

RatingsDirect®

Summary:

N.V. Luchthaven Schiphol

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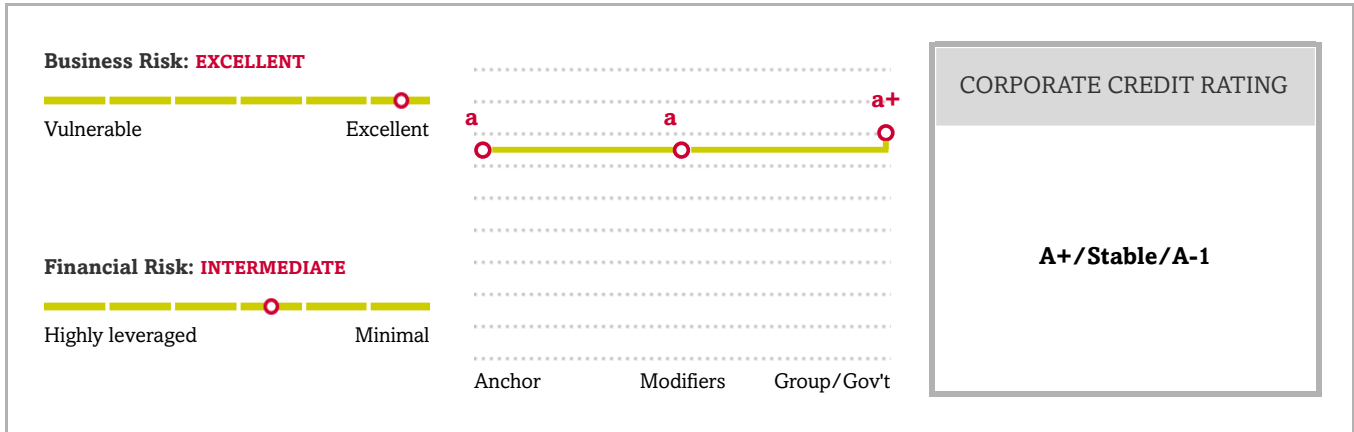
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Summary:

N.V. Luchthaven Schiphol



Rationale

Business Risk: Excellent	Financial Risk: Intermediate
<ul style="list-style-type: none"> Competitive position driven by dominant market position in wealthy and sizable catchment areas. Regulatory environment is transparent and predictable, supportive stable operations. Track record of managing cost base and maintaining adjusted EBITDA margin of at least 40%. High customer concentration to Air France-KLM, which we see as a potential risk. However, considering the current capacity and demand, we would expect it to present limited impact on traffic volumes if Air France-KLM were to reduce operations due to distress. 	<ul style="list-style-type: none"> Expected weighted average adjusted FFO/debt of 18%-22%, which leaves headroom for performance to weaken beyond our expectations without affecting credit quality.

Outlook: Stable

The stable outlook on Dutch airport operator N.V. Luchthaven Schiphol and Schiphol Nederland B.V. (collectively, Schiphol Group) reflects S&P Global Ratings' view that the likelihood of timely and sufficient extraordinary support for the group from the Dutch government will remain moderate and that the group's stand-alone credit profile (SACP) will remain unchanged at 'a'.

We expect that Schiphol Group will be able to maintain its ratings-commensurate credit measures, including a weighted average ratio of adjusted funds from operations (FFO) to debt of more than 13% over the next two years, despite a proposed further reduction in airport charges next year and continued significant capital expenditure (capex). This we believe is due to predictable cash flow generation on account of its strong market position and headroom within the group's financial risk profile.

Downside scenario

We could take a negative rating action if Schiphol Group's competitive position weakened. Such weakening could be indicated, among others, by more-volatile-than-expected profitability/EBITDA generation--for the reasons other than the traffic- or cost base-driven reset in regulated tariffs--which could stem, for example, from stronger competition from other airports.

