FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Aena at 'A-'; Outlook Stable

Thu 01 Jun, 2023 - 5:12 PM ET

Fitch Ratings - Milan - 01 Jun 2023: Fitch Ratings has affirmed the Spanish airport operator Aena S.M.E. S.A.'s (Aena) Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook and its Short-Term IDR at 'F2'.

RATING RATIONALE

The affirmation is mainly driven by traffic recovery during 2022 and so far in 2023 across its leisure-driven airport network and the returning strength of cash flow generation amid modest domestic investments and tight cost control.

However, Aena's operating environment is subject to political interference, medium-term challenges to the aviation industry and potential opportunistic M&As, which are being considered in our analysis. In particular, past political intervention, which unilaterally changed the contractual agreements between Aena and its retail tenants in 2021, casts uncertainty over the predictability of the Spanish legal and operating environment in which Aena operates.

Recent difficulties in the duty-free contract tender for the Madrid and Catalonian contract lots do not affect, in our view, Aena's credit profile since a prudent assumption of flat retail minimum annual guaranteed rents has been incorporated in our Fitch Rating Case (FRC) projections.

All of the above comfortably position Aena at the 'A-' rating with a projected 2.5x Fitch-adjusted net debt/EBITDA for 2023-2027.

KEY RATING DRIVERS

Volume Risk - 'High Midrange': Large, Diversified Airport Network

Aena is the largest airport operator in the world by number of passengers with a monopolistic position in Spain. The peak-to-trough decline was 11% during the financial crisis, driven by the collapse of domestic traffic, while the international arm was roughly stable. It is predominantly an origin-and-destination (O&D) network (90%) with strong exposure to leisure/family&friends (above 80%) and significant exposure to domestic passengers compared with peers' (36.1% as of 1Q23).

The network is well-diversified and includes two hub airports (Barcelona and Madrid; 42% of total network traffic in 2019), which connect Spain to a variety of international destinations. Aena's carrier profile is also diversified, including low-cost carriers and traditional full-service carriers. No single airline accounts for more than 20% of its passengers (as of 1Q23).

Revenue and Price Risk - 'Midrange': Protective Dual-Till, Political Interference

Aena's regulatory framework is a dual-till system based on its regulatory asset base (RAB). DORA 2, which covers 2022-2026, includes 0% real annual tariff growth on a maximum annual price per passenger basis. The new real pre-tax weighted average cost of capital (WACC) dropped to 6% from around 7%, reflecting low Spanish bond yields over the past five years.

Aena's moderate tariffs compared with European peers' combined with a commercial rebate programme based on volume targets, should continue to consolidate volumes, benefiting its price-sensitive customer base. However, 7th Final Provision of Act 13/2021 (DF7) adds some unpredictability to Spanish airports' legal and operating environment, which could affect Aena's future pricing power.

Infrastructure Dev. & Renewal - 'Stronger': Fairly New Assets, Significant Excess Capacity

Aena has considerable experience of managing its own asset base and has carried out significant works in recent years to maintain and improve its infrastructure. Short-and medium-term maintenance needs are well-defined at around EUR450 million per year. Aena has no flexibility to reduce it.

Capital investments are funded by internal cash flows and committed facilities. Spare capacity at the airports is currently significant, which Fitch expects to be sufficient until 2025. DORA 2 did not include any large expansion capex and this should help boost cash flows for the next four years.

Debt Structure - 'Midrange': Largely Amortising, Adequate Liquidity

Part of Aena's senior unsecured debt (around 60%) benefits from covenants on net debt-to-EBITDA and interest charge cover, as well as from other protective covenants (asset disposals, negative pledges). More than half of its debt is fully amortising. Around 80% is fixed-rate or hedged.

Aena's cash totaled EUR3.2 billion as of April 2023, comprising EUR1.5 billion available cash, a EUR0.8 million committed undrawn revolving credit facility, and an unutilized EUR0.9 billion European commercial paper. Further EUR0.7 billion committed credit lines from EIB and ICO are available. All this is adequate to cover 2023 and 2024 sizeable debt maturities of EUR2.6 billion (including EUR2 billion in 2024).

