

Research

Research Update:

Schiphol Group Upgraded To 'A+' On Improved Base-Case Ratios; Outlook Stable

Primary Credit Analyst:

Olli Rouhiainen, London (44) 20-7176-3769; olli.rouhiainen@standardandpoors.com

Secondary Contact:

Izabela Listowska, Frankfurt (49) 69-33-999-127; izabela.listowska@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Schiphol Group Upgraded To 'A+' On Improved Base-Case Ratios; Outlook Stable

Overview

- Standard & Poor's Ratings Services published its revised corporate ratings criteria on Nov. 19, 2013.
- Under our revised criteria, we have revised upward our financial risk profile of Dutch airport operator N.V. Luchthaven Schiphol and Schiphol Nederland B.V. (collectively, Schiphol Group) to "intermediate," reflecting our forecast of weighted-average adjusted funds from operations (FFO) to debt of more than 13% over the medium term.
- We are raising our long-term corporate credit rating on Schiphol Group to 'A+' from 'A' and removing it from CreditWatch, where we placed it with positive implications on Nov. 26, 2013, in conjunction with our criteria redesign.
- The stable outlook reflects our view that Schiphol will maintain good operating performance and will be able to manage its planned capital expenditure program while maintaining weighted-average adjusted FFO to debt of more than 13% over the next 24 months.

Rating Action

On Dec. 6, 2013, Standard & Poor's Ratings Services raised its long-term corporate credit rating on Dutch airport operator N.V. Luchthaven Schiphol and Schiphol Nederland B.V. (collectively, Schiphol Group) to 'A+' from 'A'. The outlook is stable.

At the same time, we raised our issue rating on Schiphol Nederland's senior unsecured debt to 'A+' from 'A'. In addition, we removed all the aforementioned ratings from CreditWatch, where we placed them with positive implications on Nov. 26, 2013, in conjunction with our criteria redesign.

Finally, we assigned our 'A+' issue rating to Schiphol Nederland's €30 million senior unsecured bond due 2025.

Rationale

We base our upgrade primarily on our upward revision of Schiphol Group's financial risk profile to "intermediate" from "significant" following the publication of our revised corporate ratings criteria on Nov. 19, 2013. Our reassessment of Schiphol Group's financial risk profile reflects our updated base-case forecast for Schiphol Group and the relative stability of cash flows in the airport sector, which lead us to assess the sector as having "low

volatility."

We also base our upgrade on our reassessment of Schiphol Group's surplus cash. We now consider projected dividend payments and working capital needs in our liquidity analysis and we do not deduct these from available cash when calculating Schiphol Group's ratios. In our base case, Schiphol Group's weighted-average Standard & Poor's-adjusted funds from operations (FFO) to debt is above 13%, which supports our assessment of an "intermediate" financial risk profile.

We continue to view Schiphol Group's business risk profile as "excellent." This reflects Schiphol Group's dominant market position within its wealthy and large catchment area; a supportive regulatory framework, which allows the group to adjust tariffs in response to cost pressures; and the group's track record of managing its cost base in tough economic conditions. These factors are partly offset by Schiphol Group's dependence on its main client Air France KLM. However, we believe that the majority of Air France KLM's network could be replaced in a short period of time should the carrier become insolvent. In addition, Schiphol Group's average profitability is better than that of other transportation infrastructure companies, with EBITDA margins that we forecast remaining at about 40%.

Our base-case operating scenario for Schiphol Group assumes:

- Passenger volumes will increase by 2%-3% in 2013, thanks to growth in transfer traffic and modest growth in demand from origin-and-destination passengers. In 2014, we anticipate that passenger volumes will increase by about 1%, with ongoing weak demand from Dutch passengers being offset by growth in transfer passengers.
- Tariffs will increase by 0.5% in 2013 and 0.4% in 2014.
- Schiphol Group's consumer revenues will increase by about 1%-2% in 2013 and by about 2%-3% in 2014, driven in both years by a rise in spending per passenger and overall passenger numbers.
- Operating costs will increase on average by 2%-3% in 2013 and 2014, due to inflation as well as increasing passenger volumes.
- Capital expenditure (capex) will be about €350 million-€400 million in 2013 and €500 million-€600 million in 2014.
- Dividends will be about €110 million for both 2013 and 2014.

