Research Update:

daa PLC Outlook Revised To Stable On Recovering Air Traffic And Financial Performance; 'A-' Ratings Affirmed

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Rating Action Overview

- We expect passenger traffic to recover to pre-pandemic levels in Dublin and Cork airports in 2023 and 2024, which will boost daa PLC's cashflows and support the long-term sustainability of credit metrics at the current rating level, with adjusted funds from operations (FFO) to debt remaining above 20% in 2023 and 2024.
- However, we anticipate that the investments to increase capacity at Dublin airport will erode some credit metrics headroom, resulting in FFO to debt of 17% on average in 2025-2027, which reduces our view of rating upside, but is nevertheless still commensurate with the rating.
- We also think that Dublin airport charges, adjusted annually for actual inflation, will mitigate inflationary pressures and support EBITDA margins of about 30% over the next three years.
- We have therefore revised our outlook on daa to stable from negative and affirmed our 'A-' long-term issuer credit and issue ratings, as well as the 'A-2' short-term issuer credit rating.
- The stable outlook on the long-term issuer credit rating reflects our expectation of solid traffic levels , and that daa will effectively manage its capital spending (capex) to increase capacity at Dublin airport, as well as costs and operations at the airport.

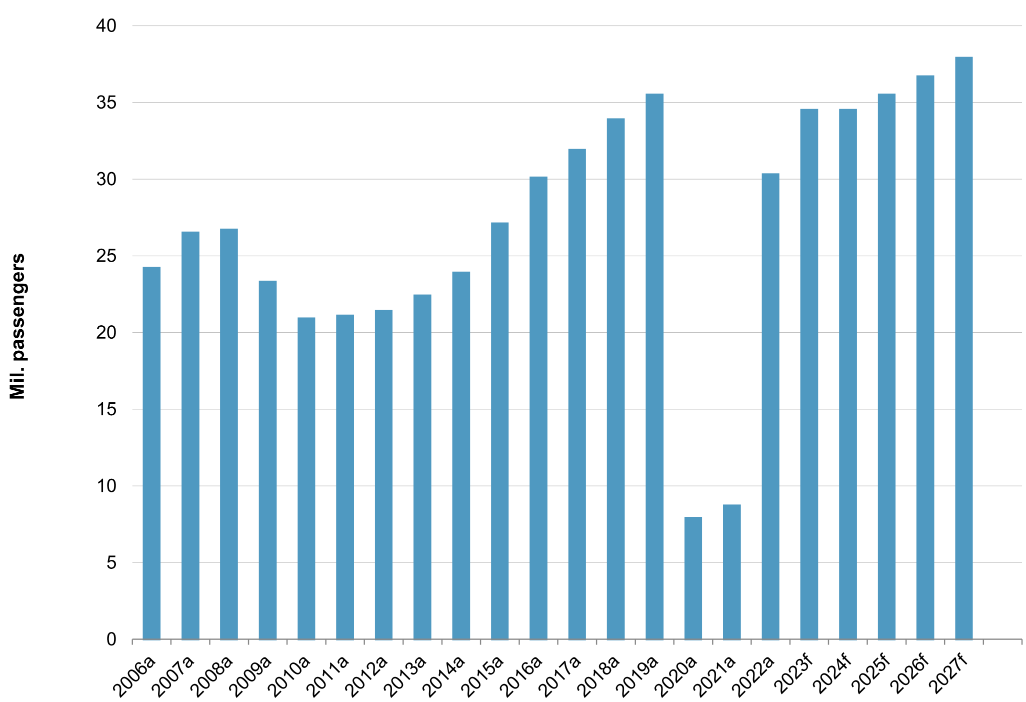
Rating Action Rationale

We anticipate daa's air traffic will recover to pre-pandemic levels in 2023-2024 and the credit metrics will rebound. Following the lifting of COVID-related mobility restrictions last year, traffic at daa rebounded in 2022 to 85% of the 2019 pre-pandemic level, resulting in higher aeronautical and nonaeronautical revenue than we previously expected. In the first five months of 2023, traffic has been 2% above 2019 levels and recovery has been faster than that of rated peers, mainly thanks to the combination of:

- An island economy, with Dublin airport transporting the majority of passengers into and out of the country.

