MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades ACSA's rating to Ba2, negative outlook

26 Jun 2020

London, 26 June 2020 -- Moody's Investors Service (Moody's) has today downgraded to Ba2 from Ba1 the corporate family rating (CFR) of Airports Company South Africa SOC Ltd (ACSA). Moody's has also downgraded to Aa3.za from Aa2.za the national scale rating of ACSA. The outlook has been changed to negative from ratings under review. This concludes the review process initiated on 31 March 2020.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

The rating downgrade reflects ACSA's reduced cash flows that will increase the company's debt burden and result in a material weakening of credit metrics, with uncertain recovery prospects in the context of ACSA's exposure to a very weak carrier base and weak economic environment.

The rapid spread of the coronavirus outbreak, severe global economic shock, low oil prices, and asset price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The airport sector has been one of the sectors most significantly affected by the shock, given its exposure to travel restrictions and sensitivity to consumer demand and sentiment. Moody's regards the coronavirus outbreak as a social risk under its ESG framework, given the substantial implications for public health and safety. Today's action takes account of the impact on ACSA of the breadth and severity of the shock, and the broad deterioration in credit it triggered.

ACSA's traffic has been severely impacted by the introduction of travel restrictions with very limited number of flights permitted since mid-March this year. With restrictions gradually eased, Moody's expects flight activity to gradually resume in the second half of 2020 and continue to increase in 2021. Passenger volumes will remain, however, well below pre-coronavirus outbreak levels. The timing and profile of a recovery beyond 2021 also remains highly uncertain. In this regard Moody's notes that following the financial crisis, it took seven years for ACSA's traffic to recover to the pre-crisis levels.

Against this backdrop, Moody's has revised its traffic assumptions for ACSA. While as a large airport network with a high share of domestic traffic and limited viable transport alternatives in South Africa, ACSA is fairly well placed in terms of traffic recovery in a more constrained economic environment, these factors are balanced by the company's exposure to a weak carrier base, including South African Airways (SAA) currently in a business rescue process. Under updated traffic scenarios, Moody's assumes that the decline in ACSA's passenger traffic will be more than 50% in the financial year ending March 2021, with gradual recovery thereafter. There are, however, high risks of more challenging downside scenarios, including deeper reduction in passenger volumes and a slower recovery.

Given traffic declines, ACSA's cash flows will be significantly reduced this year. The extent of the decline will be partly offset by a reduction in operating costs and investments. While Moody's expects free cash flow generation to gradually improve starting from the financial year ending March 2022 on the back of traffic recovery and the company's cash flow preservation measures, including reduction in investments to around ZAR800-1,000 million annually, the company's debt burden will increase resulting in severe weakening of ACSA's credit metrics. Changes in aeronautical charges could support the company's earnings. However, there is uncertainty around the future evolution of tariffs, given claw-back mechanism embedded in the airports pricing model and ACSA's expected significant underspend against its plans. The regulatory framework has proved less transparent and predictable in the past, with a high volatility in tariffs sometimes putting ACSA in a position of needing to either cut down on investment or outperform traffic and non-aeronautical revenue to maintain the trajectory of the regulatory settlement. Moody's currently assumes that ACSA's aeronautical charges will continue to evolve as permitted under the Final Permission applicable over the control period through March 2023.

Overall, ACSA's Ba2 CFR reflects (1) the company's ownership of a network of key infrastructure assets, with a monopolistic position in international scheduled traffic and a dominant position (more than 90%) of domestic scheduled traffic in South Africa; (2) the company's large service area, which includes all major conurbations in

South Africa; (3) the system of economic regulation that has proved challenging in the past with uncertainty around future evolution of tariffs; (4) the company's exposure to a very weak carrier base, including SAA; (5) the high financial leverage; and (6) the government ownership.

Under Moody's methodology for government-related issuers (GRI), ACSA's Ba2 rating reflects the company's standalone credit quality, expressed as a baseline credit assessment (BCA) of ba3, which was revised from ba1 as part of this rating action to take account of the company's increased credit and liquidity risks in a constrained environment, coupled with Moody's assumptions of strong support and moderate dependence. The strong support takes account of the 74.6% government ownership of ACSA and the company's strategic role in the country. Hence, ACSA's Ba2 rating considers one notch of a rating uplift from the BCA to reflect Moody´s expectation of extraordinary support from the Government of South Africa, if this were required.

The National Scale Rating of Aa3.za is assigned in accordance with guidance set out in Moody's methodology for Mapping National Scale Ratings from Global Scale Ratings, published in May 2016, and maps to a Ba2 global scale rating.

LIQUIDITY AND DEBT COVENANTS

ACSA's liquidity became significantly constrained following severe traffic declines starting in mid-March 2020. Moody's understands that the company's cash balance reduced to ZAR850 million as of end-May 2020. ACSA's liquidity is, however, expected to be supported by availabilities under the company's bank facilities, which have been increased to ZAR3 billion in June 2020, pending execution of final debt agreements. Moody's considers that ACSA's available liquidity will be adequate in the next up to 12 months, given the company's limited debt maturities of around ZAR300 million. The company remains, however, exposed to refinancing risk in a more constrained environment and in the context of high financial leverage.

The majority of ACSA's debt is related to domestic bonds, which are not subject to any financial covenants. The company's borrowings from the Agence Française de Développement (AFD) include, however, three covenants: net debt/EBITDA of 4x, net debt/capitalization of 65% and Projected DSCR of 1.5x. Given expected deterioration in financial ratios, ACSA has requested covenant waivers from AFD. Moody's understands that the company has now received approvals to waive its financial covenants until 30 June 2022, which reflects supportive stance of AFD in what are unprecedented circumstances for the airport sector as a whole. While this will give ACSA the time to improve its financial profile, Moody's cautions that absent traffic recovery and/or other measures to bolster the company's financial strength, covenant breaches post the holiday period remain a possibility.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects the continued uncertain prospects for traffic, with risks of extended disruption to travel leading to ACSA's weaker performance or liquidity.

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

Given the negative outlook, upward pressure on ACSA's ratings is unlikely in the near term. However, the outlook could be stabilized if (1) traffic recovery looked more certain; (2) it appeared likely that the company would be able to materially improve its financial profile over the medium term; (3) the company's liquidity was solid; and (4) the outlook on the sovereign rating was changed to stable.

ACSA's ratings could be downgraded if (1) there is a delay in passenger traffic recovery, including because of airlines ceasing operations; (2) it appeared likely that the company's capital structure could be challenged; or (3) there were concerns about the company's liquidity.

LIST OF AFFECTED RATINGS

..Issuer: Airports Company South Africa SOC Ltd

Downgrades:

.... NSR LT Issuer Rating, Downgraded to Aa3.za from Aa2.za

....LT Corporate Family Rating, Downgraded to Ba2 from Ba1

Outlook Actions:

..Issuer: Airports Company South Africa SOC Ltd

....Outlook, Changed To Negative From Rating Under Review

The methodologies used in these ratings were Privately Managed Airports and Related Issuers published in September 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1092224, and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1216309 .

Airports Company South Africa SOC Ltd owns and operates nine airports in South Africa, including O.R. Tambo International Airport in Johannesburg, Cape Town International Airport and King Shaka International Airport in Durban. The company is majority owned (74.6%) by the Government of South Africa. In the financial year ended March 2019, ACSA reported revenues of ZAR7.1 billion.

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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