S&P Global Ratings

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Rating Actions Taken On Seven European Airports Due To More Protracted Passenger Recovery

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European airports face a steeper and more protracted recovery in air passenger traffic due to harsher COVID-19 restrictions than we previously expected, leading us to anticipate a 55%-70% decline in 2020 versus 2019 levels--depending on individual government policies and airport characteristics--and a more gradual recovery to pre-COVID-19 levels in 2024.

Despite our estimate of about a €10 billion reduction in capital expenditure (capex) for rated European airports over 2020-2023, credit metrics will sharply weaken and in some cases decline to levels that are not commensurate with our current ratings.

We question airports' ability to increase charges due to airlines' weaker finances, and also do not currently expect state aid packages for most airports given their sufficient liquidity to absorb losses in the near term.

We have lowered by one notch our ratings on European airports Flughafen Zurich AG, daa PLC, Royal Schiphol Group N.V., and Avinor AS and are affirming the ratings on NATS (En Route) PLC, maintaining the CreditWatch negative on Aeroporti di Roma, and placing the debt issued by Gatwick Funding Ltd. on CreditWatch negative.

The negative outlook or CreditWatch on these aviation players indicates--in addition to some entity specific issues--uncertainty about the pace, extent, and timing of air travel recovery. The CreditWatch negative on Aeroporti di Roma reflects that on its parent company Atlantia SpA.

DUBLIN (S&P Global Ratings) July 14, 2020--S&P Global Ratings today took the below rating actions on seven European airports and associated companies due to a slower expected recovery in passenger traffic than we previously anticipated (see the ratings list for full details).

Ratings Lowered; CreditWatch/Outlook Revision

Flughafen Zurich AG--ratings to 'A+/Negative/--' from 'AA-/Watch Neg/--'
daa PLC--ratings to 'A-/Negative/A-2' from 'A/Watch Neg/A-1'
Royal Schiphol Group N.V. (Schiphol)--ratings to 'A/Negative/A-1' from 'A+/Watch Neg/A-1'
Avinor AS--ratings to 'A/Negative/A-1' from 'A+/Negative/A-1'

Ratings Affirmed; CreditWatch/Outlook Revision

NATS (En Route) PLC (NERL)--ratings affirmed at 'A+/Negative/--'
Gatwick Funding Ltd. (Gatwick)--'BBB' senior debt ratings placed on CreditWatch negative
Aeroporti di Roma SpA--CreditWatch negative maintained on 'BB+/B' ratings

The following is a summary of our rating actions:

We lowered the ratings and stand-alone credit profile (SACP) on Flughafen Zurich by one notch as we expect the airport could achieve, depending on pending regulatory decisions, ratios consistent with an 'a' SACP--weighted-average funds from operations (FFO) to debt of above 30%.
We lowered the rating and SACP on daa PLC by one notch since we expect the airport to operate with ratios consistent with a 'bbb+' SACP--weighted-average FFO to debt of above 13%.
We lowered the rating on Schiphol by one notch and the SACP by two notches, since we expect the airport to operate with ratios consistent with a 'bbb+' SACP--weighted-average FFO to debt of above 8%. The rating includes one notch of uplift for our revised view of a moderately high likelihood of state support.
We lowered the ratings and SACP on Avinor by one notch despite Norway's state aid package. We expect the group to operate with credit ratios consistent with a 'bbb-' SACP--weighted-average FFO to debt above 8%.
We affirmed the ratings on air traffic controller NERL since it benefits from regulatory protection for traffic deviations. The time lag for recovery creates uncertainty as to its ability to maintain ratios consistent with an 'a' SACP--weighted-average FFO to debt of above 18%.
The negative outlook on the above ratings reflects uncertainty about the pace, extent, and timing of the recovery in air travel.
We are maintaining the CreditWatch negative for our ratings on Aeroporti di Roma related to its parent Atlantia SpA's (BB-/Watch Neg/B) concession risk. We expect the airport to have, albeit with tight headroom, ratios consistent with an 'a-' SACP--weighted-average FFO to debt of above 20%.
We placed the ratings on Gatwick's debt on CreditWatch with negative implications due to the risk of a covenant breach and uncertainty related to the execution of cost savings, which could result in weighted-average FFO to debt below 8%.
S&P Global Ratings will be hosting a live webcast on these rating actions and our outlook for European airports on July 16, 2020 (9:00 am EDT; 2:00 pm BST; 3:00 pm CEST). For more details please visit: https://event.on24.com/wcc/r/2515282/ACD224C6E79515540E0F8609FE587168 (https://event.on24.com/wcc/r/2515282/ACD224C6E79515540E0F8609FE587168)