- No material constraints in airline's deployed capacity to date, versus before the pandemic.
- No material drop in business travelling (14% of total traffic in 2022 versus 16% in 2019). The high-disposable-income passenger base furthermore supports leisure traffic (43% of total traffic in 2022) and visiting friends and relatives (42% of total traffic in 2022).

Dublin and Cork airport traffic



a--Actual. f--S&P Global Ratings forecast

Consequently, FFO to debt reached 26.8% in 2022 and we expect it will remain above 20% in 2023 and 2024.

We expect the large planned capex of €1.9 billion in 2023-2027 will contain FFO to debt at about 17% on average in 2025-2027, which reduces rating upside but is still commensurate with the rating. During 2022, Dublin airport's north runway already started operations and other critical projects to increase capacity were delivered. For the upcoming years, additional investments are expected in new piers, gates, and stands, among others, with the aim of ultimately increasing capacity at Dublin airport. We expect this capex plan will be partly funded through operating cash flows and partly through debt issuances, reducing headroom in credit metrics and resulting in FFO to debt on average of 17% in 2025-2027. These metrics do not incorporate dividend distributions in our base case, pending finalization of the dividend policy negotiations with the government.

During the second half of 2023, daa intends to submit a request to increase the maximum legal capacity permitted at Dublin airport to 40 million annual passengers from 32 million currently. We expect that this request will be approved by 2025, which we reflect in our traffic growth assumptions.

The capacity projects have different completion dates, and, starting next summer and until the end of the decade, they will be gradually delivered. Dublin airport's challenges for the upcoming years will be to adhere to the different timelines so as not to constrain growth and to execute on construction in a live environment without having operational bottlenecks. We have accounted for this in our traffic forecast. Another challenge will be to adhere to the capex budget under an inflationary environment. As a mitigant, there is headroom in the credit metrics for the current rating level, and we understand any potential cost overrun could be taken into account in the revision of the airport charges for the period starting in 2027.

Profitability will recover thanks to the increase in revenue as passenger numbers rise, combined with effective cost-control measures by the airport. We expect operating costs to continue rising in 2023, owing to inflation and due to the hiring of additional staff to cope with increased traffic. For the next three years, we expect EBITDA margins of about 30%, supported by the annual indexation of airport charges in line with inflation.

The regulator has revised the airport charges and metrics are still commensurate with the rating. A new regulatory period started in January 2023 and will end in December 2026, with charges for the period set at €7.5-€7.8 per passenger in real terms (base February 2022). There are increases to the charges from 2024 due to the already completed north runway and from 2025 due to the expansionary capex that will have commenced. After accounting for the remuneration of the capex and indexation, we expect nominal charges received by daa will be €8.70-€10.3 per passenger. daa's charges are among the lowest in Europe and we understand the company has appealed the regulator's decision in the high court. We do not incorporate in our base case any potential upside based on the airport charges.

Outlook

The stable outlook on the long-term issuer credit rating reflects our expectation that FFO to debt will remain commensurate for the current rating level while daa executes its investment plan to increase capacity at the Dublin airport, supported by our expectation of solid traffic levels, charge increases that mitigate inflationary pressures, and effective management of costs and operations at the airport.

Downside scenario

Given the current rating on Ireland at 'AA', our view of daa's stand-alone credit profile (SACP) would need to decrease from the current 'bbb+' to 'bbb-' to result in a one-notch downgrade of daa. In our view, this could happen if we expected FFO to debt to be below 11%, for example due to a combination of the following:

- Passenger traffic or spend per passenger falling below what we currently anticipate, resulting in lower aeronautical and nonaeronautical revenue in Ireland or abroad;
- Dividends resulting in a significant cash outflow for the company following the negotiation of the new dividend policy with the government; or
- Inflation having a more pronounced impact on the costs or on the investment plan than we currently anticipate.

