AZZURRA AEROPORTI S.p.A.

Moody's changes outlook on Azzurra Aeroporti and Aéroports de la Côte d'Azur to stable; Ba1 / Baa2 ratings affirmed

Rome, 2 November 2022 – The rating agency Moody's has today changed the outlook on Azzurra Aeroporti S.p.A. (Azzurra) and Aéroports de la Côte d'Azur (ACA) from negative to stable. Concurrently, Azzurra's Ba1 corporate family rating (CFR), Ba2-PD probability of default rating and Ba1 senior secured rating have been affirmed, as has ACA's Baa2 issuer rating.

The full text of the rating agency's announcement is provided below.

Rating Action: Moody's changes outlook on Azzurra and ACA to stable; Ba1 / Baa2 ratings affirmed

02 Nov 2022

Madrid, November 02, 2022 -- Moody's Investors Service (Moody's) has today changed the outlook on Azzurra Aeroporti S.p.A. (Azzurra) and Aéroports de la CÃ´te d'Azur (ACA) to stable from negative. Concurrently, Azzurra's Ba1 long-term corporate family rating (CFR), Ba2-PD probability of default rating and Ba1 senior secured ratings have been affirmed, as has ACA's Baa2 long-term issuer rating and Baa2 senior unsecured ratings.

RATINGS RATIONALE

Today's rating action reflects Moody's expectation that the continued recovery in traffic will allow Azzurra group to improve operating and financial performance with metrics trending towards levels commensurate with the current Ba1 CFR, namely a funds from operations (FFO)/debt ratio above 8%. It also reflects the recent approval of a 4.4% average tariff increase for 2023 (effective from November 2022) by the Transport Regulatory Authority (ART), which will allow ACA to partially mitigate the expected increase in costs due to high inflation and rising energy prices. In addition, the stable outlook incorporates Moody's expectation that the group will continue to implement measures aimed at restoring its financial profile and maintaining a solid liquidity position.

Following the severe reduction in passenger volumes during 2020-21, traffic at Nice airport continued to rebound in the first nine months of 2022, recovering to around 82% of the 2019 level, which is above the average traffic recovery registered for European airports. This is sustained by strong pent-up travel demand, the attractiveness of Nice as a prime tourist destination in Europe and the airport's traffic profile, which benefits from a high share of domestic and EU passengers (82% of total traffic in 2019).

Moody's anticipates that ACA's passenger traffic will be around 18% below pre-pandemic levels in 2022 and volumes will fully recover by around 2024. Nevertheless, there remain uncertainties about the traffic recovery given deteriorating macroeconomic conditions in Europe. In addition, rising inflationary pressures may limit the improvement in ACA's operating profit over the coming years. Overall, at the Azzurra level there is limited flexibility to deal with downside scenarios given its highly leveraged profile and the requirement to reduce consolidated leverage to meet financial covenants, such that net debt/EBITDA should be below 7.5x by year-end 2023. Nevertheless, the credit profile of Azzurra is also underpinned by Moody's expectation that shareholders will provide adequate and timely support to the group to cure any potential covenant breach.

The strengthening of Azzurra's credit metrics will be assisted by revenue and cash flow generation because debt levels are not expected to decrease over the coming years given ACA's investment programme. This improvement will also be supported by the 4.4% average annual tariff increase that ACA has recently obtained and will be effective from November this year. Although this increase was deemed in line with the principle of moderation embedded in the regulatory framework, ART noted in its decision that the return on invested capital on ACA's regulated perimeter is still negative for the year. Moody's expects that ACA will be able to increase tariffs in the range of 3%-5% per annum, in order to restore its profitability to pre-coronavirus levels over the next three to five years.

