

# Negative Rating Actions Taken On European Airports Due To COVID-19 Restrictions

March 26, 2020

DUBLIN (S&P Global Ratings) March 26, 2020--The airport sector in Europe is facing an unprecedented plunge 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 U.K. recession in 2020, which will likely slow the recovery in passenger traffic (see "COVID-19: The Steepening Cost To The Eurozone And U.K. Economies," published on March 26, 2020). As a result, we expect European airports to have materially weaker cash flows and credit ratios, while suffering from a highly uncertain business environment with an uncertain and more prolonged recovery than seen in the past.

We acknowledge that there is high degree of uncertainty about the rate of the spread and peak of coronavirus outbreak. Under our current base case, we forecast that the number of passengers for European airports could fall by up to 35% compared with 2019. This takes into account an average drop of at least 70% decline in traffic over three peak months (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 assume continued severe disruption in the next three months, with a recovery starting from the fourth quarter. 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 the situation evolves, we may update our assumptions and estimates accordingly.

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

- We are lowering by one notch the ratings on Heathrow Funding Ltd., Gatwick Funding Ltd., and Avinor AS. The outlooks on these ratings are negative.
- We are placing the ratings on Flughafen Zurich AG, Royal Schiphol Group N.V., and daa PLC on CreditWatch with negative implications.
- We are affirming the ratings on Aeroporti di Roma SpA and regulated air traffic controller NATS (En Route) PLC. Aeroporti di Roma's stand-alone credit profile (SACP) is being lowered by two notches.

We recently lowered our ratings on Aeroports de Paris (see "Aeroports de Paris Downgraded To 'A' On Traffic Drop Amid COVID-19; Outlook Negative," published March 25, 2020).

The rapid spread of COVID-19 in most European countries will significantly affect air traffic and airport performance in 2020. Most governments are rapidly escalating the measures they are imposing to contain the spread of the disease. In our current base case, we assume year-on-year passenger air traffic through European airports will fall by up to 35% in 2020 and 25% on average,

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compared with 2019. On this basis, EBITDA generation for airports in Europe could decline by 30% on average or more over this period. For Gatwick Airport, we forecast EBITDA could fall by about 20%, but Avinor and daa could see a contraction of 50%, depending on the airports' revenue mix 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 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 retail 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. These airports had limited financial headroom because they had made large investments or international acquisitions, or because of Brexit contingencies or relatively harsh regulatory decisions on allowed returns.

The negative outlooks indicate 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. CreditWatch placements indicate a one-in-two chance of a downgrade over a shorter timeframe--in these cases, the risks to our forecasts are firmly to the downside. For example, closing borders between European countries might mean closing airports or limiting flights to rescue and return operations for a time.

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.

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We plan to publish individual write-ups for many of these companies as soon as practical.

### Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Utilities: Rating Structurally Enhanced Debt Issued By Regulated Utilities And Transportation Infrastructure Businesses, Feb. 24, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- Aeroports de Paris Downgraded To 'A' On Traffic Drop Amid COVID-19; Outlook Negative, March 25, 2020
- The Coronavirus Pandemic Could Reduce Global Air Passengers By Up To 30% In 2020, March 17, 2020
- Coronavirus' Global Spread Poses More Serious Challenges For Airlines, March 12, 2020

## Negative Rating Actions Taken On European Airports Due To COVID-19 Restrictions

- Coronavirus Impact: Key Takeaways From Our Articles, March 11, 2020
- 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

## Ratings List

### \*\*\*\*\* Aeroporti de Roma SpA \*\*\*\*\*

#### Ratings Affirmed

#### Aeroporti di Roma SpA

Issuer Credit Rating	BB+/Watch Neg/B	
<b>Aeroporti di Roma SpA</b>		
Senior Unsecured	BB+/Watch Neg	
Recovery Rating	3(65%)	
	<b>To</b>	<b>From</b>

### \*\*\*\*\* Avinor AS \*\*\*\*\*

#### Downgraded; Outlook Action

	<b>To</b>	<b>From</b>
<b>Avinor AS</b>		
Issuer Credit Rating	A+/Negative/A-1	AA-/Stable/A-1+
Senior Unsecured	A+	AA-
	<b>To</b>	<b>From</b>

### \*\*\*\*\* Flughafen Zurich AG \*\*\*\*\*

#### Ratings Affirmed; CreditWatch Action

	<b>To</b>	<b>From</b>
<b>Flughafen Zurich AG</b>		
Issuer Credit Rating	AA-/Watch Neg/--	AA-/Stable/--
Senior Unsecured	AA-/Watch Neg	AA-

### \*\*\*\*\* Gatwick Airport Ltd. \*\*\*\*\*

#### Downgraded

	<b>To</b>	<b>From</b>
<b>Gatwick Funding Ltd.</b>		
Senior Secured	BBB/Negative	BBB+/Negative

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\*\*\*\*\* Heathrow (SP) Ltd. \*\*\*\*\*

<b>Downgraded</b>		
	<b>To</b>	<b>From</b>
<b>Heathrow Funding Ltd.</b>		
Senior Secured	BBB-/Negative	BBB/Negative
Senior Secured	BBB+/Negative	A-/Negative

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

<b>Ratings Affirmed</b>		
<b>NATS (En Route) PLC</b>		
Issuer Credit Rating	A+/Negative/--	
<b>NATS (En Route) PLC</b>		
Senior Secured	A+	
Senior Secured	AA/Stable	

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

<b>Ratings Affirmed; CreditWatch Action</b>		
	<b>To</b>	<b>From</b>
<b>Royal Schiphol Group N.V.</b>		
<b>Schiphol Nederland B.V.</b>		
Issuer Credit Rating	A+/Watch Neg/A-1	A+/Stable/A-1
<b>Royal Schiphol Group N.V.</b>		
Senior Unsecured	A+/Watch Neg	A+
<b>Schiphol Nederland B.V.</b>		
Senior Unsecured	A+/Watch Neg	A+

\*\*\*\*\* daa PLC \*\*\*\*\*

<b>Ratings Affirmed; CreditWatch Action</b>		
	<b>To</b>	<b>From</b>
<b>daa PLC</b>		
Issuer Credit Rating	A/Watch Neg/A-1	A/Stable/A-1
Senior Unsecured	A/Watch Neg	A
<b>daa Finance PLC</b>		
Senior Unsecured	A/Watch Neg	A

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