



## **Wellington Airport reviews impact of Covid-19**

Wellington International Airport Limited (WIA) is continuing to assess the impact of Covid-19 on its business, including as a result of the New Zealand Government's announcement to close its border to international travellers.

While the full impact of Covid-19 on both international and domestic air traffic is uncertain, we know it will materially impact WIA's revenues for an as yet unknown period of time. However, WIA is a resilient business, with available bank facilities and supportive shareholders. Like other companies affected by this situation, WIA is deferring capital projects and is under strict cost management.

Notwithstanding, S&P have placed all rated Australian and New Zealand Airports on CreditWatch Negative as a result of the reduction in passenger numbers (see attached).

WIA continues to work with our airline partners and remains committed to airport operations and supporting the Government and border agencies.

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# 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.

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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

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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
<b>Adelaide Airport Ltd.</b>		
Issuer Credit Rating	BBB/Watch Neg/--	BBB/Stable/--

**New Terminal Financing Co. Pty Ltd.**

Senior Secured	BBB/Watch Neg	BBB
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\*\*\*\*\* Auckland International Airport Ltd. \*\*\*\*\*

**Ratings Affirmed; CreditWatch/Outlook Action**

	To	From
<b>Auckland International Airport Ltd.</b>		
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
<b>Australia Pacific Airports Corp. Ltd.</b>		

**Australia Pacific Airports (Melbourne) Pty Ltd.**

Issuer Credit Rating	A-/Watch Neg/NR	A-/Stable/NR
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**Australia Pacific Airports (Melbourne) Pty Ltd.**

Senior Secured	A-/Watch Neg	A-
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\*\*\*\*\* BAC Holdings Ltd. \*\*\*\*\*

**Ratings Affirmed; CreditWatch/Outlook Action**

	To	From
<b>Brisbane Airport Corp. Pty Ltd.</b>		
Issuer Credit Rating	BBB/Watch Neg/NR	BBB/Stable/NR

**Brisbane Airport Corp. Pty Ltd.**

Senior Secured	BBB/Watch Neg	BBB
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\*\*\*\*\* Christchurch International Airport Ltd. \*\*\*\*\*

**Ratings Affirmed; CreditWatch/Outlook Action**

	To	From
<b>Christchurch International Airport Ltd.</b>		
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
<b>Perth Airport Pty Ltd.</b>		
Issuer Credit Rating	BBB/Watch Neg/NR	BBB/Stable/NR

#### Perth Airport Pty Ltd.

Senior Secured	BBB/Watch Neg	BBB
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### \*\*\*\*\* Southern Cross Airports Corp. Holdings Ltd. \*\*\*\*\*

#### Ratings Affirmed; CreditWatch/Outlook Action

	To	From
<b>Southern Cross Airports Corp. Holdings Ltd.</b>		
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
<b>Wellington International Airport Ltd.</b>		
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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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## Ratings On Australian And New Zealand Airports Placed On CreditWatch Negative

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