We believe European airports will see slower traffic recovery than counterparts in other parts of the world, such as North America or Australia/New Zealand, which benefit from a higher share of domestic traffic. This is due to the predominance of cross-border flights which--given European governments' diverse policies with regards to quarantines for arrivals, air travel safety, and social-distancing rules--make forward capacity schedules planning difficult for both airlines and airports. We have assessed European airports based on our current estimates for passenger recovery over the next three years, compared with traffic volumes in 2019. Our estimates for calendar 2020 and 2021 are relatively more conservative than our global base case, and aligned with our longer-term view of protracted recovery, possibly stretching through 2023 and 2024. Based on this we forecast:

Total traffic could drop 55%-70% in calendar 2020 and 25%-35% in calendar 2021, compared with 2019 levels. The associated hit to airports' passenger traffic this year depends on the severity of COVID-19-related travel restrictions, the nature of travel (domestic versus international; short-haul versus long-haul), reasons for travel (visiting family and friends, holidays versus business), and the economic environment in countries of operation.
That said, it is still too early to predict the pace, extent, and timing of recovery in travel patterns.
In the medium term, we could see swifter traffic recovery at hub airports such as Aeroports de Paris' (A/Negative/--) Charles de Gaulle, Amsterdam Schiphol, and London's Heathrow Airport compared with domestic and regional peers. This is because the hubs are gateways to their countries, offer more choice and connections, and have economies of scale. However, hubs will be disadvantaged in the short term due to their reliance on otherwise more profitable long-haul flights, which will recover more slowly than domestic and short-haul. Pent-up demand for visiting friends and relatives and leisure travel segments will kick start travel, while we expect business travel--partially replaced by virtual communication--to lag.

We forecast all revenue streams will suffer over the next two-to-three years. As airlines emerge from the pandemic with lower capacity and weaker financials, we expect airports to compete by offering discounts to secure aeronautical revenue and passenger footfall. Airports with lower charges stand a better chance of attracting more traffic as airlines consolidate operations. We are therefore skeptical whether regulated airports will receive otherwise expected tariff increases due to the lack of visibility on regulators' decisions and the compromised ability of airlines to pay double-digit charge increases. Tariff increases could be a potential upside, in particular for airports that are entitled to recover deviations in traffic via increased charges, such as Schiphol Airport and Aeroporti di Roma. More certain is the legal requirement for airlines to settle charges accrued, but not received, by monopoly air traffic controller NERL. That said, settlement could likely be staggered over a few years, rather than received in one year, with funding needs covered by NERL in the meantime. The outcome of the on-going regulatory reviews for NERL and Zurich Airport in the next couple of weeks will provide insight into setting regulatory charges to cover these entities' costs, and ensuring their access to financing, while taking into account the financial condition of airlines. Nonaeronautical income, which accounted for 40%-55% of European airports' total revenue in 2019, will also drop due to potential deferred lease payments, relief or pauses on tenancies, possible closure of some retail or food and beverage outlets, and lower consumer spending. Real estate portfolios, which are significant for Flughafen Zurich and Schiphol, could offer some stability if their tenants return to the office at full capacity. Concession revenue could return more quickly if real estate or shops are located at curbside rather than airside (widely accessible for nonpassengers).

