

Rating Action: Moody's downgrades Royal Schiphol Group N.V.'s ratings to A2 from A1 and changes outlook to stable from negative

26 Sep 2022

Paris, September 26, 2022 -- Moody's Investors Service ("Moody's") has today downgraded the backed senior unsecured debt ratings of Royal Schiphol Group N.V. to A2 from A1 and the provisional rating on the backed senior unsecured medium-term note (EMTN) programme of Royal Schiphol Group N.V. and Schiphol Nederland B.V. (together, Royal Schiphol Group or RSG) to (P)A2 from (P)A1, and changed the outlook to stable from negative on both entities. At the same time, Moody's has downgraded Royal Schiphol Group N.V.'s Baseline Credit Assessment (BCA) to baa1 from a3.

RATINGS RATIONALE

The downgrade of Royal Schiphol Group's ratings reflects Moody's expectations that air traffic will not likely recover to the pre-pandemic level in the near term, and prospects for full recovery thereafter are likely to be somewhat impaired by caps of air transport movements (ATMs) which, together with increased cost pressures, and possibly continuing operational constraints, means that RSG is unlikely to be able to achieve credit metrics commensurate with an A1 rating over the short to medium term.

Environmental considerations are incorporated into the rating, more particularly the Dutch Government announcement that it intends to limit ATMs at Schiphol airport from the current cap of 500,000 to 440,000 from November 2023 in order to reduce noise pollution. The introduction of the revised cap would reduce ATMs below those seen at Schiphol airport prior to COVID.

In common with elsewhere in Europe, traffic volumes have started to recover from the low point seen during COVID, and Moody's expects that traffic in 2022 will be 30% below the 2019 level and will recover to about 15% below pre-pandemics level by end of 2023. Nevertheless, there remain uncertainties around the traffic recovery profile given the current geopolitical environment and knock on effects on the European economy and high energy prices.

To date, and as with certain other airports throughout Europe, Schiphol Airport has struggled to provide sufficient operational capacity to meet full demand at peak times of year, which has limited passenger flows throughout the summer 2022 months. This arises primarily from a lack of security staff to deal with travel peaks, which RSG is seeking to address. To deal with the immediate pressures, the company has limited departing passenger numbers to 54,500-57,000 passengers per day, and such cap is now expected to last till at least the year-end. To the extent that these problems continue, it will provide a constraining impact on passenger levels at Schiphol and may start to impact the airlines service offering. Over the longer term, with the lower ATM cap in place, Schiphol will likely see shifts in service patterns and aircraft usage of the airlines to accommodate the lower maximum ATM levels.

Furthermore, the Government has also decided to postpone further the opening of the Lelystad airport which has been redeveloped on the assumption that part of the origin & destination traffic currently handled by Amsterdam Airport Schiphol will move there, creating room for additional transfer traffic at Amsterdam. The construction of the airport has been completed in 2019, but all required nature permits have not been granted yet.

In addition to capacity limitations, Schiphol has faced, and is expected to continue to face, cost pressures as a result of the higher inflationary environment, affecting staff costs and energy costs among other things. The ability to recover such higher costs is limited during the current regulatory period to 2024 as annual cost increases are limited to 2% per annum. Nevertheless, Moody's notes that the regulatory framework should provide for a rebasing of traffic volumes and provide the company with the ability to recover economic and efficient costs pertaining to the aviation activities when the next aviation tariffs are set in accordance with the next regulatory period from 2025.

More generally Royal Schiphol Group's A2 rating continues to reflect (1) the company's strong business profile through its ownership of Amsterdam Airport Schiphol, the third-largest in Europe by passenger numbers, and other airports in the Netherlands. (2) a regulatory framework which provides visibility on airport charges until

2024 and a revenue compensation mechanism, (3) a recovering financial profile and an appropriate financial policy, and (4) Royal Schiphol Group's adequate liquidity profile with sufficient available resources to cover all funding needs over the next 12-18 months, large committed facilities, and flexibility under its capex program.

