

Japan International Transport Institute

Airport Seminar 2014

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Washington DC
June 12, 2014



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I.Organization: Fitch and Global Infrastructure

II.Credit Overview – Airports

III.Airport Ratings & Developments

IV.Airline Developments

V.Rating Drivers and Peer Study

VI.Privatization and Best Practices

VII.Conclusion

Comprehensive international presence

- Headquartered in both London and New York
- 2,100+ employees across 47 offices globally
- Market-leading analyst coverage levels

Fitch Research website

- In excess of 8,400 subscribers (retail & institutional)
- 44 of the top 50 European investors subscribe
- Majority of US top 100 investors are subscribers

North America

- New York
- Chicago
- Toronto
- San Francisco
- Austin
- Monterrey
- Mexico City

South America

- San Salvador
- San Jose
- Bogota
- Quito
- Lima
- La Paz
- São Paulo
- Santiago
- Buenos Aires
- Caracas
- Rio de Janeiro
- Montevideo

Fitch 'Global Infrastructure' Coverage

- Over 500 Credits Covered – Transportation, Energy, Sports
- More than 50% in Transportation Sectors
- Airports, Seaports, Tollroads, Transit & Rail, and Parking
- Includes Privately Rated Entities
- PPP/PFI Concession Leases

Asia

- New Delhi
- Mumbai
- Chennai
- Bangalore
- Colombo
- Kolkata
- Jakarta
- Beijing
- Seoul
- Tokyo
- Taipei
- Hong Kong
- Bangkok
- Singapore

Europe, Middle East & Africa

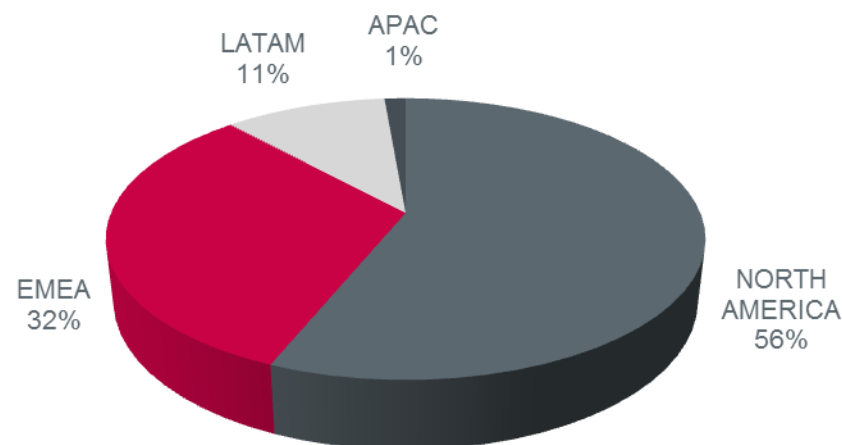
- London
- Milan
- Madrid
- Barcelona
- Tunis
- Istanbul
- Stockholm
- Paris
- Frankfurt
- Warsaw
- Moscow
- Dubai
- Johannesburg

Australia

- Brisbane
- Sydney

Region	Number of ratings
North America	290
EMEA	165
Asia	7
Latin America	54

Local Analysts Provide Local and Regional Context



* Includes Credit Opinions

- ❖ Independent Assessment of Credit Quality
- ❖ Likelihood of Full and Timely Repayment
- ❖ Based on Issuer's **Ability** (quantitative) and **Willingness** (qualitative) to Pay
- ❖ Public Ratings, Private Ratings, and Credit Assessments
- ❖ Rating Scales: Long Term, Short Term, Loss Recovery, National Ratings
- ❖ A Rating is NOT...
 - ❖ A Judgment or Statement Regarding any Aspect of Public Policy
 - ❖ A Management Scorecard