As operating costs are largely fixed, airports' credit metrics over 2021 and 2022 depend on their flexibility and desire to reduce capex and distributions to manage cash burn and leverage. The sharp reduction in revenue, coupled with largely fixed operating costs, will result in a more significant squeeze on profitability levels and credit metrics than we anticipated early in the pandemic. For the majority of airports, EBITDA in 2020 will be negative or barely breakeven. However, we think traffic volumes this year are not representative of long-term trends. European airports are essential infrastructure assets with a strong market position and often regulated earnings. Therefore, in our ratio calculation, we look beyond short-term disruption and place more emphasis on 2021 and 2022. We estimate that rated European airports could reduce capex by about €10 billion over 2020-2023, which represents a more than 50% reduction on our forecast before COVID-19. That said, the ability to cancel or defer capital commitments varies by airport, with Gatwick and Aeroporti di Roma best positioned to scale down their plans. Heathrow has paused its work on capacity expansion, including a third runway, following the Supreme Court ruling on climate change grounds. Some airports might proceed with capacity expansion due to long lead times, albeit with more caution given short-term demand reductions, as is the case for Schiphol. The experience after the 2008-2009 global financial crisis showed that insufficient capacity could lead to congestion when traffic returns. Staff costs represent at least one-third of operating costs for rated airports but, outside of planning to fully utilize furlough schemes, room for additional cost savings is limited given the need to ensure safety and security, even with just repatriation and cargo flights. Although some airports are already acting to re-size their operations in anticipation of a "lower-for-longer" passenger traffic scenario, others are waiting for more certainty on the shape of recovery. For instance, daa PLC has announced a potential significant reduction in its 3,500 workforce.

State support is uncommon for large domestic gateways and international hubs, since they have sufficient liquidity to absorb near-term losses. We maintain our opinion that state-owned airports could potentially benefit from extraordinary state support. The Dutch government's track record of support for its holdings and focus on preserving their credit quality has led us to revise our assessment of the degree of extraordinary state support for Schiphol. So far, direct state aid is not forthcoming to large players beyond governments cancelling dividends, making use of furlough schemes for airport staff, or deferring payments to state institutions (such as business rates). The notable exception is Avinor, which has been approved for Norwegian krone 4.3 billion (about €400 million) of grants from the Norwegian government to support its liquidity needs. Indirectly, however, airports have benefited from state aid packages made available to their flagship airlines, ensuring the continuation of their operations after the crisis. One credit strength for European airports is their robust liquidity positions, having been able to bolster liquidity and access capital markets right through the pandemic. All airports have at least adequate liquidity over the next 12 months. We have revised our liquidity assessment for Schiphol to adequate from strong due to maturities concentration in the next 12 months, and for NERL due to significant cash flow swings as airlines postpone payments. We will monitor the consequences of covenant breaches but we expect investors will take a constructive and supportive approach to temporary relief amid the pandemic.

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic. The consensus among health experts is that the pandemic may now be at, or near, its peak in some regions, but will remain a threat until a vaccine or effective treatment is widely available, which may not occur until second-half 2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Related Criteria

General Criteria: Group Rating Methodology (/en_US/web/guest/article/-/view/sourceId/10999747), July 1, 2019
Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments (/en_US/web/guest/article/-/view/sourceId/10906146), April 1, 2019
Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings (/en_US/web/guest/article/-/view/sourceId/10486915), March 28, 2018
General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en_US/web/guest/article/-/view/sourceId/10011703), April 7, 2017
Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers (/en_US/web/guest/article/-/view/sourceId/9831306), Dec. 7, 2016
General Criteria: Guarantee Criteria (/en_US/web/guest/article/-/view/sourceId/9779138), Oct. 21, 2016
Criteria | Corporates | Utilities: Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses (/en_US/web/guest/article/-/view/sourceId/9376475), Feb. 24, 2016
Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments (/en_US/web/guest/article/-/view/sourceId/9478732), Jan. 20, 2016
General Criteria: Rating Government-Related Entities: Methodology And Assumptions (/en_US/web/guest/article/-/view/sourceId/9032821), March 25, 2015
Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers (/en_US/web/guest/article/-/view/sourceId/8956570), Dec. 16, 2014
Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities (/en_US/web/guest/article/-/view/sourceId/8569927), April 29, 2014
General Criteria: Methodology: Industry Risk (/en_US/web/guest/article/-/view/sourceId/8304862), Nov. 19, 2013
General Criteria: Country Risk Assessment Methodology And Assumptions (/en_US/web/guest/article/-/view/sourceId/8313032), Nov. 19, 2013
Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry (/en_US/web/guest/article/-/view/sourceId/8284110), Nov. 19, 2013
Criteria | Corporates | General: Corporate Methodology (/en_US/web/guest/article/-/view/sourceId/8314109), Nov. 19, 2013
General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities (/en_US/web/guest/article/-/view/sourceId/7629699), Nov. 13, 2012
General Criteria: Principles Of Credit Ratings (/en_US/web/guest/article/-/view/sourceId/6485398), Feb. 16, 2011
General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating (/en_US/web/guest/article/-/view/sourceId/6219375), Oct. 1, 2010
General Criteria: Use Of CreditWatch And Outlooks (/en_US/web/guest/article/-/view/sourceId/5612636), Sept. 14, 2009

