MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Aena´s rating; outlook remains negative

24 Jun 2020

Madrid, June 24, 2020 -- Moody's Investors Service, ("Moody's") has today affirmed the A3 long-term issuer rating of Aena S.M.E., S.A. (Aena). The outlook remains negative.

RATINGS RATIONALE

The affirmation of the A3 long-term issuer rating reflects Moody´s expectations that despite the company´s increased debt levels, driven by an extended duration and severity of the coronavirus outbreak, Aena will continue to exhibit strong financial metrics through at least 2022 and 2023 and its rating will remain commensurate with a low A-rating. The negative outlook continues to reflect the risks around the uncertainties of the traffic rebound and the residual risks around a possible breach of financial covenants under its financial documentation, which, nonetheless, Moody´s expects to be promptly addressed by the management, if needed.

Moody´s regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices, and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The airport sector has been one of the sectors most significantly affected by the shock given its sensitivity to consumer demand and sentiment. More specifically, the weaknesses in Aena´s credit profile, including its exposure to travel restrictions and sensitivity to consumer demand, have left it vulnerable to shifts in market sentiment in these unprecedented operating conditions and Aena remains vulnerable to the outbreak continuing to spread.

Aena has been materially impacted by the coronavirus outbreak since mid-March 2020 when a number of countries, including Spain, started to implement travel restrictions and confinement measures. As a result, the airports in the company´s network experienced a monthly traffic decline of 99% in April and May, compared to the previous year, which severely hit aeronautical and commercial revenues.

Moody´s current base case scenario is that the airport sector will remain deeply constrained in 2020 and 2021 and will not recover 2019 passenger volumes until 2023, at the earliest. The rating agency´s updated forecasts for Aena assume a more than 50% reduction in passenger traffic for the calendar year 2020, with 2023 passenger volumes to recover to about 95% of 2019 levels. Previously, in March 2020, Moody´s had assumed the decline in Aena´s passenger traffic to be at least 30% in 2020 and a recovery phased over a shorter period of time. The revised traffic expectations for the company are broadly in line with other rated European airports and positively consider the high proportion of short-haul and leisure traffic across its network which is anticipated to represent the greater portion of travelers through the demand recovery period.

In response to the crisis, Aena has secured substantial levels of liquidity and has also reduced its costs and cash outflows. Starting from late March, the company has adopted a series of cost-cutting initiatives which include the reorganization of its airports facilities, the elimination of non-essential expenses and a temporary reduction in its investment programme. These measures led to a monthly reduction in average cash outflow estimated at around €100 million. However, given Aena´s largely fixed cost base, these will be not sufficient to fully offset the severe revenue drop on cash flow.

Notwithstanding an expectations of significantly reduced cash flow over the next twelve to eighteen months, Aena will continue to exhibit strong financial metrics and remains a key contributor to the economic, social and territorial cohesion of Spain. Airport infrastructure is considered a strategic sector by the Spanish government and the company has the potential for a strong recovery once the coronavirus outbreak and its effects have been fully contained.

Aena's A3 long-term issuer rating reflects a view of its standalone credit quality expressed as an a3 baseline credit assessment (BCA and the company´s rating is maintained at one notch above the sovereign bond rating of Spain (Baa1 stable). Although Moody´s categorises Aena as a Government-Related Issuer, with High dependency and Moderate support scores, the agency does not assign any rating uplift for the possibility of extraordinary government support, given the company's rating is already positioned above the rating of the government of Spain.

More generally, Aena´s long-term issuer rating continues to reflect (1) its very strong market position as the owner and operator of a network of airports serving the entire needs of Spain; (2) a balanced regulatory settlement; (3) a diversified carrier base with a high proportion of origin and destination traffic and international passengers; (4) its well invested airports, with sufficient spare capacity; (5) its competitive aviation charges coupled with high EBITDA margins reflecting an efficiently run company and (6) a very strong financial profile.

LIQUIDITY AND DEBT COVENANTS

Aena's liquidity position was very good prior to the coronavirus outbreak. However, material traffic reduction as a result of interruption of flight activity resulted in significantly lower cash flows. In response to this, through the second quarter of 2020 the company signed new loans with various financial institution for a total estimated amount of €2.4 billion. As of end of May 2020, Moody´s estimates that the company´s sources of committed liquidity include (1) cash and equivalents of around €2.3 billion, and (2) a revolving credit facility in an amount of €800 million, currently undrawn, due in 2025. In addition to this liquidity, the company also has capacity to issue up to €900 million under its uncommitted Euro Commercial Paper (ECP) programme, of which €525 million were available at the end of May. The group has debt maturities of around €630 million in 2020 and €1.0 billion in 2021. Moody's expects that AENA will continue to have good liquidity for at least the next 12 months.

Given revised traffic assumptions, Moody´s expects Aena´s ratios to deteriorate, thus eroding the headroom under the financial covenants included in its debt documentation. Aena´s debt documentation includes two financial covenants - a Net financial Debt/EBITDA of 7.0x and an EBITDA/financial expenses ratio of 3.0x tested as of end-June and end-December on a historical basis. Depending on the actual traffic recovery in the second half of 2020, Moody´s considers that there is a probability of Aena breaching its financial covenants at 2020 year-end, nonetheless, expects Aena´s management to take prompt actions, if needed, in order to avoid debt acceleration.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

WHAT COULD CHANGE THE RATING UP

The outlook on the rating could be stabilized if, following the lifting of border and travel restrictions and a return to normal traffic performance, Aena's financial profile and key credit metrics improve to levels commensurate with the current rating while the company continues to exhibits a good liquidity profile and the management is able to successfully address the risks of potential covenant breaches.

As stated in its previous publications, Moody's does not think Aena can be rated more than one notch higher than the rating of the government of Spain.

WHAT COULD CHANGE THE RATING DOWN

Downward pressure on Aena´s rating could develop if (1) the company´s FFO/debt ratio were to decline to the mid-teens in percentage terms on a sustained basis; (2) its liquidity position materially deteriorates; (3) there was an increased risk of covenant breaches not addressed in a timely manner by the company; (4) it appeared likely that the coronavirus outbreak had a detrimental impact on passenger volumes beyond Moody´s current expectations; or (5) there was a deterioration in the Spanish sovereign creditworthiness.

PRINCIPAL METHODOLOGIES

The methodologies used in this rating were Privately Managed Airports and Related Issuers published in September 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1092224, and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

CORPORATE PROFILE

Aena is the largest airport operator group in the world by number of passengers by virtue of its control of most airport facilities in Spain. Aena operates 46 airports and 2 heliports in Spain, which together handled 275.2

million passengers in the 12 months to December 2019. Through its subsidiary Aena Internacional, Aena has a controlling stake in the company holding the concession rights for the operation of London Luton airport, the fourth largest airport serving the UK capital. The group´s scope of consolidation also includes six airports in the North East of Brazil, for which Aena was awarded the concession in March 2019. Lastly, Aena holds equity stakes in companies operating airports in Mexico, Jamaica and Colombia. Aena is majority owned (51%) by the government of Spain.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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