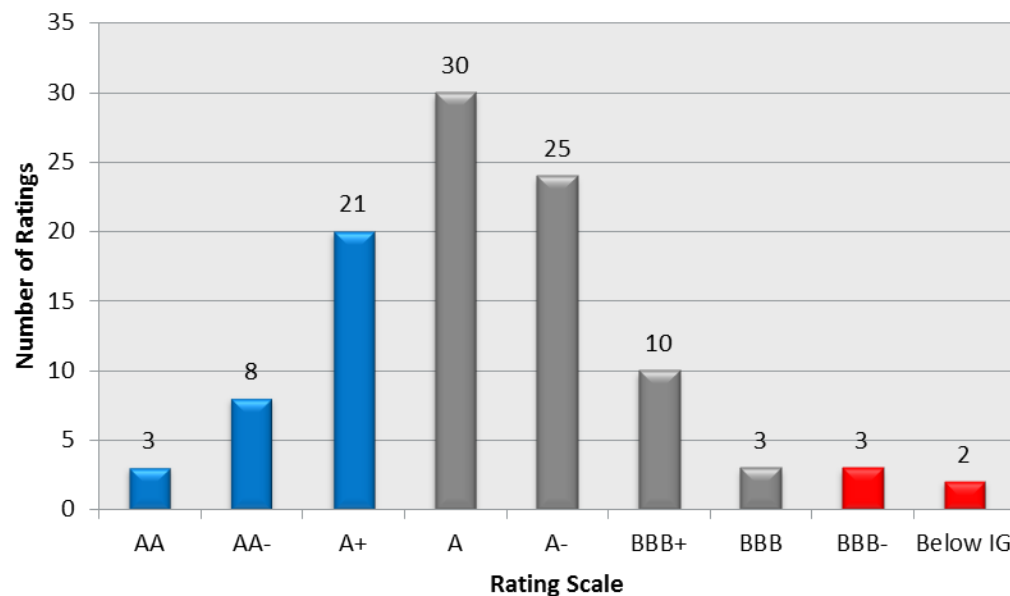
Sector	2008-2010 Outlook	2011-2012 Outlook	2013 Outlook	2014 Outlook
Airports	Negative	Stable/Negative	Stable	Stable

What Could Change the Outlook?

Sector	External Factors	Fuel Prices	State/Local Stress	Federal Government
Airports	✓	✓		✓

Fitch Ratings' Rated Portfolio of Airports:

❖ 11%	AA	Category
❖ 72%	A	Category
❖ 6%	BBB	Category
❖ 2%	BB	Category



Over 90% of Rating Outlooks are Stable

Fitch Ratings'
Rated Portfolio



Profoundly YES

- ❖ Separation from City/County or Other Governmental Finances
- ❖ No Defaults on Rated Debt
- ❖ Downgrades/Negative Outlooks Occurred but Sector Rating Migration Minimal
- ❖ Very Few Credits Transitioned from Investment Grade to Below Investment Grade
- ❖ Ratings Consider Conservative Scenarios – Low/Flat Growth, Downturns, De-Hubbing

U.S. Airports

Median Rating: 'A' Category

Drivers:

- ❖ Public Ownership
- ❖ Tax-Exempt Markets for Borrowing
Provide Strong Debt Structures
- ❖ No Rate Regulation or Price Caps

