

Ratings On Australian And New Zealand Airports Placed On CreditWatch Negative

March 19, 2020

- The rapid spread of the new coronavirus across the globe and intense border control measures by various countries have triggered an unprecedented drop in passenger traffic across airports in Australia and New Zealand (ANZ).
- While there will be pressure on near-term cash flows, liquidity remains adequate at all the rated airports, there are no immediate debt payment concerns, and we believe the sector should see a slow recovery over the next 12 to 24 months.
- On March 20, 2020, S&P Global Ratings placed the ratings on five Australian airports and three New Zealand airports on CreditWatch with negative implications.
- We will look to resolve the CreditWatch after assessing the airports' trend in traffic recovery, future earnings profile, and cash conservation measures to support liquidity and service debt.

PRIMARY CREDIT ANALYST

Parvathy Iyer
Melbourne
(61) 3-9631-2034
parvathy.iyer
@spglobal.com

SECONDARY CONTACT

Meet N Vora
Sydney
(61) 2-9255-9854
meet.vora
@spglobal.com

MELBOURNE (S&P Global Ratings) March 20, 2020--S&P Global Ratings today placed the ratings on five Australian airports and three New Zealand airports on CreditWatch with negative implications (see list).

We placed the ANZ airports on CreditWatch with negative implications to reflect the current extraordinary curtailment of air travel across the globe caused by the rapid spread of the coronavirus and border controls by various countries. The uncertainty on the duration of the travel curtailment makes it difficult to forecast a recovery pattern, which will differ across airports. However, given that airports are essential infrastructure assets, we do not think that this represents a secular risk to the sector and its historical investment-grade profile.

Importantly, all rated airports have adequate liquidity, including sufficient cash and undrawn bank lines to meet capital-market debt maturities. Airports are prudently managing capital spending and dividends to weather the earnings impact in 2020. For example, Auckland airport has cancelled the interim dividends announced as part of their half-year results. We expect airports to arrange additional banking lines, if needed, to enhance their liquidity positions and avoid any short-term refinancing risk. In addition, all airports have indicated tight controls on operating costs and will curtail capital spending in 2021 as a start.

The outlook for passenger traffic has significantly worsened since our most recent update (see "Australian And New Zealand Airports Brace For More Pain With Coronavirus Outbreak," published Feb. 4, 2020). This is due to certain travel restrictions and a mandatory 14-day self-isolation period implemented by the ANZ governments to inbound visitors following the rapid spread of COVID-19. In addition, rapidly deteriorating conditions affecting the airlines industry are also spreading from the international to the ANZ domestic markets, with airlines across both geographies substantially reducing capacity over at least the next three to six months. This is on

Ratings On Australian And New Zealand Airports Placed On CreditWatch Negative

top of a downturn in passenger traffic due to travel bans to China and South Korea from February 2020.

We assume global air traffic will decline by 20%-30% compared with that in 2019. Full recovery will likely only occur in 2022-2023, noting that the situation is highly uncertain and rapidly changing. This view takes into account COVID-19's rapid spread to over 125 countries and the severity of lockdown measures to contain the virus, given the risk of contagion.

The extent of passenger decline in 2020, as well as the recovery over 2021 and 2022, across the different airports will vary. The recovery timing is uncertain and could start sometime around end June 2020 to September 2020, with perhaps some normalcy returning in the first quarter of 2021. Airports' competitive positions, as well as local conditions, will influence the trends. For example, in New Zealand, we would expect Auckland airport to recover faster than Wellington or Christchurch airport, given its dominant position as the gateway airport in the country. Similarly, we believe that the recovery in passenger traffic could be faster for Sydney and Melbourne airports, compared with Adelaide, Brisbane, or Perth airports.

While airports' EBITDA and cash flows will fall in 2020 and not meet our ratings thresholds, our focus will be on the rebound and ramp-up of traffic. Despite airports' diverse revenue streams, the plunge in passenger numbers will also affect non-aeronautical revenues from retail space such as duty free, shopping, food and beverage outlets. This is in addition to lower revenue from car parking and ground transportation.

In our view, the drop in non-aero revenue will not only come from lower passenger numbers but also potentially from airports supporting struggling retailers. As such, it's difficult to predict the overall impact on airports' EBITDA for fiscal 2020, which could range between 20% and 40% compared to the prior year.

