

Research Update:

Irish Airport Operator daa PLC 'A' Rating Placed On CreditWatch Negative Amid COVID-19 Restrictions

March 31, 2020

Rating Action Overview

- The airport sector in Europe is facing an unprecedented decline in air traffic amid the COVID-19 pandemic, which has led governments to introduce travel restrictions and quarantine orders. S&P Global Ratings' current base case is a 25% decrease in passenger traffic for 2020.
- We now also anticipate a eurozone and U.K. recession in 2020. This would hamper passenger traffic recovery, leading to materially weaker cash flows and credit ratios for European airports than we had previously expected.
- As we announced on March 26, 2020, we are placing our 'A' long-term issuer credit rating on daa PLC on CreditWatch with negative implications.
- The CreditWatch placement indicates a one-in-two chance that we could lower our rating on daa if we expected the COVID-19 pandemic to lead to a more severe drop in traffic, or the recessionary macroeconomic backdrop to be harsher or more prolonged, resulting in daa's weighted average funds from operations (FFO)-to-debt ratio falling below 20%. We expect to resolve the CreditWatch within the coming weeks.

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Rating Action Rationale

We placed our rating on daa on CreditWatch with negative implications because, in our view, the impact of COVID-19-related traffic disruption is unprecedented in scale and beyond the management's control. During the entire regulatory period of 2020-2024, the company may be unable to maintain S&P Global Ratings-adjusted funds from operations (FFO) to debt above 20%, which is the level we see as commensurate with its 'a-' stand-alone credit profile (SACP).

We expect FFO to debt in fiscal year (FY) ending Dec. 31, 2020 of 21.5%, down from 58.8% in 2019, and weighted average over 2022-2023 of 22.5%. In our view, EBITDA will likely decline by about 50% in 2020, compared with our pre-COVID-19 expectations, factoring in limited scope for cost savings and lower dividends from equity investee companies. We anticipate deferral of all not-yet-committed capital expenditure (capex), and no dividend payments in 2020-2023.

We expect daa to maintain strong liquidity, which in the 12 months to Dec. 31, 2021, will include cash flow from operations of about €150 million-€170 million; surplus cash and liquid

investments of about €330 million; a €350 million loan from the European Investment Bank (EIB), which can be drawn down up to June 2022; and a €450 million revolving credit facility maturing in March 2025. This will exceed daa's needs by more than 1.5x, including €46 million debt maturities and about €170 million-€180 million capex, even if forecast EBITDA declines by 30%. In our view, management exercises prudent risk management, and has ensured that the company will maintain strong liquidity, in particular ahead of construction of the North Runway. daa has a high standing in the credit markets, and its debt documents contain very limited clauses and covenant requirements, which include a change of ownership clause.

CreditWatch

We see a one-in-two chance that we could lower the SACP to 'bbb+' from 'a-', and the issuer credit rating to 'A-' from 'A' in the next weeks, if we expected daa's weighted average adjusted FFO-to-debt ratio to fall below 20%. This could happen in the event of COVID-19 not being contained (or at least neutralized), resulting in even more significant air movement restrictions in Europe and potential closing of airports; if the recessionary macroeconomic backdrop is harsher or more prolonged; or if Brexit-related uncertainties affect overall mobility and retail spending patterns at the airports.

Ratings Score Snapshot

Issuer Credit Rating: A/Watch Neg/A-1

Business risk: Strong

- Country risk: Low Risk
- Industry risk: Low Risk
- Competitive position: Strong

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: a

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: a-

Government support: A

- Sovereign rating: AA-/Stable/A-1+

Likelihood of government support: Moderately high (+1 notch)

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
- 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
- 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: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Negative Rating Actions Taken On European Airports Due To COVID-19 Restrictions, March 26, 2020
- Research Update: Irish Airport Operator daa PLC Rating Raised To 'A' On Sovereign Upgrade; Outlook Stable, Dec. 12, 2019
- Research Update: Irish Airport Operator daa PLC Outlook Revised To Stable On Expected Lower Tariffs; 'A-' Rating Affirmed, July 3, 2019

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/sourceld/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.

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