



RATING ACTION COMMENTARY

Fitch Revises Aena's Outlook to Negative; Affirms at 'A'

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Fitch Ratings - Madrid - 28 Aug 2020: Fitch Ratings has revised the Outlook on Aena's Long-Term Issuer Default Rating (IDR) to Negative from Stable and affirmed the Long-Term IDR at 'A' and Short-Term IDR at 'F1'.

The Negative Outlook reflects the considerable uncertainty in traffic profile and recovery for 2H20 and beyond. Early signs for 3Q traffic indicate that there could be a delayed recovery compared with our previous assumptions. However, the timing and extent of the recovery remains uncertain. In particular, given the limited visibility around easing of government travel and quarantine restrictions, there is significant uncertainty around leisure travel in summer 2020 and the remainder of the year.

We currently assume the 2020 shock to be progressively recovered by 2024 or later but if the severity and duration of the outbreak is longer than expected we will revise the rating case accordingly.

RATING RATIONALE

The 'A' rating reflects Aena's large diversified network of airports with more than 90% origin & destination (O&D) traffic and low concentration of airlines. Pricing is regulated under a regulatory asset-based (RAB), dual till regime. Its debt is largely amortising and fixed-rate and its current financial profile is strong.

The outbreak of coronavirus and related government containment measures worldwide create an uncertain global environment for the airport sector. The most recently available issuer data show that Aena's traffic performance was materially affected by the outbreak. We also note that material changes in revenue and cost profile are occurring across the airport sector, which will continue to evolve as economic activity and government restrictions respond to the ongoing situation. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector as a result of the coronavirus outbreak for their severity and duration, and incorporate revised base and rating case qualitative and quantitative inputs based on expectations for future performance and assessment of key risks.

KEY RATING DRIVERS

Coronavirus and Travel Restrictions Affecting Demand

Aena's traffic remained resilient until mid-March, but the rapid spread of the coronavirus led to an unprecedented reduction in air traffic for Aena's airport network of around 66% in 1H20 compared with 1H19. During 1Q20 the decline was -20%. However, in the second quarter it was about -98% compared with the same period in the previous year given the measures taken by the governments to limit the spread of COVID-19. Since July 2020, traffic has started to pick up again, but remains about 80% below July 2019.

Defensive Measures Provide Flexibility

Aena is taking adaptive measures to adjust the capacity of its airports and implemented a cost-saving plan through renegotiation of service contracts, the elimination of certain variable costs and halting non-essential contracts. This plan resulted in cash flow savings of approximately EUR157 million in 2Q20. In addition, Aena has temporarily halted its investment programme with savings of EUR175

million during 2Q20. Dividends from 2019 results have also been cancelled and all M&A activity mothballed. Aena can also further reduce capex compared with our assumptions, providing additional flexibility.

Credit Metrics

Under the Fitch Rating Case (FRC), after the 2020 shock causes a peak in Aena's Fitch-adjusted net debt to EBITDAR of around 6.2x, leverage returns to below 4x in 2022 and remains under 4x for the remainder of the forecast period. However, further reductions in traffic beyond our assumptions could affect the expected evolution of Aena's leverage profile. We are closely monitoring developments in the sector as Aena's operating environment has substantially worsened and will revise the FRC in case the severity and duration of the pandemic is longer than expected.

Solid Liquidity

Aena has approximately EUR1,761 million of cash and EUR800 million undrawn revolving credit facilities available as of 15 August 2020. In addition, it has capacity to issue up to EUR900 million through its Euro Commercial Paper programme, of which EUR845 million is currently committed undrawn. We expect liquidity to be ample for the next two years.

Waiver Process

At 30 June, financial ratios were within the permitted range, although management expects a breach of the net financial debt/EBITDA default covenant at 31 December 2020. Aena plans to shortly start negotiations with financial institutions for the approval of a temporary waiver of the requirement to comply with these ratios.

Key Rating Drivers - Summary Assessments:

- Volume Risk: Midrange

- Price Risk: Midrange

- Infrastructure/Renewable Risk: Stronger

- Debt Structure: Midrange

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Clearer visibility on the evolution of traffic performance could lead to the revision of the Outlook to Stable.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Sustained traffic and cashflow underperformance beyond our expectations, leading to Fitch-projected net debt-to-adjusted EBITDA to rise above 4.0x on a sustained basis.

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 46 airports including five military air bases and two heliports in Spain. Internationally, the company holds participations in Luton airport in the UK (holdings increased to 51% in 2014) and in six airports in the North East of Brazil (concession awarded in March 2019), as well as minority holdings in 12 airports in Mexico, two in Jamaica and two in Colombia.

Aena has a large diversified network of airports with more than 90% O&D traffic and low concentration of airlines. Its pricing is regulated under a RAB, dual till regime.

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 continue to rate Aena on a standalone basis, uncapped by the Spanish sovereign (A-/Stable) as 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, among others.

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

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). 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 Negative	Affirmed	A Rating Outlook Stable
	ST IDR	F1	Affirmed	F1

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Government-Related Entities Rating Criteria \(pub. 13 Nov 2019\)](#)

[Short-Term Ratings Criteria \(pub. 06 Mar 2020\)](#)

[Infrastructure and Project Finance Rating Criteria \(pub. 24 Mar 2020\) \(including rating assumption sensitivity\)](#)

[Airports Rating Criteria \(pub. 24 Mar 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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