Although it would have no impact on our rating on daa, we could revise the SACP to 'bbb' if the company was unable to maintain FFO to debt above 13% or if EBITDA margins declined below 30%, as the latter could weaken our view of its business risk profile.

All else being equal, a one-notch downgrade of Ireland (AA/Stable/A-1+) would not result in a negative rating action on daa.

Upside scenario

We could raise the rating on daa by one notch if we expected FFO to debt to be comfortably and sustainably above 20%. In our view, this could occur if:

- Passenger traffic or spend per passenger increased beyond what we currently anticipate, resulting in higher aeronautical and nonaeronautical revenue in Ireland or abroad; or
- daa managed to achieve operational efficiencies or lowered costs beyond our current expectations.

This would need to be coupled with a disciplined timely execution of the capex to ensure capacity growth at Dublin airport, and with no material cost overrun.

All else being equal, a one-notch upgrade of Ireland would result in a one-notch upgrade of daa.

Company Description

daa operates Dublin and Cork airports in Ireland and is involved in all related activities, from retail activities within the airports to managing the airports' car parks. It is a 100% state-owned company but is financed and managed independently of the government. In 2022, Dublin and Cork airports registered 30.3 million passengers and generated 90% of daa's reported EBITDA. Dublin airport is regulated on the basis of a single-till approach, whereby the airport's costs and investments are covered by both aeronautical charges and commercial revenue. The current regulatory period covers the period between January 2023 to December 2026. Cork airport is unregulated.

daa also owns and operates airport retail businesses in 14 countries and holds stakes in other airports, namely, 20% in Dusseldorf airport in Germany and 11% in Paphos and Larnaca airports in Cyprus. The international retail business generated 7.5% of the reported EBITDA in 2022. The remainder of the EBITDA came from international airport management, operations, maintenance, and consultancy.

Our Base-Case Scenario

Assumptions

- Aeronautical revenue in Ireland in line with traffic performance and nominal charges.
- Passenger traffic in Dublin and Cork airports has fully recovered from the pandemic, however Dublin airport is subject to a planning cap, which limits traffic at 32 million passenger per year. Therefore, we forecast Dublin airport traffic at 32 million in 2023 and 2024 as we understand air traffic slots will be managed accordingly. This results in a total of 34.5 million passengers per year in Dublin and Cork in 2023 and 2024. During 2025, once the maximum legal capacity

expansion is approved and as projects are gradually delivered, we assume traffic will return to growth in line with Ireland's GDP of 3.1% in 2025 and 3.3% in 2026 and thereafter.

- Charges per passenger for 2023-2026 of €7.5-€7.8 in real terms (base February 2022). After accounting for the remuneration of the capex and indexation, nominal charges for 2023-2026 of €8.70-€10.3 per passenger. We index charges as per the consumer price index, which we forecast will increase by 5.3% in 2023, 2.7% in 2024, 2% in 2025, and 1.9% in 2026.
- Nonaeronautical revenue, including retail and nonretail businesses in Ireland, retail abroad, and operations, management and consultancy abroad, increasing 10% in 2023; decreasing 4% in 2024 as the Auckland retail contract ended in May 2023; from 2025 increasing on average 2.8%.
- Dividends received from equity method investees at €20 million-€35 million in 2023-2027.
- All costs except wages increasing with Ireland's inflation, but adjusted in 2023 as traffic rebounds and in 2023-2024 as the Auckland contract ended in May 2023.
- Wages increase in line with the company's guidance and adjusted every year to account for the expected hiring as volumes increase.
- €82 million tax deferred during the pandemic paid in April 2023. Increase in effective tax rate to 15% from 12.5% from 2024.
- Capex of about €200 million in 2023, €300 million in 2024, €450 million in 2025, €525 million in 2027, and €450 million in 2027. Debt issuances will take place to partly fund these investments.
- Dividend policy to be agreed with the shareholder in the upcoming months. Our base case assumes no dividends paid in 2023-2027, although we note that if dividends were paid as per the agreed dividend policy before the pandemic, they would decrease FFO to debt on average by 1.5%.