Overall, the current Ba1 rating of Azzurra reflects (1) the strong business profile of Nice airport as an important gateway to CÃ´te d'Azur, with limited competition for air travel; (2) the high proportion of origin and destination passengers and diversified carrier base; (3) a significant proportion of leisure traffic and short-haul flights, predominantly domestic and from other European countries; (4) an expectation of a reduction in the group's leverage to the levels commensurate with the current rating by year-end 2024; and (5) an absence of interest rate risk as most of the group's debt is fixed-rate. The senior secured rating of Azzurra further takes account of the features of the debt documentation, which limits Azzurra's ability to upstream cash to its shareholders subject to leverage tests, providing for some de-linkage from the credit quality of Atlantia S.p.A. (Ba1 stable), the majority shareholder of Azzurra. These strengths are partially offset by (1) the significant leverage at the Azzurra level and limited headroom to the Azzurra debt default covenants; and (2) a significant presence of minority shareholders at ACA, which creates cash leakage from the group.

The current Baa2 issuer rating of ACA reflects its stronger underlying financial profile with a limited amount of debt at the ACA level, ACA's closer proximity to the group's cash flows compared to Azzurra, and Moody's expectation that ACA's shareholders will continue to allow a prudent financial policy and will target the strengthening of the business over the long term. However, ACA's rating is constrained by the overall credit quality of the Azzurra group, given absence of specific creditor protection features that would fully isolate ACA from the wider group.

A CFR is an opinion on the expected loss associated with the debt obligations of a group of companies assuming that it had one single class of debt and is a single consolidated legal entity. The CFR assigned to Azzurra consolidates the legal and financial obligations of the group and reflects the structural features of Azzurra's debt structure. Azzurra's probability of default rating of Ba2-PD is one notch below the CFR, reflecting a low family-wide loss given default, in line with Moody's standard assumptions for infrastructure and utility companies.

LIQUIDITY AND DEBT COVENANTS

As of June 2022, the group's combined liquidity was around €133 million, composed of €61 million of cash and around €60 million of undrawn amortising bank loans expiring between 2036-2037 at the ACA level, and €13 million of cash at Azzurra. In addition, as required under the terms of Azzurra's bonds, the company maintains a letter of credit from an investment grade counterparty equal to the next six-month's worth of interest payments. Given that the group does not have any significant debt maturities until May 2024, when Azzurra's €360 million bond is due to expire, Moody's considers its liquidity position as adequate to cover all cash requirements until at least December 2023.

Azzurra's debt documentation includes a step-down net debt/EBITDA financial covenant with an initial testing date of December 2023. Depending on the actual traffic recovery and EBITDA generation in the next year, there is a risk of the company breaching its covenant level in December 2023. The current rating assumes that the group will take actions in order to avoid any debt acceleration should this occur.

ACA's debt documentation also includes a set of financial covenants, which were waived during the 2020-2021 period due to the impact of the coronavirus crisis. The waiver agreement has not been extended beyond June 2022 as financial ratios are expected to be within the required covenant levels.

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

Although not considered likely given weak macroeconomic prospects, ACA and Azzurra's ratings could be upgraded in the scenario of a stronger-than-expected traffic recovery and a favourable operating environment, such that the group's FFO/debt were to remain persistently above 10%, coupled with a solid liquidity profile.

ACA and Azzurra's ratings could be downgraded if (1) the group consolidated financial profile weakens, so that Azzurra's FFO/debt remains materially below 8%; (2) ACA is not able to obtain yearly tariff increases in order to restore its profitability over the medium term; (3) there is a risk of covenant breaches within the group without adequate mitigating measures in place; or (4) the group's liquidity profile deteriorates.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Privately Managed Airports and Related Issuers published in September 2017 and available at https://ratings.moodys.com/api/rmc-documents/63380. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

Azzurra Aeroporti S.p.A. is the holding company of Aéroports de la CÃ´te d'Azur, whose main assets are Nice and Cannes Mandelieu airports operated under a concession expiring on 31 December 2044, and Saint Tropez airport (held freehold). Azzurra is owned by a consortium comprising Atlantia S.p.A. (52.7%), Aeroporti di Roma S.p.A. (7.8%), EDF Invest (19.4%) and the Principality of Monaco (20.1%).

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.moodys.com/rating-definitions.

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