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 if the group's credit metrics reach levels commensurate with a SACP of higher than 'a'. We note that, as Schiphol Group's profitability increases, the regulatory framework leads to negative adjustments of tariffs. This will likely prevent the group's financial risk profile from improving to be sustainably consistent with modest.

Our Base-Case Scenario

Assumptions	Key Metrics																		
<ul style="list-style-type: none"> • Following real GDP growth of 2% in 2015, we believe that The Netherlands' real GDP will post 1.7% growth this year before rising by just under 2% annually during 2017-2019. Typically we have seen a strong correlation between the GDP growth rate and passenger volumes at airports, as well as the passengers' retail spending. • Passenger volumes have been increasing healthily in 2016, helped by increasing demand from domestic and international passengers. Passenger volumes in the first six months of 2016 were up by 8.9% year on year at Schiphol Group. Accordingly, we forecast passenger volumes increasing by about 8%-10% in 2016. Overall, for 2017 and 2018, we forecast passenger traffic growth in line with GDP. • A reduction in airport charges by a proposed 11.6% effective April 2016 and we are forecasting an additional charge cut of 3% for 2017. These are regulatory resets on the back of stronger-than-expected passenger volumes and lower costs. • In general, we expect a rebound in passenger spending in 2017 after a decline of about 6% seen in the first half of 2016 as a result of crowdedness in the terminal, change in consumer behaviors, and exchange rate movements. • In our base-case scenario we anticipate a modest decline in the group's financial ratios in 2016-2018 as we expect high capex of about €400 million-€600 million to continue in 2016-2018 and a higher dividend payment to shareholders, representing 60% of group's net profit compared with 50% previously. 	<table border="1"> <thead> <tr> <th></th> <th>2015a</th> <th>2016f</th> <th>2016e</th> </tr> </thead> <tbody> <tr> <td>Adjusted EBITDA margin</td> <td>45.4</td> <td>40-45</td> <td>40-44</td> </tr> <tr> <td>FFO/debt (%)</td> <td>25.8</td> <td>20-22</td> <td>20-21</td> </tr> <tr> <td>FFO interest coverage (x)</td> <td>6.8</td> <td>5-6</td> <td>5-6</td> </tr> </tbody> </table>				2015a	2016f	2016e	Adjusted EBITDA margin	45.4	40-45	40-44	FFO/debt (%)	25.8	20-22	20-21	FFO interest coverage (x)	6.8	5-6	5-6
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a—Actual. f--Forecast. e--Estimate. FFO--Funds from operations																			

Company Description

Schiphol Group is the operator of Schiphol airport, the main airport in The Netherlands and one of Air France-KLM's two major hubs. In addition, the group owns and operates Lelystad airport and Rotterdam airport, and holds a 51% stake in Eindhoven airport. The group's international operations include an 8% stake in Aeroports de Paris, an 18.72% stake in Brisbane Airport Corp. Pty. Ltd. in Australia, and a managing contract for terminal four of John F Kennedy International Air Term LLC, NY in the U.S.

Business Risk: Excellent

Our assessment of Schiphol Group's business risk profile reflects the group's dominant market position within its wealthy and large catchment area. Amsterdam Schiphol airport, with 58.2 million passengers in 2015, is the fifth-largest airport in Europe by passenger volume. We estimate that Schiphol airport has about 35 million people living within a two-hour drive although only about 17 million people live in The Netherlands, which we consider constitutes the airport's core catchment area. Furthermore, the Netherlands' GDP per capita is among the highest in Europe, which underpins the propensity to fly.

In our view, Schiphol Group operates within a transparent, predictable, and consistent regulatory framework, which allows the group to adjust tariffs in response to cost pressures. Furthermore, the group has a track record of managing its cost base in tough economic conditions. We also understand that airport charges at Schiphol airport are, on average, lower than at most of the larger hub airports, which strengthens its competitiveness.

