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LONDON (S&P Global Ratings) March 25, 2020--The airports sector in Europe is facing an unprecedented decline in air traffic as Europe has become the epicenter of the COVID-19 pandemic, and the governments have introduced travel restrictions and quarantine orders. In addition, S&P Global Ratings now expects a eurozone and global recession in 2020, which will likely slow the recovery in passenger traffic. We may revise down our forecasts further in the near term.

We acknowledge that there is high degree of uncertainty about the rate of the spread and peak of coronavirus outbreak. In our base case, we forecast that the number of passengers will fall by up to 35% compared with 2019. As a result, we expect European airports to have materially weaker cash flows and credit ratios. Based on what we are seeing in the peak weeks of the outbreak in China and in Aeroporti di Roma in the first week of March, we forecast an average 70% decline in traffic over three peak months with a modest recovery in late 2020. Even after the outbreak is contained, we expect global airports to see a slower resurgence in air traffic over the following 24 months (see "The Coronavirus Pandemic Could Reduce Global Air Passengers By Up To 30% In 2020," published March 17, 2020).

As a result, we are taking the following rating action:

- We are lowering by one notch the ratings on Avinor AS. The outlook on this rating is negative.

The rapid spread of COVID-19 in most European countries will significantly affect air traffic and airport performance in 2019. Most governments are rapidly escalating the measures they are imposing to contain the spread of the disease. We now expect year-on-year passenger air traffic through European airports to shrink by about 20%-35% in 2020. Median EBITDA generation for airports in Europe, the Middle East, and Africa (EMEA) in 2020 could decline by as much as 30% compared with 2019. For Gatwick Airport and ADP, we forecast EBITDA could fall by 20%-25%, but Avinor and daa could see a contraction of 50%, depending on the airports' commercial contracts with airlines and the flexibility of their cost bases.

Airlines are cancelling flights to high-risk countries, many European citizens are at or near lockdown, and the U.S. has imposed restrictions on anyone who has been in 28 European states in the prior 14-day period from entering the U.S. We expect the economic fallout, and our expectation of a global and eurozone recession in 2020, to mean the recovery in passenger traffic will be weaker, further eroding cash flows at rated airports in EMEA.

The airports' clients--airlines, retailers, hotels, and restaurants--are among the industries most affected by the spread of the new coronavirus. This lessens the protections normally available to airports in times of economic downturn. The airlines' financial difficulties have led the European Commission to suspend rules governing landing slots until Oct. 24, 2020. To avoid flying empty planes, airlines no longer need to use slots to retain them.

Although airports' contracts with their retail tenants include minimum revenue guarantees, we expect airports to adapt the payment conditions that apply to them, and cooperate with airlines and retail partners by relieving them of some of their contractual obligations. Retail revenue is directly correlated with the number of passengers and economic activity, so we predict it will also shrink.

Certain airports, such as ADP, Heathrow, and Schiphol, have previously benefitted from high-expenditure customers. For them, the fall in retail revenue could be more severe and result in 20%-35% decline in EBITDA. For now, we have not assumed a cut in their real estate revenue, which is mainly derived from renting office space. Much of this space is rented to larger clients and many governments have pledged significant extraordinary aid to struggling businesses. We will revisit these revenue streams if the companies renting the space start to defer or renegotiate their lease terms. For Zurich Airport and Schiphol, this is a significant revenue stream, comprising about 15%-20% of revenue per passenger.

The credit impact of the pandemic on airports is not uniform. It depends on the asset-specific features, the financial flexibility, liquidity cushion, and measures taken by each airport to mitigate passenger decline. Rating downgrades reflect operating and credit metrics that were already close to downgrade thresholds.

The negative outlook indicates a one-in-three possibility of a further downgrade over a longer period, depending on the depth and longevity of the pandemic, and the global and European recessions.

We expect airports to take measures to save costs, such as closing down terminals and piers, operating for fewer hours during the day, and cutting staff and maintenance expenditure. Staff expenses account for about 30%-50% of the cost base, the highest single operating cost. Historically, we have seen noncommitted capital expenditure being deferred, and dividends scaled down in periods of stress. Although investor-owned airports typically bear the full extent of traffic risk, air traffic controller NATS already has a mechanism to partly limit volume exposure in case of traffic drop.

At present, we don't anticipate that people's attitude to flying will undergo a secular change.

We plan to publish individual write-up for this company as soon as practical.

Related Criteria

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- Unrestrained Supply Swamps Oil Outlook: S&P Global Ratings Revises Oil & Gas Assumptions, March 9, 2020
- Global Credit Conditions: COVID-19's Darkening Shadow, March 3, 2020
- Coronavirus Is Unlikely To Bring European Airports To A Standstill, Unless It Spreads Further, Feb 11, 2020