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Summary:
N.V. Luchthaven Schiphol

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Summary:

N.V. Luchthaven Schiphol

Credit Rating: A/Stable/A-1

Rationale

The 'A' ratings on N.V. Luchthaven Schiphol and Schiphol Nederland B.V. (collectively, Schiphol group) are based on the group's stand-alone credit profile (SACP), which Standard & Poor's Ratings Services assesses at 'a-', as well as on our opinion that there is a "moderate" likelihood that the Dutch government would provide timely and sufficient extraordinary support to Schiphol group in the event of financial distress.

In accordance with our criteria for government-related entities, our view of a "moderate" likelihood of extraordinary government support is based on our assessment of the group's:

- "Important" role, based on our view on the essential infrastructure nature of the group's main asset, Amsterdam Airport Schiphol (Schiphol airport); and
- "Limited" link with the Dutch government. The State of The Netherlands (AAA/Stable/A-1+) has limited input into Schiphol group's strategic decisions and no involvement in the group's day-to-day operations.

The SACP on Schiphol group reflects our view that Schiphol has an excellent business risk position based on its strong competitive position as a European hub airport and supportive regulator. Its successful retail and real estate operations have supported its strong operational track record.

These strengths are partially offset by a relatively high level of transfer passengers (42% in 2010; dependence on a dominant customer, Air France-KLM; and the strong negative effect of the economic downturn on passenger numbers in 2009. The ratings are also constrained by the group's significant financial risk profile. Funds from operations (FFO) to debt stood at 16.2% in financial year 2010.

Key business and profitability developments

In 2010, the number of passengers at Schiphol airport increased by 3.8%, somewhat more than we had expected for the year. Passenger growth has remained good in 2011; the company reported underlying growth of 8.7% in the first four months to April 2011, adjusted for the impact of ash cloud in April 2010. Growth in the number of passengers flying direct between two airports (origin-destination passengers; O&D) rose by 7.0% in 2010 and 11.6% in the first three months of 2011, while transfer traffic fell by 0.6% in 2010 and then grew by only 2.8% in the first quarter of 2011. Passenger capacity has been taken up by the more-profitable O&D. Based on the strong performance in the start of the year and the changes in the summer schedule, we currently anticipate passenger growth of between 3% and 6% in 2011.

Schiphol has not yet reported its commercial performance in 2011, but we expect its commercial revenues to increase in the first half of 2011. We believe growth will mainly stem from increasing passenger numbers, but that improved spend per passenger will also contribute.

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Key cash flow and capital-structure developments

Schiphol's 2010 financial performance was somewhat above our expectations. Adjusted FFO to debt reached 16.2%, but we expected it to be about 15%. Debt-to-EBITDA also improved in 2010--it stood at 4.2x, compared with 4.9x in 2009. We expect the group's financial ratios for 2011 to improve further, helped by growth in passenger numbers and commercial spend. Capital expenditures are likely to limit free cash flow generation, however.

Schiphol has also been actively managing its refinancing risk. The company successfully issued a €438.4 million 10-year bond due in April 2021. The proceeds of the new bond were used to redeem existing debt due in 2013 and 2014. We view active management of major upcoming debt maturities as supporting the current rating.

Liquidity

Schiphol's liquidity position is adequate. As of Dec. 31, 2010, the company's liquidity was supported by €317.0 million in cash and marketable securities. In addition, it had access to €175 million of undrawn committed credit lines. However, these credit lines have relatively short maturities (one year, with an extension of one year if drawn). Schiphol also had access to an undrawn €350 million credit facility provided by European Investment Bank (EIB; AAA/Stable/A-1+).

We anticipate that over the next 12 months, Schiphol group will be cash flow negative after capital expenditures (capex) and dividend payments. In our view, increasing passenger volumes and a brighter long-term outlook are likely to trigger a material increase in capex. As of Dec. 31, 2010 (the last reported numbers) Schiphol group has €71.7 million of debt maturing in the next 12 months to March 31, 2012. We believe exposure to margin calls on derivative instruments to be limited; hence it should not affect the Schiphol group's liquidity position.

The above sources of liquidity are significantly larger than the estimated call on cash over the next 12 months. Looking ahead, we believe that the sources-to-uses ratio will be about 2.3x in 2011, declining to 1.3x in 2012, mainly due to lower available facilities.

Further cash calls could come from the EIB, which could ask for an early loan repayment (€16.3 million outstanding on Dec. 31, 2010) if we were to lower the ratings on Schiphol group to below 'A', if new terms cannot be agreed. The additional €350 million EIB loan (which is undrawn) can also be accelerated if the rating on Schiphol group drops below 'BBB' and no suitable guarantor is found.

In addition, the €120 million of notes issued under the group's €1 billion medium-term note program, due 2038, have an early redemption option that would be triggered if either Standard & Poor's or Moody's Corp. downgrade the group to speculative-grade, or if both rating agencies withdraw their long-term senior unsecured debt ratings.

Outlook

The stable outlook on Schiphol group reflects our assumptions that the group's adjusted FFO to debt will migrate toward the upper end of the 15%-20% range from 2011 onward, and that the airport will remain the key hub for Air France-KLM.

We could lower the ratings if Schiphol group's adjusted FFO to debt drops below 15%; if passenger volumes were weaker than we anticipated; or if other negative developments affected the group's business risk profile--for example, significant aggressive growth in the group's real estate business.

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We could upgrade Schiphol group if it demonstrated an improved financial risk profile, for example, if FFO to debt were to increase to more than 20% on a sustainable basis, all else being equal.

Related Criteria And Research

- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Principles Of Credit Ratings, Feb. 16, 2011

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