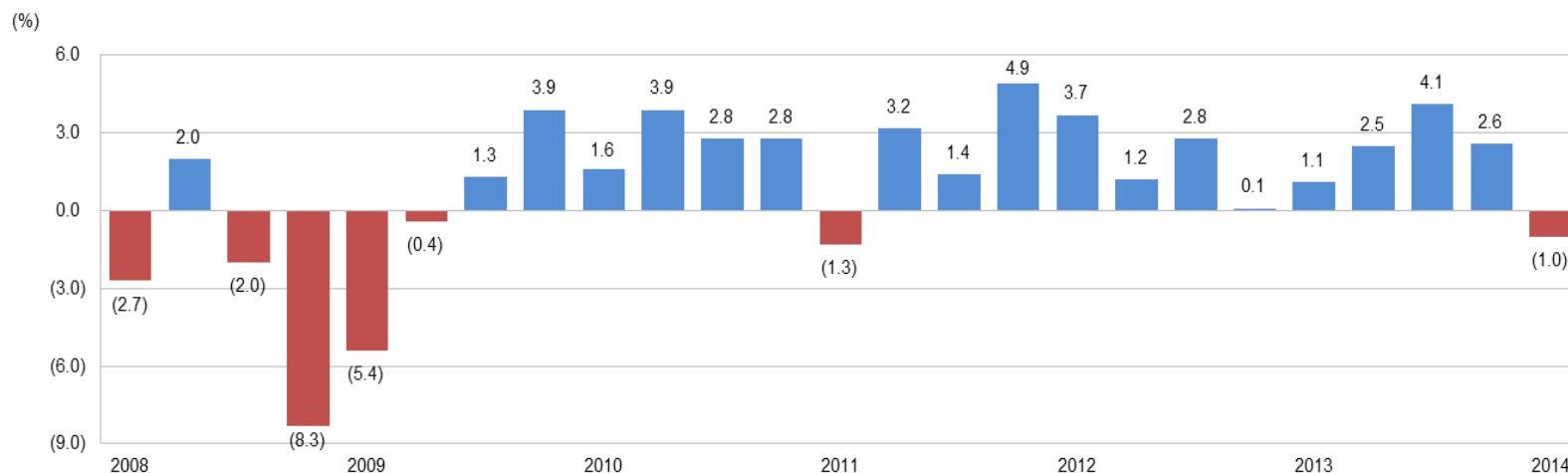
Airports in Other Global Regions

Median Rating: 'BBB' Category

Drivers:

- ❖ Mix of Public Ownership, Private Ownership, Concessions, Leases
- ❖ Weaker Debt Structures – Refi Risks or Corporate-Style Amortization
- ❖ Most Cases Rate Regulation Exist

U.S. Economy — Percentage Change in GDP



Source: U.S. Bureau of Economic Analysis.

Economic Rebound Uneven, but Improving in Recent Quarters

Unemployed

Rate (%)

2007

7.0 Mil.



4.4

2009

14.0 Mil.



10.0

2013

10.4 Mil.



6.7

Source: U.S. Bureau of Labor Statistics.

Airport Traffic Recovery

(%)	Total U.S. Revenue Enplanements
2008	(3.1)
2009	(5.1)
2010	2.6
2011	1.9
2012	1.4
2013	1.3

Source: Bureau of Transportation Statistics.

FAA Enplanement Forecast

(%)	2013	2014	2015	2016	2017
2009 Forecast	4.8	3.0	2.6	2.7	2.5
2010 Forecast	3.2	2.8	2.7	2.6	2.6
2011 Forecast	3.8	3.8	3.7	3.4	3.2
2012 Forecast	1.9	2.2	4.4	3.1	2.6
2013 Forecast	0.0	2.8	3.4	2.9	2.3
2014 Forecast	0.4	0.8	3.4	3.1	3.0

Source: FAA.

Airline Industry Assessment

- ❖ Improving Credit Profile Since 2013
- ❖ Capacity Discipline Means Sustainable Industry Structure
- ❖ Fuel Costs Can Stress Operating Margins
- ❖ Consolidation Phase Complete?

Carrier	Current Ratings
American Airlines (AMR)	B+
Delta Air Lines	BB- (p)
Hawaiian Airlines	B
JetBlue	B
Southwest Airlines	BBB
United	B (p)