Ratings List

* * * * * * * * * * * * * * * * Atlantia SpA * * * * * * * * * * * * * * *

Ratings Affirmed

Aeroporti di Roma SpA

Issuer Credit Rating	BB+/Watch Neg/B
Senior Unsecured	BB+/Watch Neg
Recovery Rating	3(65%)

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Downgraded; Ratings Affirmed

	To	From
Avinor AS		
Issuer Credit Rating	A/Negative/A-1	A+/Negative/A-1
Senior Unsecured	A	A+

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Downgraded; CreditWatch/Outlook Action

	To	From
Flughafen Zurich AG		
Issuer Credit Rating	A+/Negative/--	AA-/Watch Neg/--
Senior Unsecured	A+	AA-/Watch Neg

* * * * * * * * * * * * * * Gatwick Airport Ltd. * * * * * * * * * * * * *

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Gatwick Funding Ltd.		
Senior Secured	BBB/Watch Neg	BBB

* * * * * * * * * * * * * * NATS (En Route) PLC * * * * * * * * * * * * *

Ratings Affirmed

NATS (En Route) PLC	
Issuer Credit Rating	A+/Negative/--
Senior Secured	A+
Senior Secured	AA

* * * * * * * * * * * * Royal Schiphol Group N.V. * * * * * * * * * * * *

Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Royal Schiphol Group N.V.		
Schiphol Nederland B.V.		
Issuer Credit Rating	A/Negative/A-1	A+/Watch Neg/A-1

Downgraded; CreditWatch Action

	To	From
Royal Schiphol Group N.V.		
Senior Unsecured	A	A+/Watch Neg
Schiphol Nederland B.V.		
Senior Unsecured	A	A+/Watch Neg

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Downgraded; CreditWatch/Outlook Action

	To	From
daa PLC		
Issuer Credit Rating	A-/Negative/A-2	A/Watch Neg/A-1
Senior Unsecured	A-	A/Watch Neg
daa Finance PLC		
Senior Unsecured	A-	A/Watch Neg

Ratings Affirmed

daa Finance PLC	
Senior Unsecured	A-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Regulatory Disclosures For Each Credit Rating Including Ratings List Table
(/en_US/web/guest/article/-/view/sourceId/100045045?pu=true)
Disclosures include requirements relating to press releases or reports published in accordance with Article 10 (1), 10(2), and 10(5), and Annex I, Section D, I, 1, 2, 2a, 4, and 5. These requirements are available by rating via the link titled "Regulatory Disclosure" and include, but are not limited to:

Key Elements Underlying The Credit Rating
ESG Credit Factors
Solicited Or Unsolicited Status
Analysts Primarily Responsible For The Credit Rating
Office Responsible For The Credit Rating
Materials Used In The Credit Rating Process
Criteria Applied
Models Applied, Loss, And Cash Flow Analysis Performed
Scenario Analysis
Sensitivity Analysis
Risk Warning, Understanding Credit Rating Categorizations, And Criteria
Rated Entity Notification
Ancillary And Additional Services
Attributes And Limitations Of The Credit Rating
Information Specific To Structured Finance And Securitization Instruments

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