FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Aena at 'A'; Outlook Negative

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Fitch Ratings - Madrid - 24 Mar 2021: Fitch Ratings has affirmed Spanish airport operator Aena S.M.E S.A.'s Long-Term Issuer Default Rating (IDR) at 'A' with a Negative Outlook and Short-Term IDR at 'F1'

RATING RATIONALE

The Negative Outlook reflects the limited visibility of Aena's traffic profile and recovery and operating environment for 2021 and beyond. Fitch assumes the 2020 traffic shock to be progressively recovered by 2025 but if the severity and duration of the pandemic are longer than expected, we will revise the rating case accordingly.

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 under a regulatory asset-based (RAB), dual till regime. Debt is largely amortising and we expect leverage to reduce gradually to within our rating sensitivity by 2023 as traffic recovers.

Aena's liquidity position is comfortable throughout 2021 and it has some financial flexibility to help offset the expected short-term revenue shortfall.

Visibility of the medium-term evolution of the company's capital structure is also limited following government approval for more M&A activity. However, under Fitch's Rating Case

(FRC), Aena will have leverage headroom from 2023 when traffic recovers, with net leverage remaining below 4.0x.

KEY RATING DRIVERS

Volume Risk - Midrange: Large, Diversified Airports Network

The coronavirus pandemic has led to an unprecedented impact on travellers' mobility with a 72% contraction of passenger numbers in 2020. Under the FRC, we assume traffic will remain be around -59% in 2021 and -25% in 2022 versus the 2019 base line, before gradually recovering by 2025.

Aena is the largest airport operator in the world by number of passengers. The peak-to-trough decline was 11% during the financial crisis. It is predominantly an O&D network, with more than 90% of O&D passengers largely leisure and with a higher weight of international traffic in a normal year.

The network includes two hub airports, Barcelona and Madrid, which connect Spain to a variety of international destinations including Latin American and European routes. Aena's carrier profile is diversified between low-cost carriers (around 56% of passengers) and traditional full-service carriers, with no single airline group accounting for more than 18% of passengers.

Price Risk - Midrange: RAB, Dual Till Regime

The regulatory framework has moved to a dual till system based on Aena's RAB. In January 2017, the Spanish Council of Ministers approved the Airport Regulation Document (DORA) for 2017-2021, including 2.2% annual price reductions on a maximum annual price per passenger basis (IMAP). The moderate tariffs compared with European peers could support future volumes due to a more price-sensitive customer base. Cost recovery under the tariff system is limited to within each regulatory period.

Aena has already submitted its proposal for the next regulatory period 2022-2026 to the Directorate General for Civil Aviation and is waiting for the final resolution, to be published by 3Q21.

Infrastructure Development and Renewal - Stronger: Relatively 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. It completed a significant capacity expansion and facilities upgrade programme, spending EUR 12.5billion between 2005 and 2015 (over EUR1.1 billion on average per year).

In general, short-and medium-term maintenance needs are well-defined. Most of the capex programme relates to the regulated business and Aena has limited flexibility to reduce it if needed. Capital investments are funded by internal cash flows and committed facilities. Capacity at the airports is currently significant. Given the big drop in traffic, Fitch expects capacity to be sufficient until 2025.

Debt Structure - Midrange: Mostly Amortising, Substantially Fixed-Rate Debt

Aena's senior unsecured debt benefits from a covenant package based on net debt-to-EBITDA and interest charge cover, as well as other protective covenants (asset disposals, negative pledges). Most of the debt is fully amortising, except for a EUR450 million bullet tranche maturing in 2022 and the recently issued EUR1.5 million bullet debt to secure liquidity, exposing the group to some refinancing risk. We expect Aena to continue issuing additional debt as needed to fund capex and M&A plans.

We believe that Aena's current cash position of EUR 1.141 million end 2020, EUR800 million available revolving credit facilities and EUR845 million available in European Commercial Paper, as well as access to banks mitigates refinancing risk, supporting the 'F1' Short-Term IDR.

Financial Profile

Under the FRC, leverage remains elevated around 8.5x in 2021, before progressively easing in 2022 to within our current rating sensitivity of 4.0x in 2023, indicating only a temporary impairment of the credit profile.