p = positive outlook

Recent Upgrades: Delta, JetBlue, United
 Positive Outlooks: Delta, United

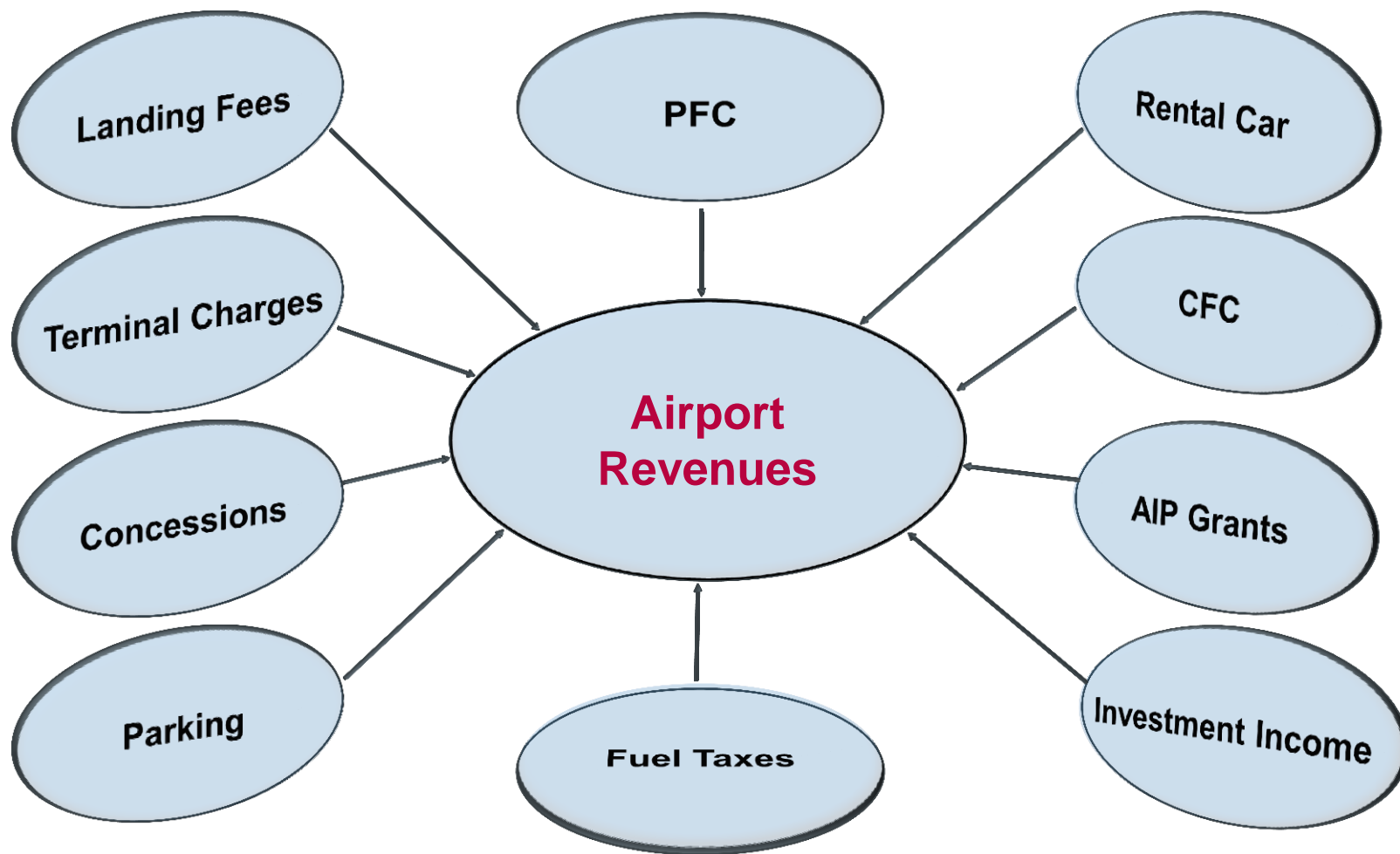
Benefits

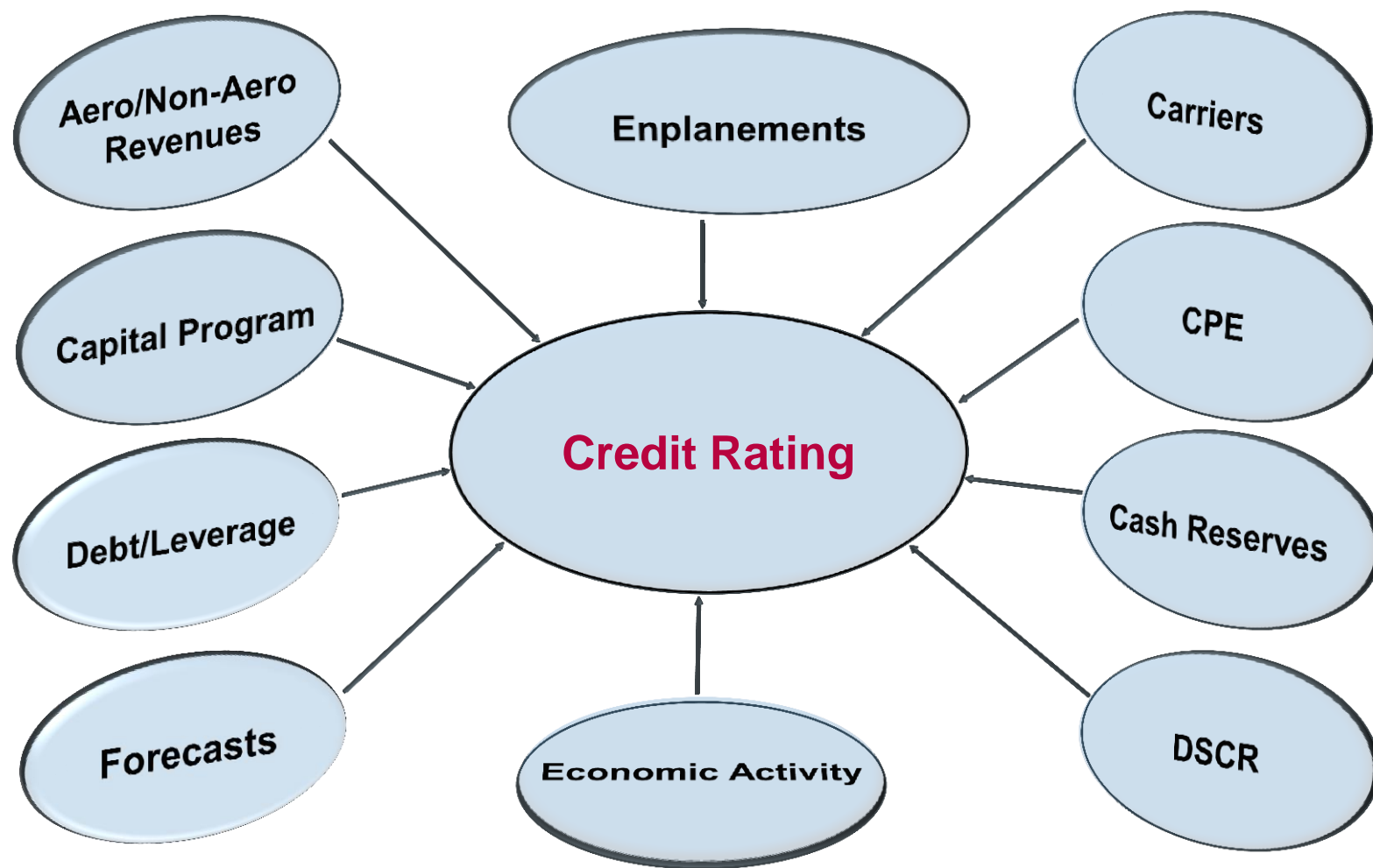
- ❖ Better System-wide Networks (US and Global)
- ❖ Improved Profitability
- ❖ Stronger Primary Hubs
- ❖ Better Capacity Balance
- ❖ New Opportunities for Low Cost Carriers