Financial Profile

Under the updated FRC, leverage is forecast to stabilise at 2.5x by 2027, with traffic recovering to 2019 level in 2023 and flattening in 2024, but excluding further M&A activity.

PEER GROUP

Aena's strategic importance, monopolistic position and lower leverage compared with that of Aeroporti di Roma S.p.A. (BBB-/Stable), Gatwick Funding Limited (BBB+/Negative) and Manchester Airports Group Funding PLC (BBB/Negative) justify its higher rating. This is despite Aena's higher historical traffic volatility and less creditor-protective debt features.

Aena's predominantly leisure and O&D traffic put the company ahead of other Fitch-rated EMEA airports in traffic recovery, resulting in credit metrics that are commensurate with its rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Traffic and cash flow below Fitch's expectations, leading to Fitch-projected net debt/adjusted EBITDA to rise substantially above 4.0x.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Positive rating action is unlikely until there is increased visibility of the legal proceedings related to the unconstitutionality of the DF7 and of any impact on the capital structure from potential M&A activity.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

TRANSACTION SUMMARY

Aena is a listed company registered in Spain that owns and operates 45 airports in Spain in addition to the concession to run Murcia Airport for 25 years (starting in 2018). Internationally, the company holds controlling stakes in Luton airport in the UK and in 17 airports in Brazil; Aena also has minority holdings in 12 airports in Mexico, two in Jamaica and two in Colombia.

Fitch assesses Aena as a government-related entity due to a controlling interest of 51% ownership by Enaire, a Spanish government-owned entity under the Ministry of Transport, Mobility and Urban Agenda, created to provide air transit services in Spain. We rate Aena on a standalone basis, uncapped by the Spanish sovereign (A-/Stable). In our view, the Spanish sovereign does not have full discretionary access to Aena's cash flows due to the presence of significant minority shareholders, strong lenders and moderate financial covenants.

CREDIT UPDATE

Traffic Back to "Normal"

In April 2023 traffic surpassed 2019 YTD level, almost two years ahead of Fitch's expectations.

New Accounting Treatment Improves Transparency

In 2022, Aena changed the accounting policy applied in recording the impact of reductions in minimum annual guaranteed rents, as a consequence of the DF7, and the agreements reached with its lessees. The new accounting treatment retroactively led to the restatement of the consolidated annual accounts for 2021, and in 2022 led to revenue that was higher by EUR310.4 million than the amount under the previous policy. The restatement has had no effect on the cash flow of Aena but improves the transparency of the accounts where P&L and cash flow now show a higher correlation.

Strong Retail Performance

Fixed and variable revenue invoiced and collected in 2022 have already matched 2019 figures and have increased revenues per passenger to EUR5 in 2022 from EUR4.5 in 2019. Duty free shops highlight an increase in average spending by the British passenger, which has exceeded 2019 levels, also due to the effect from the application of the duty-free tax regime after Brexit.

Additional Acquisition in Brazil

During 2H22, Aena won a concession to operate for 30 years 11 airports in Brazil, which totaled 26.8 million passengers in 2019. Aena injected EUR750 million to pay mandatory expenses and upfront fee to the Brazilian Aviation Authority. Expected capex will amount to around EUR1 billion. Full financial contribution will start from end-2023. Target financial estimates have been included into the new FRC.

FINANCIAL ANALYSIS

The FRC projects stable leverage for 2023-2027 of around 2.5x, assuming traffic to recover to 2019 levels in 2023 and flatten in 2024, almost stable aviation tariffs in nominal terms, and retail revenues per passenger growing at low single digits.

We expect medium-term EBITDA margin of about 52%-53% and annual average investments of around EUR900 million, including future expansion capex related to the international portfolio.

FRC assumes the current dividend policy (80% pay out of net income) to remain unchanged during our forecast horizon to 2027.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Aena S.M.E. S.A.	LT IDR A- Rating Outlook Stable Affirmed	A- Rating Outlook Stable
	ST IDR F2 Affirmed	F2

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Transportation Infrastructure Rating Criteria (pub. 16 May 2022) (including rating assumption sensitivity)

Infrastructure & Project Finance Rating Criteria (pub. 17 May 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

GIG InForM Model, v1.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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Endorsement Policy

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