

## ISSUER COMMENT

1 JULY 2015

### RATINGS

#### Heathrow Finance plc

Corporate Family Rating	Ba1
Senior Secured – Dom Curr	Ba3/ LGD5
Outlook	Stable

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Heathrow Finance plc

# Airports Commission recommendation for a new runway is a credit neutral for Heathrow Finance plc

On 1 July 2015, the Airports Commission published its final report, setting out its assessment of the options for expanding aviation capacity in the UK and recommending the construction of a new runway at Heathrow Airport as the proposal that “presents the strongest case and offers the greatest strategic and economic benefits”.

As anticipated in our report [“New runway will have mixed credit implications for London’s airports”](#) from December 2014, this recommendation is credit neutral for Heathrow Finance plc (rated Ba1 with a stable outlook).

On the one hand, a new runway would lift the capacity constraints that currently limit Heathrow’s ability to accommodate additional demand, allowing Heathrow to continue to operate as a hub airport and reinforcing Heathrow’s status as the main airport in London, the largest and most valuable aviation market in the world.

On the other hand, the delivery of the proposed scheme presents some challenges given its scale and complexity. The project includes the construction of a new runway, as well as the subsequent development of new terminal buildings at an estimated cost of GBP17.6 billion, which would lead to an increase in aeronautical charges of c. 33% in real terms from their current levels. In addition, the scheme includes some potentially challenging elements, such as placing a heavily used section of the M25 motorway into a tunnel under the new runway. 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 been able to implement higher increases to its aeronautical charges without noticeably affecting passenger throughput.

The Airports Commission’s recommendation includes a package of measures to address the environmental impacts of the new runway, such as a ban on all scheduled night flights, a commitment not to expand the airport further or a new aviation noise levy to fund an expanded programme of mitigation. The details of any final agreement on these planning conditions or other important matters, such as regulatory decisions with respect to the timing and the pace of increases in airport charges, will be critical to assess the final risk allocation and credit implications for Heathrow Finance plc.

The report published by the Airport Commission contains a clear recommendation in favour of expansion at Heathrow, but stresses that all shortlisted options, which included the

construction of a new runway at Gatwick airport, offered a credible option for expansion. As the recommendation is not binding in nature, the decision to proceed with this, or indeed another alternative, rests with the government and will need to be ratified by Parliament. The government's position is currently expected by the end of 2015, at which date more details on the timing and conditions attached to the development of the scheme may be known.

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## Moody's Related Research

### Sector In-Depth

[New runway will have mixed credit implications for London's airports \(1001651\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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