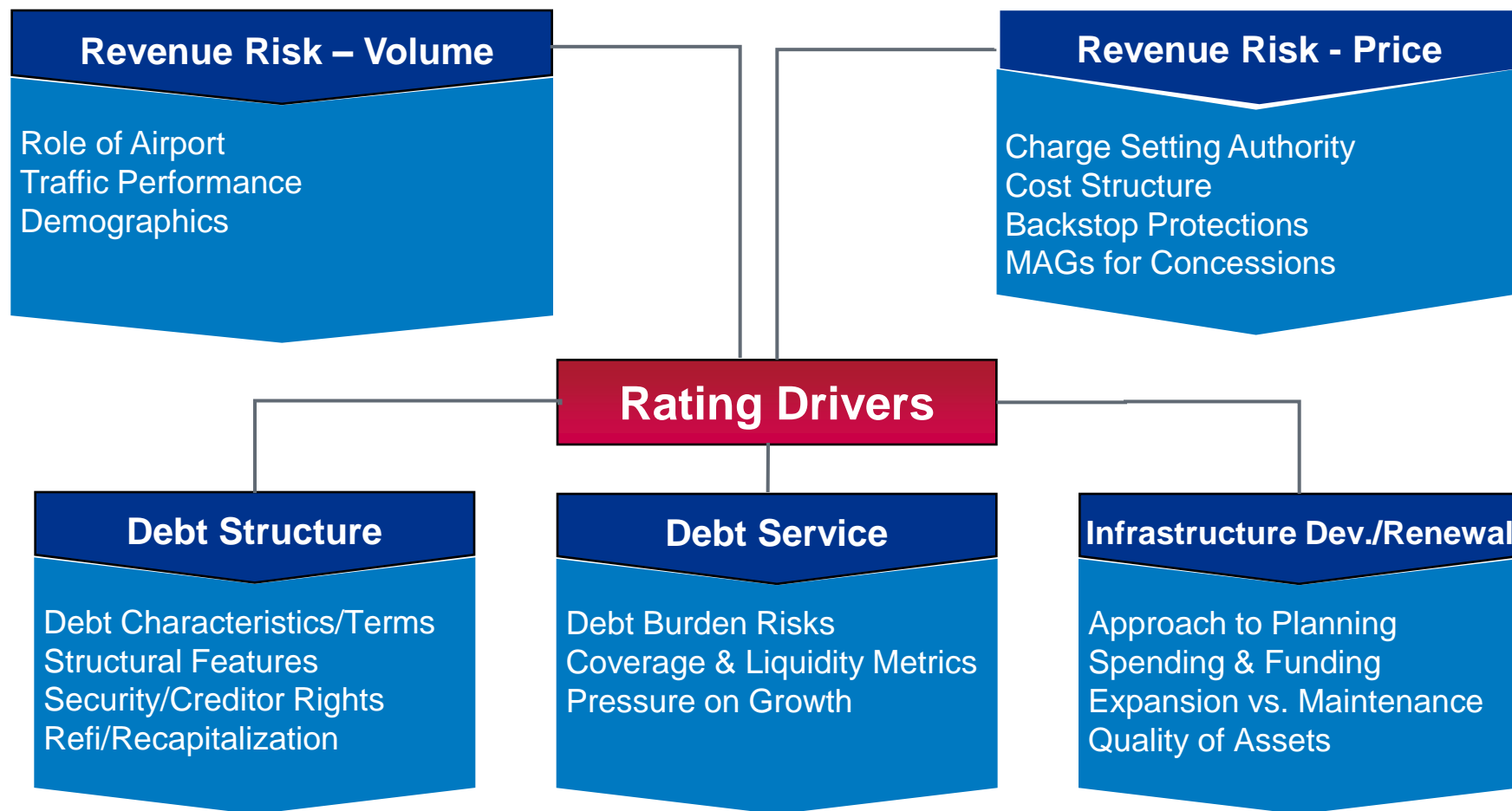
Concerns

- ❖ Secondary Hub Airports 'De-hubbed' or Downsized
- ❖ More Concentration of Carriers
- ❖ Small Market Airports Losing Services

Issue	Expectation
Traffic	<ul style="list-style-type: none"> ❖ Low 'Positive' Growth – Perhaps a Little Stronger than 2013 ❖ Conservative View of Forecasts ❖ Capacity Rationalization; Major Consolidations Complete
Revenue	<ul style="list-style-type: none"> ❖ Potential Pressure on Commercial Revenues ❖ More Revenue Diversity Needed ❖ Greater Burden on Airlines to Cover Debt Costs
Investments	<ul style="list-style-type: none"> ❖ Continued Need with Greater Focus on Maintenance & Renewal versus growth and expansion. ❖ Growing Use of Special Facility Credits (i.e. Car Rental)







