linked toll increases and unfettered demand response). Despite the high interest rates, infrastructure sponsors continued to take debt-funded distributions driven by substantial toll revenue growth. Additionally, revenue growth has supported refinancing at higher interest rates.

Force majeure settlements have stabilized construction ratings or mitigated concerns.

What to look out for?

Mega project financing. Sectors such as rail/transit are seeing significant capital spending leading to multi-level financings, such as Brightline East issuing $1.3 billion in holdco financing in addition to $2.2 billion in opco financing. Inflation has added to these costs and is causing a greater capital spending and debt quantum for both greenfield and monetization of existing transportation assets.

Upcoming federal elections. While electoral uncertainty could delay public funding and private capital expenditures, we don't expect the election to affect existing ratings.

Physical climate risk. More frequent and severe natural disasters increase the physical risks that transportation entities face, adding to operational complexity and negative cashflow impact.

What are the key risks around the baseline?

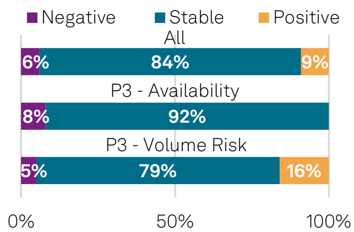
Affordability risks. Rise in unemployment and more-persistent inflation and interest rates than we currently forecast could weaken disposable income and travel demand, as well as activity in transporting goods. This may hamper peak travel demand, which is still lagging due to remote working.

Counterparty pressure. Weakened creditworthiness and liquidity pressures could hinder contractors' construction progress or acceleration efforts, leading to project delays or, where there is linkage to the contractor, a deterioration in project credit quality.

Geopolitical tensions. Although the impact of geopolitical risks on macroeconomic outcomes is elevated, the impact has been minimal to date in most regions. However, escalation is a possibility and can have an outsized impact on the economy, directly or indirectly. This could weigh on global trade, commodity prices, and consumer sentiment around travel.

Rating Trends

Outlook Distribution



Ratings Statistics (YTD)*

	P3 Availability	P3 Vol. risk	All
Ratings	13	19	32
Downgrades	0	0	0
Upgrades	0	1	1

Ratings data as of end-June 2024. * Year-to-date

Related Research

- U.S. Public Finance 2024 Midyear Outlook: A Cooldown Ahead, July 15, 2024
- Credit FAQ: Financing And Rating Recent U.S. Megaprojects, June 24, 2024
- U.S. Transportation Infrastructure Airport Update: Air Travel Rides The Jetstream, For Now, June 24, 2024
- Record U.S. Infrastructure Spending Is Colliding With Higher Construction Costs And Other Hurdles, May 14, 2024
- Research Update: Brightline Trains Florida LLC's $2.219 Billion Senior Secured Debt Assigned 'BBB-' Rating; Outlook Stable, May 8, 2024
- U.S. Transportation Infrastructure 2024 Activity Estimates Indicate A Return To Pre-Pandemic Levels And Growth, With Transit Ridership Still Recovering, March 21, 2024