Forecast summary

daa PLC Key Metrics*

Mil. €	2019a	2020a	2021a	2022a	2023f	2024f	2025f	2026f	2027f
Passenger numbers in Dublin and Cork (mil.)	35.5	7.9	8.7	30.3	34.5	34.5	35.5	36.7	37.9
Revenue	934.7	290.6	324.1	751.3	955	930	960	1040	1070
EBITDA	321.3	(126)	25	265.7	305	270	290	350	350
EBITDA margin (%)	34.4	(43.4)	7.7	35.3	32	29	30.3	33.5	32.4
Funds from operations (FFO)	275.9	(137.2)	(4.6)	226.6	245	205	215	260	255
Capital expenditure	220.4	266.1	193	152	200	300	450	525	450
Debt to EBITDA (x)	1.5	(6.3)	33.6	3.2	2.9	3.6	4.1	4.2	4.8
FFO to debt (%)	58.1	(17.3)	(0.5)	26.8	27.7	21.0	18	17.6	15.2

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast rounded.

Liquidity

We view daa's liquidity as strong, supported by our expectation that sources of cash will exceed uses even if forecast EBITDA declines by 30%. In our view, the company exercises prudent risk management and the debt documents remain favorable, with no covenant requirements, other than a change of control clause if the government owns less than 85% of daa.

We estimate that sources of liquidity in the 12 months until March 2024, will exceed uses by more than 1.5x, and that liquidity coverage in the following 12 months will be more than 1.0x. There are no large maturities in the short to medium term, with the first bullet debt repayment in 2028.

Principal liquidity sources

We estimate the following liquidity sources for the 12 months ending March 31, 2024:

- Unrestricted cash of €769.6 million.
- €450 million available under a committed revolving credit facility (RCF) due in March 2027.
- Cash FFO of €240 million under our base-case scenario.

Principal liquidity uses

We estimate major liquidity uses for the same 12 months comprise:

- Debt maturities of about €35.4 million.
- Expected capex of about €225 million.
- Estimated working capital outflows of about €82 million due to the tax deferred during the pandemic that was paid in April 2023.

Environmental, Social, And Governance

ESG credit indicators: To E-2, S-3, G-2, From E-2, S-4, G-2

Social factors have a moderately negative influence on our credit rating analysis on daa, compared with negative previously. This is because airports are exposed to traffic-related disruptions due to health and safety considerations. However, we note that since authorities lifted COVID-19-related travel restrictions, passenger volumes have recovered at daa.

Issue Ratings - Subordination Risk Analysis

Capital structure

DAA Finance PLC, daa's financing subsidiary, holds the group's financial debt, which includes €550 million of unsecured notes due in 2028 and €500 million due in 2032. This debt is guaranteed by daa. The remainder of the debt represents some bank loans.

Analytical conclusions

The issue ratings on the €1,050 million of unsecured debt issued by DAA Finance PLC and the €450 million RCF available to both DAA Finance and daa are the same as the long-term issuer credit rating on daa. This is because there are no priority liabilities and DAA Finance's debt benefits from a parental guarantee.

Ratings Score Snapshot

Issuer Credit Rating	**A-/Stable/A-2**
Business risk:	Strong
Country risk	Low
Industry risk	Low
Competitive position	Strong
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb+
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb+
Group credit profile	bbb+
Related government rating	AA
Likelihood of government support	Moderately high (+1 notch from SACP)

Environmental, social, and governance (ESG) credit factors for this change in credit rating/outlook and/or CreditWatch status:

- Health and safety

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

Related Research

- European Air Travel Defies Economic Pressures On Robust Demand, June 7, 2023
- Industry Top Trends 2023: Transportation, Jan. 23, 2023
- Industry Top Trends 2023: Transportation Infrastructure, Jan. 23, 2023

Ratings List

Ratings Affirmed; Outlook Action

	To	From
daa PLC		
Issuer Credit Rating	A-/Stable/A-2	A-/Negative/A-2
Ratings Affirmed		
daa PLC		
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; or Stockholm (46) 8-440-5914