



Rating Action: **Moody's changes ACSA's outlook to stable; affirms Ba2 rating**

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London, January 09, 2024 – Moody's Investors Service (Moody's) has today changed the outlook to stable from negative on Airports Company South Africa SOC Ltd (ACSA). Concurrently, Moody's has affirmed the Ba2 corporate family rating (CFR) and upgraded ACSA's national scale long-term issuer rating to Aa1.za from Aa2.za and ACSA's Baseline Credit Assessment (BCA) to ba2 from ba3.

The rating action follows publication of Airport Charges for the year to March 2025 by the Regulating Committee of the Department for Transport, ACSA's economic regulator, on 2 January. [1] The charges confirm the Draft Permission published in October 2023, which provides for significant tariff increases and improved revenue visibility over the period to March 2028.

RATINGS RATIONALE

The change in outlook to stable reflects the Permission, as well as a recovery in traffic and deleveraging that has supported a strengthening of ACSA's key credit metrics. The ratio of funds from operations (FFO) to debt, including preferred shares, rose to 14% in the 2022-23 financial year.

The Permission allows for a 4.5% tariff increase in 2023-24 and 10.0% in 2024-25, below the company's application for 17.5% in each year, in part due to a claw-back for capex under-spending during the coronavirus pandemic. However, the cumulative tariff increase over the five-year period is broadly similar to the company's request and, with recovering volumes, will support significant revenue growth.

ACSA's traffic was severely impacted by the pandemic and associated travel restrictions, and has recovered more slowly than in other markets. Passenger volumes fell 66% in 2020 compared to 2019, and in the first nine months of 2023 remained 19% below that benchmark, compared to an average of 8% for EU airports. Although domestic passenger volumes began to recover sooner, in late 2020 and 2021, international traffic caught up in 2022. The decline from baseline in domestic passengers (-18%) and international passengers (-20%) is now similar.

Affirmation of the rating takes into account that ACSA is a government-related issuer (GRI) and its rating reflects Moody's view on the company's standalone credit quality expressed as a Baseline Credit Assessment (BCA), together with potential uplift based on an assumption of support from its 75% owner, the Government of South Africa (Ba2 stable), if this were ever required. Given the regulatory decision and traffic recovery, Moody's has today upgrade the BCA to ba2. As the BCA is now in line with the sovereign rating level, there is no longer ratings uplift under the Government-Related Issuers Methodology and the final rating is unchanged at Ba2.

ACSA's rating continues to reflect, as positives, its ownership of a network of key infrastructure assets, with a monopoly position in international scheduled traffic and a dominant position (more than 90%) in domestic scheduled traffic, and its large and diverse service area, including major conurbations in South Africa.

The rating is constrained by a system of economic regulation that lacks transparency and has proved difficult in the past, a concentrated carrier base, particularly in the significant domestic market, relatively high financial leverage, and anticipated increases in capital expenditure as projects suspended during the coronavirus pandemic re-start. Traffic volumes have recovered more slowly than in other markets, and Moody's expects growth to remain low because of South Africa's structurally low economic growth and vast economic inequalities.

The upgrade of ACSA's national scale rating to Aa1.za reflects the stronger positioning within the Ba2 rating category. In accordance with guidance set out in Moody's "Mapping National Scale Ratings from Global Scale Ratings Methodology" (August 2022), it maps to an Ba2 global scale rating.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's view that credit metrics will remain comfortably positioned for the current rating, supported by approved tariff increases, modest growth in traffic, and further debt reduction.

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

There would be upward pressure on the rating if the Government of South Africa were upgraded and ACSA appeared likely to achieve an FFO interest coverage ratio consistently above 2.5x and FFO/debt above the low teens.

Any downgrade of the government of South Africa's rating would likely result in a downgrade of ACSA's ratings. Downward pressure on the ratings could also develop if ACSA's credit metrics weakened on a sustained basis, with FFO interest coverage persistently below 2.0x and FFO/debt persistently below 10%.

The methodologies used in these ratings were Privately Managed Airports and Related Issuers published in November 2023 and available at <https://ratings.moody.com/rmc-documents/410952>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moody.com/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.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 August 2022 entitled "Mapping National Scale Ratings from Global Scale Ratings Methodology". 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_1280297.

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 2023, ACSA reported revenues of ZAR6.0 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 on <https://ratings.moodys.com/rating-definitions>.

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REFERENCES/CITATIONS

[1] Airports Company Act: Airport charges, South African Government Gazette, 2 January 2024.

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