These factors are partly offset by Schiphol Group's dependence on its main and ailing client, Air France-KLM. However, we believe that the majority of Air France-KLM's operations at Schiphol airport could be replaced quickly should the carrier become insolvent. In our view, Schiphol Group's profitability is average compared with the group's broad transportation infrastructure peer group, with adjusted EBITDA margins that we forecast will remain 40% or more.

Peer comparison

We consider Aeroports de Paris, the operator of the two main Paris airports, to be a close peer of Schiphol Group. Both operate European hub airports for Air France-KLM and have excellent competitive positions. However, Schiphol airport is smaller, with 58.2 million passengers in 2015, compared with Paris-Charles de Gaulle airport's 65.8 million. Both operators have credit metrics that we forecast will remain at the higher end of the intermediate category. The group's peers include the operators of other capital city airports such as Aeroporti di Roma, with which Schiphol compares positively in terms of annual passenger volumes, and Heathrow, which is significantly larger.

Financial Risk: Intermediate

Our assessment of Schiphol Group's financial risk profile is based on Schiphol Group's ample operating cash flows as a consequence of its dominant market position and high EBITDA-to-operating cash flow conversion rate. Our expectation that high infrastructure investments and dividend distributions will continue, which combined with lower expected airport charges and the resulting EBITDA decline will weaken credit measures in 2016-2017, from levels achieved in 2015.

Liquidity: Strong

Our short-term rating on Schiphol Group is 'A-1'. We consider Schiphol Group's liquidity to be strong, underpinned by the group's ample liquidity sources on hand (such as the undrawn long-term revolving credit facility and available cash

holding), its ability to generate solid operating cash flows, and its demonstrated access to capital markets. These sources compare favorably with liquidity uses, in particular high capex.

Furthermore, our base-case liquidity assessment as of June. 30, 2016, reflects the following factors and assumptions:

- We expect the company's liquidity sources will exceed liquidity uses by at least 1.5x in the upcoming 12 months and remain above 1.0x over the subsequent 12-month period.
- Liquidity sources will continue to exceed uses, even if EBITDA were to decline 30%.
- We understand that Schiphol was in compliance with its financial covenant such as ratio of equity to total assets, with sufficient headroom as of June 30, 2016.
- The company appears to have a track record of well-established, solid relationships with banks and generally a high standing in the capital markets.

Principal Liquidity Sources	Principal Liquidity Uses
<p>We estimate liquidity sources for the 12 months from June. 30, 2016, to mainly include:</p> <ul style="list-style-type: none"> • Projected cash and cash equivalents of about €134 million. • Full availability under the revolving credit lines of €400 million. • Projected cash funds from operations of €430 million-€440 million. • Debt issuance under the euro medium term note program of €150 million completed in July 2016. 	<p>We estimate liquidity uses for the 12 months from Sept. 30, 2016, to mainly include:</p> <ul style="list-style-type: none"> • Debt maturities of about €154 million. • Projected capital expenditure of about €400 million-€500 million.

Other Credit Considerations

We apply no modifiers to the rating.

Government Influence

The 'A+' ratings on the Schiphol Group's two main entities reflect the group's 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 the group in the event of financial distress.

Under our criteria for government-related entities, our view that there is a moderate likelihood of extraordinary government support is based on our assessment of the group's:

- Important role for the Dutch government, based on our view of the essential infrastructure nature of the group's main asset, Schiphol airport; and
- Limited link with the Dutch government. The state has limited input into Schiphol Group's strategic decisions and no involvement in the group's day-to-day operations.

Ratings Score Snapshot

Corporate Credit Rating

A+/Stable/A-1

Business risk: Excellent

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

Financial risk: Intermediate

- **Cash flow/Leverage:** Intermediate

Anchor: a

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a

- **Group credit profile:** aa+
- **Entity status within group:** Moderately strategic (+1 notch from SACP)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Key Credit Factors For The Transportation Infrastructure Industry, Nov. 19, 2013
- General Criteria: Rating Government-Related Entities: Methodology and Assumptions, March 25, 2015

Related Research

Business And Financial Risk Matrix						
Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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