Based on these assumptions, we arrive at the following credit measures:

- FFO to debt of 25%-27% in 2013, declining to about 21%-23% in 2014. Weighted-average FFO to debt for our three-year projection period from 2013-2016 is less than 23%. In our base-case credit scenario, these measures weaken in 2014 and 2015 due to Schiphol Group's large capex program.
- Debt to EBITDA of about 3x for both 2013 and 2014.
- FFO interest coverage of more than 5x for both 2013 and 2014.
- Negative discretionary operating cash flow of between €100 million-€200 million in 2013 and 2014, and negative discretionary cash flow of between €200 million-€300 million in 2014, leading to an increase in debt.

The 'A+' rating on Schiphol Group reflects the group's stand-alone credit profile (SACP), which we assess at 'a', as well as our opinion that there is a "moderate" likelihood that Schiphol Group's majority owner, the Dutch government, would provide timely and sufficient extraordinary support to Schiphol Group in the event of financial distress. Under our criteria for government-related entities (GRE), our view of a "moderate" likelihood of extraordinary government support is based on our assessment of the group's "important" role for, and "limited" link with, the Dutch government.

Liquidity

We assess Schiphol Group's liquidity as "strong," reflecting our projection of its ratio of sources to uses of liquidity of more than 1.5x for the 12 months to Sept. 30, 2014, and more than 1.0x in the following 12-month period.

As of June 30, 2013, the date of the last available publicly available data, Schiphol Group had the following main sources of liquidity:

- Cash and cash equivalents of €313 million.
- Availability under credit lines of €920 million, adjusted for a €200 million European Investment Bank facility and a €150 million KfW Bank facility signed after June 30, 2013.
- Our projection of FFO of about €470 million.
- Our projection of working capital inflow of up to €10 million.

As of June 30, 2013, Schiphol Group had the following commitments:

- Debt maturities of €555 million for the next 12 months.
- Planned capex of about €450 million.
- A dividend payment of about €100 million.

Outlook

The stable outlook on Schiphol Group reflects our view that the group will be able to maintain FFO to debt of more than 13% over the next two years, despite high capex. This is thanks to headroom at its "intermediate" financial risk profile and predictable cash flow generation on account of its strong market position.

Upside scenario

In our view, a positive rating action is unlikely at this stage. This is because we anticipate that the Dutch government would ask Schiphol Group to pay it additional dividends should the group's credit metrics reach levels commensurate with an SACP of 'a' or higher. We base our view on the government's track record and its policy of not expecting GREs to have SACPs above 'a'.

Downside scenario

We could take a negative rating action on Schiphol Group if we lower our long-term rating on The Netherlands by one notch or if we revise our outlook

on the country to negative, in line with our GRE criteria. We could also take a negative rating action if Schiphol Group's profitability was more volatile than we currently anticipate. Evidence of such volatility would be EBITDA dropping by more than 5% in a 12-month period.

Ratings Score Snapshot

Corporate Credit Rating: A+/Stable/A-1

Business risk: Excellent

- Country risk: Very low risk
- Industry risk: Low risk
- Competitive position: Excellent

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: a

Modifiers

- Diversification/portfolio effect: Neutral
- Capital structure: Neutral
- Liquidity: Strong
- Financial policy: Neutral
- Management and governance: Satisfactory
- Comparable ratings analysis: Neutral

Stand-alone credit profile: a

- Sovereign rating: AA+/Stable/A-1+
- Likelihood of government support: Moderate

Related Criteria And Research

Related criteria

- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
N.V. Luchthaven Schiphol Schiphol Nederland B.V. Corporate Credit Rating	A+/Stable/A-1	A/Watch Pos/A-1
Schiphol Nederland B.V. Senior Unsecured	A+	A/Watch Pos
New Rating Schiphol Nederland Senior Unsecured	A+	

Additional Contact:

Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2013 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, 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 S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, 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, 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) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. 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's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. 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.

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 credit-related 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 and www.globalcreditportal.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.