PEER GROUP

Aena's lower leverage, larger scale and lower airline concentration compared with Aeroporti di Roma (BBB-/Rating Watch Evolving), Gatwick Funding Limited (BBB+/Negative) and Manchester Airports Group Funding PLC (BBB+/Negative) justify the higher rating, despite Aena's higher historical traffic volatility and less economically resilient catchment area.

Heathrow Funding Limited's established regulatory framework and proven traffic resilience, but higher leverage position its senior notes (A+/Negative) one notch above Aena's debt.

RATING SENSITIVITIES

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

Greater visibility on the evolution of the operating environment and medium-term traffic path, leading to a quicker-than-expected recovery of the leverage metrics to levels stronger than outlined in the negative sensitivities below would allow us to revise the Outlook to Stable.

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

Sustained traffic and cash flow underperformance beyond our expectations, leading to Fitch projected net debt-to-adjusted EBITDA rising above 4.0x by the end of 2023.

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 including five military air bases and two heliports in Spain and has one concession. Internationally, the company holds participations in Luton airport in the UK (holdings increased to 51% in 2014) and in six airports in north-east Brazil, 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). 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.

CREDIT UPDATE

Operational Update

Traffic at Aena was down 72% in 2020 compared with 2019 due to the coronavirus pandemic and restrictions on mobility. Reported EBITDA fell 74% to EUR714.6 million. The total reported loss for the period was EUR126.8 million despite significant cost reductions (21%). Capex was halted during lock-down, with a total reduction in average cash outflows of overEUR52 million.

Covenants:

On 1 December 2020, Aena obtained temporary waivers that will be in place until at least June 2022.

Luton (51% share owned by Aena) also breached covenants in June 2020 and obtained waivers until December 2020. It is in discussions to extend the waivers until December 2021. Shareholders (Aena and AMP Capital) have put a EUR55 million liquidity facility in place to support the process. Fitch does not envisage further financial support from Aena.

Regulatory Period DORA II (2022-2026)

Aena has carried out the consultation process with airlines and submitted its final proposal to the Comisión Nacional de los Mercados y la Competencia (CNMC). Deadline for approval of the proposal by the Council of Ministers is 30 September 2021.

Aena is proposing an IMAP of 0.5% yoy growth in 2022-2025 and 3.29% in 2026 and capex of about EUR450 million per year.

Minimum Annual Guaranteed Revenues Update

Following Royal Decree-Law 35/2020 coming into force to support commercial business, Aena has proposed applying certain discounts to the contractual 2020 minimum annual guaranteed revenues (MAGR). Aena's proposed discounts exceed the discounts established by the law. However, five big commercial operators, representing about 85% of the total contractual MAGR, are legally challenging the proposed discounts. There is no clarity on the timing or amounts Aena may recover. Fitch has taken the most conservative view of deducting the challenged amounts from the reported revenue.

FINANCIAL ANALYSIS

Fitch Cases

Under the FRC, we assume traffic to remain at around 59% in 2021 and 25% in 2022 versus the 2019 base line, respectively, before gradually recovering by 2025. In addition, we assume a flat average tariff charged to airlines (aero yield) in 2021 and a tariff in the next DORA II of -1.5% yoy (vs -2.2% in DORA I). We also expect reduced retail and commercial revenue, reflecting the lower passenger numbers as well as uncertainty in respect to consumer behaviour and measures related to the coronavirus over the coming years. We assume MAGR in 2020 in line with Aena's proposed reductions. In 2021 and 2022, we assume MAGR reductions of -65% and -25%, respectively, more aligned with traffic recovery.

We expect moderate increases in opex from a much-reduced level as cost-cutting measures have been broadly applied in response to the pandemic. Opex remains below 2019 levels until 2023. We assume regulated capex in DORA II of around EUR450 million per year.

Feedback

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 Negative	Affirmed	A Rating Outlook Negative
	ST IDR	F1	Affirmed	F1

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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

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

Airports Rating Criteria (pub. 22 Oct 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

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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

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Infrastructure and Project Finance   Europe   Spain