We would seek to resolve the CreditWatch over the next few months by assessing various factors such as the airports':

- Operating environment;
- Trend in traffic recovery based on airline strategy and capacity additions, health of the airline industry, global and regional economic conditions, and changes to airline schedules;
- Speed of recovery, noting that the trajectory might be different for different airports;
- EBITDA and cash flows over this period, and the trend-line in metrics;
- Policies with respect to shareholder distributions and deferral of nonmandatory capital expenditure; and
- Liquidity position along with covenant compliance.

While there continues to be a high degree of uncertainty about the rate of spread and timing of the peak of the coronavirus outbreak, some government authorities are estimating late Q2 to mid Q3—which we've used in assessing economic and credit implications. In any case, the COVID-19 pandemic has likely pushed the global economy into recession and could cause a surge of defaults among nonfinancial corporate borrowers (see "COVID-19 Macroeconomic Update: The Global Recession Is Here And Now" and "COVID-19 Credit Update: The Sudden Economic Stop Will Bring Intense Credit Pressure," published March 17). As the situation evolves, we will update our assumptions and estimates accordingly.

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
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- COVID-19 Macroeconomic Update: The Global Recession Is Here And Now, March 17, 2020
- COVID-19 Credit Update: The Sudden Economic Stop Will Bring Intense Credit Pressure, March 17, 2020
- The Coronavirus Pandemic Could Reduce Global Air Passengers By Up To 30% In 2020, March 17, 2020
- U.S. Transportation Infrastructure Sector Outlook Update: Now Negative For All Sectors, March 16, 2020
- Australian And New Zealand Airports Brace For More Pain With Coronavirus Outbreak, Feb. 4, 2020

Ratings On Australian And New Zealand Airports Placed On CreditWatch Negative

RATINGS LIST

***** Adelaide Airport Ltd. *****

Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Adelaide Airport Ltd.		
Issuer Credit Rating	BBB/Watch Neg/--	BBB/Stable/--
New Terminal Financing Co. Pty Ltd.		
Senior Secured	BBB/Watch Neg	BBB

***** Auckland International Airport Ltd. *****

Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Auckland International Airport Ltd.		
Issuer Credit Rating	A-/Watch Neg/A-2	A-/Stable/A-2
Auckland International Airport Ltd.		
Senior Unsecured	A-/Watch Neg	A-
Commercial Paper	A-2/Watch Neg	A-2

***** Australia Pacific Airports Corp. Ltd. *****

Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Australia Pacific Airports Corp. Ltd.		
Australia Pacific Airports (Melbourne) Pty Ltd.		
Issuer Credit Rating	A-/Watch Neg/NR	A-/Stable/NR
Australia Pacific Airports (Melbourne) Pty Ltd.		
Senior Secured	A-/Watch Neg	A-

***** BAC Holdings Ltd. *****

Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Brisbane Airport Corp. Pty Ltd.		
Issuer Credit Rating	BBB/Watch Neg/NR	BBB/Stable/NR
Brisbane Airport Corp. Pty Ltd.		
Senior Secured	BBB/Watch Neg	BBB

***** Christchurch International Airport Ltd. *****

Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Christchurch International Airport Ltd.		
Issuer Credit Rating	A-/Watch Neg/A-2	A-/Stable/A-2
Christchurch International Airport Ltd.		
Senior Unsecured	A-/Watch Neg	A-
Commercial Paper	A-2/Watch Neg	A-2

Ratings On Australian And New Zealand Airports Placed On CreditWatch Negative

******* Perth Airport Development Group Pty Ltd *******

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Perth Airport Pty Ltd.		
Issuer Credit Rating	BBB/Watch Neg/NR	BBB/Stable/NR

Perth Airport Pty Ltd.

Senior Secured	BBB/Watch Neg	BBB
----------------	---------------	-----

******* Southern Cross Airports Corp. Holdings Ltd. *******

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Southern Cross Airports Corp. Holdings Ltd.		
Issuer Credit Rating	BBB+/Watch Neg/NR	BBB+/Stable/NR

Sydney Airport Finance Co. Pty Ltd.

Senior Secured	BBB+/Watch Neg	BBB+
S&P Underlying Rating	BBB+/Watch Neg	BBB+/Stable

******* Wellington International Airport Ltd. *******

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Wellington International Airport Ltd.		
Issuer Credit Rating	BBB+/Watch Neg/A-2	BBB+/Stable/A-2

Wellington International Airport Ltd.

Senior Unsecured	BBB+/Watch Neg	BBB+
Commercial Paper	A-2/Watch Neg	A-2

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. 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.

AUSTRALIA

S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

Ratings On Australian And New Zealand Airports Placed On CreditWatch Negative

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.