MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms ACSA's Ba2 rating; maintains negative outlook

24 Nov 2020

London, 24 November 2020 -- Moody's Investors Service (Moody's) has today affirmed the Ba2 global scale corporate family rating (CFR) of Airports Company South Africa SOC Ltd (ACSA). Concurrently, Moody's has upgraded to Aa2.za from Aa3.za the national scale corporate family rating of ACSA, in conjunction with the revised mapping for the South African national rating scale. The outlook remains negative.

Today's rating action follows Moody's downgrade of the Government of South Africa rating to Ba2 from Ba1 with a negative outlook on 20 November 2020. For additional details on the rationale for the sovereign rating action, please refer to the press release: https://www.moodys.com/research/--PR_436182.

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

RATINGS RATIONALE

The affirmation of the Ba2 CFR reflects Moody's view that despite the rating downgrade of the Government of South Africa as the majority owner of ACSA, the company's rating continues to reflect and warrant a one-notch uplift to its fundamental credit quality.

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, coupled with Moody's assumptions of strong support from the government 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. It further considers the potential for the government support through the issuance of preference shares of approximately ZAR2.3 billion next year [1].

Overall, ACSA's Ba2 rating continues to reflect (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 South African Airways; (5) the high financial leverage; and (6) the government ownership.

Moody's notes that ACSA's credit quality remains susceptible to the risks associated with the coronavirus outbreak, which has resulted in severe reduction in air travel. In the six months to September 2020, the company's passenger traffic was some 93% below 2019 levels. While international travel restrictions have been relaxed since 1 October and there has been a gradual pick up in domestic traffic since June, Moody's expects that a reduction in ACSA's total traffic will exceed 75% this financial year. As a result, and notwithstanding the reduction in investments and operating costs, ACSA's free cash flows will be negative. Any improvement in the company's earnings in the year ending March 2022 will be heavily dependent on recovery in traffic, which remains highly uncertain because travel restrictions in some form may continue, even if the spread of the virus seems contained, and there is uncertainty around the availability and benefits of any medical solution. In addition, the weaker economic environment and deteriorating credit profile of airlines will weigh on recovery prospects.

Over the medium term, changes in aeronautical charges could support ACSA'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. Furthermore, the regulatory framework has proved less transparent and predictable in the past, with a high volatility in tariffs. Moody's expects more clarity on ACSA's future tariff evolution next year, with the company's tariff application submission likely in June and final permission publication at the end of 2021.

The upgrade of the national scale corporate family rating to Aa2.za from Aa3.za solely reflects the revised mapping for the South African national rating scale following the rating action on the Government of South Africa. National scale ratings are assigned in accordance with the guidance set out in Moody's methodology for Mapping National Scale Ratings from Global Scale Ratings, published in May 2016. The Aa2.za national scale corporate family rating maps to a Ba2 global scale corporate family rating.

LIQUIDITY AND DEBT COVENANTS

As of end-September 2020, ACSA had cash on balance sheet of around ZAR480 million and ZAR3 billion availability under bank lines due in July 2021. Given severe traffic declines and the resulting negative free cash flow generation, ACSA's liquidity is weak and dependent on the company's ability to access debt markets and renew its bank lines in the next 12 months. In this regard the issuance of preference shares would improve ACSA's liquidity in the near term.

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 include, however, three covenants: net debt/EBITDA of 4x, net debt/capitalization of 65% and Projected DSCR of 1.5x. In June 2020, the company received covenant waivers for the period until 30 June 2022. While this has provided ACSA with time to restore its financial profile to the levels consistent with the terms of financing, Moody's cautions that absent significant traffic recovery, tariff increases and/or other measures to bolster the company's financial strength, covenant breaches post the holiday period are highly likely.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects the continued downside risks to ACSA's credit profile linked to the consequences of the coronavirus outbreak and further takes account of the negative outlook on the sovereign rating of South Africa, Government of.

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; (3) there were concerns about the company's liquidity; or (4) the sovereign rating was downgraded.

LIST OF AFFECTED RATINGS

..Issuer: Airports Company South Africa SOC Ltd

Upgrades:

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

Affirmations:

.... LT Corporate Family Rating, Affirmed Ba2

Outlook Actions:

..Issuer: Airports Company South Africa SOC Ltd

....Outlook, Remains Negative

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 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.

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 2020, ACSA reported revenues of ZAR7.1 billion.

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 .

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.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

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 .

REFERENCES/CITATIONS

[1] Second Adjustments Appropriation Bill, Republic of South Africa.

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.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Joanna Fic
Senior Vice President

Infrastructure Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Andrew Blease
Associate Managing Director
Infrastructure Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454