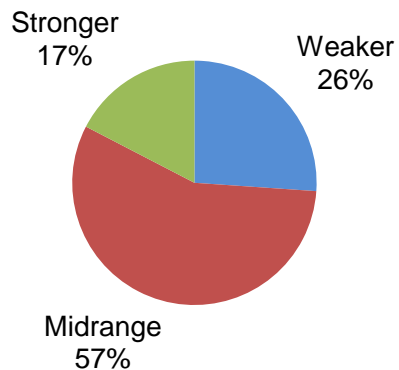
Peer Review of U.S. Airports

Attribute Assessments, Metrics, and Ratings

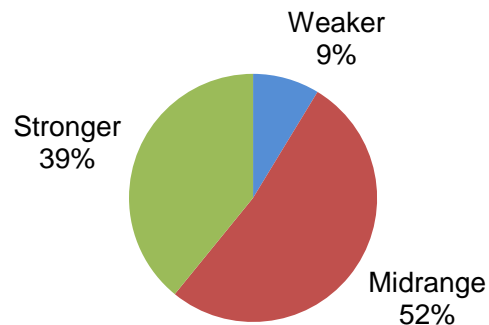
October 30, 2013



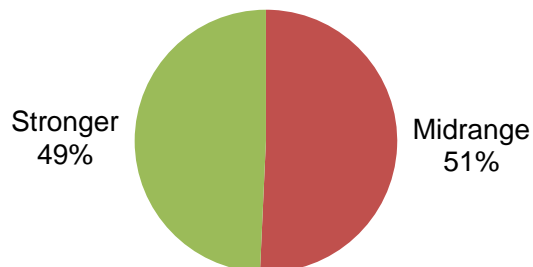
Revenue Risk - Volume



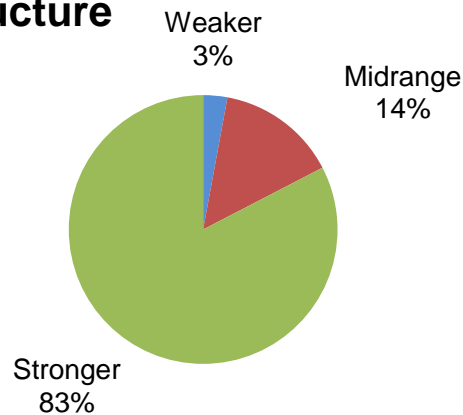
Revenue Risk - Price



Infrastructure Development/Renewal



Debt Structure



- ❖ **Budget Realistically to Conservatively**
- ❖ **Formulate “what-if” Scenarios and Develop Contingency Plans**
- ❖ **Monitor Revenues and Spending Frequently**
- ❖ **Maximize Structural Solutions**
- ❖ **Continue Long-Range Financial Planning**
- ❖ **Develop and Demonstrate Compliance With Financial/Debt Policies**
- ❖ **Develop Framework for Fund Balances**
- ❖ **Keep Rating Agencies Informed**

Simple Steps to Managing Your Credit

❖ What Makes a Good PPP?

- ❖ **Provides public value at least cost** – for the life of the deal
- ❖ **Enhances quality, reliability** – of the asset/service, and to related assets/services
- ❖ **Increases accountability** – cost-effective/timely project delivery, efficient operations, maintenance & life cycle asset management
- ❖ **Better customer service** – increases perceived user value
- ❖ **Retains flexibility** – for changing needs
- ❖ **Makes government more efficient** – lower investment/subsidy

❖ PPP Scorecard

- ❖ **Success is Mixed Worldwide**
- ❖ **Failure usually due to unanticipated conditions, unrealistic objectives, unachievable benefits, unclear benchmarks**

Evaluate the P3 Benefits in Year 1, Final Year and All Years in Between

❖ Global Key Rating Drivers

- ❖ Revenue Risk – Volume
- ❖ Revenue Risk – Price
- ❖ Debt Structure
- ❖ Debt Service/Counterparty
- ❖ Infrastructure Development/Renewal

❖ Research

❖ **Impact:**

- ❖ Top Line Revenue

❖ **Differentiators:**

- ❖ Role of Airport/Traffic Performance/Demographics
- ❖ Ability to Weather Stresses (Economic/ Event) on Volumes of Activity

❖ **Benchmarks:**

- ❖ Enplanement Base/O&D Share/Carrier Diversity/MSA Economic Data

Stronger

Gateway/Large-Hub
None/Limited Competition

Midrange

Regional/O&D
Midsize Markets
Secondary Hubs
Some Competition

Weaker

Smaller Airports
Meaningful Competition
Leisure Destination

❖ **Impact:**

- ❖ Top Line Revenue

❖ **Differentiators:**

- ❖ Charge Setting Authority to Recover Costs
- ❖ Tariff Mechanisms

❖ **Benchmarks**

- ❖ CPE
- ❖ Percentage of Cost Base Covered
- ❖ MAGs for Concessions

Stronger

Strong Contractual Framework

**Ability to Pass-Through Most
Or Full Costs**

Midrange

Moderate Contractual Framework

Adequate Ability to Pass Costs

Weaker

Weaker Contractual Framework

**Limited Ability to Pass Through
Costs**

❖ **Impact:**

- ❖ Capital Structure, Flow of Funds, Reserves

❖ **Differentiators:**

- ❖ Debt Seniority
- ❖ Amortization Profile & Interest Rate Exposure
- ❖ Covenants

