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Fitch Upgrades Aena to 'A'; Outlook Stable

Fitch Ratings - Madrid - 07 May 2024: Fitch Ratings has upgraded the Spanish airport operator Aena S.M.E. S.A.'s (Aena) Long-Term Issuer Default Rating (IDR) and its EMTN programme to 'A' from 'A-' and its Short-Term IDR to 'F1' from 'F2'. The Outlook is Stable.

RATING RATIONALE

The upgrade reflects Aena's ongoing and expected strong operating and financial performances in aviation and non-aviation, supporting a stabilisation of its leverage at around 2.5x under the Fitch rating case (FRC). In addition, potential financial liabilities related to the DF7 impact now look negligible and the remaining provision in Aena's financials is limited to less than EUR12 million.

We rate Aena on a standalone basis, as the Spanish sovereign does not have full discretionary access to Aena's cash flows due to the presence of significant minority shareholders and financial covenants in its debt structure. Aena's rating is capped at one notch above Spain sovereign's 'A-' given the recently-observed political interference in setting commercial rents.

KEY RATING DRIVERS

Large, Diversified Airport Network

Volume Risk - 'High Midrange'

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 (91%) with strong exposure to leisure/family & friends (around 80%) and significant exposure to domestic passengers compared with peers' (at around 33% for the last two years).

The network is well-diversified and includes two hub airports (Barcelona and Madrid; 43% of total network traffic in March 2024), 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 end-2023).

Protective Dual Till, Political Interference

Revenue and Price Risk - 'Midrange':

Aena's regulatory framework is a dual-till system based on its regulatory asset base (RAB). The current regulatory period (DORA 2), which covers 2022-2026, includes 0% real annual tariff growth on a maximum annual price per passenger (pax) basis. The 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 growth, should continue to strengthen volumes, benefiting its price-sensitive customer base.

Fairly New Assets; Excess Capacity

Infrastructure Dev. & Renewal - 'Stronger':

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 limited flexibility to reduce it. Capex is funded by internal cash flows and committed facilities. Spare capacity at the airports is currently sufficient to accommodate expected traffic during the next three years . DORA 2 did not include any large expansion capex, which has helped to increase Aena's cash flow.

Largely Amortising, Adequate Liquidity

Debt Structure - 'Midrange':

As at March 2024, around 60% of Aena's senior unsecured debt benefitted from covenants on net debt-to-EBITDA and interest charge cover, as well as from other protective covenants (asset disposals, negative pledges). Around 40% of its debt was fully amortising and 75% was fixed-rate or hedged. Aena's presence in the capital markets is gradually increasing and the group also benefits from well-established relationships with a diversified network of national and international banks.

Aena's cash totaled EUR5.3 billion as of March 2024, comprising EUR2.4 billion available cash, a EUR2.0 billion committed undrawn revolving credit facility, and an unutilised EUR0.9 billion European commercial paper. A further EUR0.7 billion committed credit lines from various lenders is available. All this is adequate for its debt maturities of EUR3.4 billion up to 2026.

Financial Profile

Under the updated FRC, leverage stabilises slightly above 2.0x, assuming traffic to grow 1% during 2025-2026, higher capex needs by 2027, and conservative operating assumptions.

PEER GROUP

Aena's strategic importance, monopolistic position and lower leverage than Gatwick Funding Limited's (BBB+/Stable) and Manchester Airports Group Funding PLC's (senior secured BBB+/Stable) justify its higher rating despite Aena's higher historical traffic volatility and fewer creditor-protective debt features.

RATING SENSITIVITIES

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

- Weak cash flow generation leading to Fitch-projected net debt/adjusted EBITDA to rise substantially above 3.5x

- Downgrade of Spain's sovereign ratings

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

- An upgrade of Spain's sovereign ratings provided that Fitch-projected net debt/adjusted EBITDA remains substantially below 2.5x

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 group 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 one 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 and Mobility, created to provide air transit services in Spain. We rate Aena on a standalone basis, as the Spanish sovereign does not have full discretionary access to Aena's cash flows due to the presence of significant minority shareholders and financial covenants in its debt structure.

CREDIT UPDATE

Aena's 2023 results were extremely robust and above our projections. Aeronautical revenue climbed to EUR2.8 billion, marking a 16.9% increase versus 2022, with an EBITDA of EUR1.4 billion (48.1% margin). Commercial revenue rose 24.7% to EUR1.5 billion with an EBITDA of EUR1.2 billion (79.6% margin). International activities generated revenue of EUR616.7 million, increasing 26.9% while EBITDA stood at EUR347.3 million, with a 56.3% margin. Group EBITDA for 2023 was EUR3.0 billion (up 45.4%) with a margin of 59%.

Aena's investments totaled EUR1.4 billion including EUR 621.1 million related to the mandatory payments for the Congonhas / BOAB concession in Brazil. Dividends to shareholders (to be distributed in 2024) have been set at EUR7.7 per share in line with Aena's dividend policy (80% of net income at the holding company level) for a total cash out of EUR1.1 billion.

Aena's net financial debt decreased to EUR5.7 billion, and net leverage to 2.1x in 2023 (3.0x in 2022), underscoring its robust cash generation and commitment to maintaining a strong capital structure. During 2023 Aena launched its inaugural EMTN programme and issued its first bond of EUR500 million with a coupon of 4.25% and maturing in October 2030.

Lastly, in March 2024, Aena's management updated its strategic plan 2022-2026 with new operating and financial targets on the back of the positive traffic and revenue performance observed up to 2023. According to its central scenario, traffic in Spain is now expected by management to grow around 4% in 2024 (294 million pax) to reach 310 million pax by 2026. By 2026, commercial and real estate revenues should be 48% above 2019's while EBITDA margin at the Spanish airport network should be around 59% (versus previous target of 55%). Aena's net debt/EBITDA is expected to be at around 2.0x by 2026 (excluding M&A, but including future dividend distributions).

FINANCIAL ANALYSIS

The FRC projects stable leverage for 2024-2028 of around 2x, assuming broadly flat traffic for 2024-2026, almost stable aviation tariffs in nominal terms, and retail revenues/pax growing at low single digits.

We expect medium-term EBITDA margin of 55%, and annual average investments of around EUR1 billion including potential M&As. The FRC maintains the current dividend policy of 80% of net income up to 2028.

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 is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Aena S.M.E. S.A.	LT IDR	A	Upgrade		A-
	ST IDR	F1	Upgrade		F2
• Aena S.M.E. S.A./Airport Revenues - Senior Unsecured Debt/ 1 LT	LT	A	Upgrade		A-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Government-Related Entities Rating Criteria (pub.12 Jan 2024)

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

Transportation Infrastructure Rating Criteria (pub.18 Dec 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

Solicitation Status

Endorsement Status

Aena S.M.E. S.A.	EU Issued, UK Endorsed

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