However, the A2 rating also recognises: (1) the expected reduction in future traffic due to the new Governmental regulation to reduce the ATMs cap and the uncertainties around how key airlines may review their route networks, (2) the company's high reliance on Air France-KLM Group, a French-Dutch airline group, that is still going through a restructuring process and recovering post-pandemic, (3) the need to increase expansionary investment to support passenger growth, whilst complying with noise regulations that limit aircraft operations, and (4) increasing inflationary pressure.

Given that RGS is 70% owned by the Government of Netherlands (Aaa stable), its A2 rating comprises a BCA of baa1 together with a Moderate Support assumption and a Moderate Dependence assumption. The uplift to the BCA reflects the likelihood of extraordinary support being provided by the Government of the Netherlands in the event that this were ever to be required to avoid a default.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects our expectation that the company's credit metrics will recover to the level commensurate with a BCA of baa1/A2 rating by the end of 2023, namely a Funds from Operations (FFO)/Debt ratio at least in the low teens in percentage terms. This compares to an FFO/Debt ratio of 19.1% FY2019, and a drop to -3.8% in 2020 and -0.16% in 2021.

While RGS faces a number of headwinds, the company is expected to manage its financial profile in accordance with the above parameters.

LIQUIDITY AND DEBT COVENANTS

Moody's considers Royal Schiphol Group's liquidity profile to be good. The company's primary sources of committed liquidity are (1) cash and equivalents of €1.16 billion (as of 30 June 2022), (2) undrawn committed credit facilities of around €675 million, consisting of €400 million of facilities maturing in 2025, €100 million maturing in 2023 (to be extended) and €175 million undrawn under an EIB loan maturing in June 2023. In addition, Royal Schiphol Group holds three bilateral uncommitted facilities with a combined total of €330 million. Furthermore, Eindhoven Airport has a facility for EUR 60 mln euros available to refinance the future capital expenditure and to provide sufficient liquidity, out of which EUR 18 mln has been drawn and EUR 8 mln were repaid during 2021. In 2021, the company has also refinanced €450 million in debt maturities and will not face any major maturities on its debt up until 2024 when the EIB loan becomes due. Starting from 2025, the company will face a number of maturities of EMTN bonds that we expect the company will be able to refinance on the capital markets.

Royal Schiphol Group's debt with the EIB contains a financial covenant based on an own funds/total assets ratios against which the company currently has some headroom and is not expected to be in breach for the foreseeable future.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Although unlikely given current macroeconomic conditions, Royal Schiphol Group's ratings could face upward pressure in the scenario of a sustainable improvement in the operating environment and stronger than expected traffic recovery such that the company's FFO/Debt ratio would be expected to remain solidly above the mid-teens in percentage terms.

Conversely, Royal Schiphol Group's ratings could come under further downwards pressure if it appeared likely that the FFO/Debt ratio would remain below the low-teens in percentage terms on a sustained basis.

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Privately Managed Airports and Related Issuers published in September 2017 and available at <https://ratings.moodys.com/api/rmc-documents/63380>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/api/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

COMPANY PROFILE

Royal Schiphol Group N.V. is a holding company of a group that owns and operates Amsterdam Airport Schiphol, Rotterdam The Hague Airport, Lelystad Airport, and 51% of Eindhoven Airport, which together comprise most of the airport capacity in the Netherlands. In addition, Royal Schiphol Group has minority investments in a number of overseas airports. The largest of the Dutch airports, Amsterdam Schiphol Airport, is the third-largest airport in Europe by passenger numbers. Royal Schiphol Group is currently 70% owned by the Government of Netherlands (Aaa stable), 20% by the Municipality of Amsterdam, 2% by the Municipality of Rotterdam, and 8% by Groupe ADP (ADP). Royal Schiphol Group has a cross-shareholding and an industrial cooperation agreement with ADP.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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