❖ **Benchmarks:**

- ❖ % Fixed Rate & Refinance Risk
- ❖ Coverage Tests and Leverage Limitations

Stronger

High % of Fixed Rate Debt
Fully Amortizing Debt
Conservative Debt Terms

Midrange

Some Variable Rate Debt
Refinance Risk Present
Average Debt Terms
Some Swaps/Derivatives

Weaker

High % of Variable Rate Debt
Bullet or Back-Loaded Maturity
Large Use of Derivatives

❖ **Impact:**

- ❖ Financial Metrics: Forecast Scenarios – Sensitivity Testing – Peer Analysis

❖ **Differentiators:**

- ❖ Leverage Burden – Absolute and Relative Basis
- ❖ Coverage Ratios
- ❖ Liquidity Metrics

❖ **Benchmarks:**

- ❖ Debt Service Coverage Ratios – ADS, MADS
- ❖ Days Cash on Hand
- ❖ Net Debt to Cashflow Available for Debt Service

Stronger

Low Absolute Leverage
Limited Future Borrowings
High Unencumbered Reserves
Robust Coverage Ratios

Midrange

Moderate Leverage
Manageable Expectation of New Debt
Dependence on Growth to Maintain Financial Metrics

Weaker

High Current/Expected Debt
Pressure on Airport Cashflow
High Dependence on Growth

❖ **Impact:**

- ❖ Top Line Revenue, Costs, and Debt Maturity

❖ **Differentiators:**

- ❖ Comfort on Project Horizon & Complexity
- ❖ Planning and Funding Approaches
- ❖ Quality of Assets

❖ **Benchmarks:**

- ❖ CIP Size
- ❖ Funding Sources
- ❖ Flexibility in Execution

Stronger

Capex Plans Well Defined
Capacity Headroom
Flexibility on Scale and Timing
Additional Leverage Limited

Midrange

Some Uncertainty on Capex
Some Capacity
Expansion Needs
Requires Additional Leverage

Weaker

CIP Timing Unclear
Potential Capacity Shortfall
Capex Mostly Funded by Debt
Potential Funding Gaps

Rating Category	Key Characteristics
AA	<p>Major Market with Limited Competition</p> <p>Low Volatility: Traffic and/or Revenue</p> <p>Stronger Attributes for Revenue, Debt Structure and Debt Service</p>
A	<p>Mid-Size to Large Market with Some Hubbing or Competition</p> <p>Moderate Volatility: Traffic and/or Revenue</p> <p>Mix of Stronger or Mid-Range Revenue Risk, Debt Structure and Debt Service Rankings</p>
BBB	<p>Smaller Market or Higher Exposure to Competition</p> <p>Moderate/High Volatility: Traffic and/or Revenue</p> <p>Mid-Range/Weaker Revenue Risk, Debt Structure and Debt Service Rankings</p>
BB	<p>Small Market with Demonstrated Volume / Revenue Volatility</p> <p>Elevated Volatility: Traffic/Revenue</p> <p>Weaker Revenue Risk, Mid-Range / Weaker Debt Structure and Debt Service Rankings</p>

Research	Date
Global Infrastructure & Project Finance U.S. Transportation Trends Spring 2014	May '14
Airport Peers' Positioning	Mar '14
Severe Winter Conditions May Challenge U.S. Airports	Jan '14
Rating Criteria for Airports	Dec '13
2014 Outlook: U.S. Transportation Infrastructure (Stable with Some Macro Challenges)	Dec '13
Peer Review of U.S. Airports (Attribute Assessments, Metrics, and Ratings)	Oct '13
Completion Risk in Project Finance	Oct '13
Global Infrastructure & Project Finance U.S. Transportation Trends Fall 2013	Oct '13
Global PPP Lessons Learned	Oct '13
Midway Shows Challenges to U.S. Airport Privatization	Sept '13
American Airlines Merger with US Airways Could Impact Hub Airports	Feb '13
Passenger Facility Charges at U.S. Airports	July '12

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