MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades ACSA's rating to Ba1, places on review for downgrade

31 Mar 2020

London, 31 March 2020 -- Moody's Investors Service (Moody's) has today downgraded the rating of Airports Company South Africa SOC Ltd (ACSA) to Ba1 from Baa3. As a result of the rating downgrade, ACSA's issuer rating has been withdrawn and a corporate family rating (CFR) of Ba1 has been assigned. Moody's has also downgraded to Aa2.za from Aa1.za the national scale rating of ACSA. All ratings have been placed under review for downgrade. The outlook has been changed to ratings on review from negative.

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

RATINGS RATIONALE

RATIONALE FOR THE RATING DOWNGRADE

The rating downgrade of ACSA follows the downgrade of the ratings of the Government of South Africa to Ba1 from Baa3 with a negative outlook on 27 March 2020. For further information, please refer to the sovereign press release: https://www.moodys.com/research/--PR_420630.

The rating downgrade reflects Moody's view that ACSA would not be rated higher than the Government of South Africa. This recognises (1) the 74.6% state ownership and the influence of the government on ACSA's policies; (2) the company's exposure to domestic regulatory oversight and local economic conditions due to its high percentage of domestic traffic; and (3) the company's exposure to domestic financial markets where it raises most of its debt.

ACSA is a government-related issuer and its rating reflects Moody's view on the company's standalone credit quality, expressed as a baseline credit assessment (BCA) of ba1, together with potential uplift based on an assumption of support from the Government if this were ever required, which Moody's assesses as strong. Nevertheless, given the current sovereign rating level, there is no ratings uplift to the ba1 BCA applicable at this time. Under the GRI methodology, Moody's assesses dependence as moderate.

RATIONALE FOR THE REVIEW

The rapid and widening spread of the coronavirus (COVID-19) outbreak, the deteriorating global economic outlook, falling oil prices and asset price declines 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 is among the 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 that lead to severe restrictions to air travel, cancellation of airline routes and closing of borders, as well as enhanced health and safety standards and regulation potentially resulting in additional compliance expenses and potential non-compliance costs in the form of fines.

Moody's current base case assumption is that the coronavirus pandemic will lead to a period of severe cuts in passenger traffic over the upcoming weeks given restrictions on travel, but that there will be a gradual recovery in passenger volumes starting by the third quarter 2020.

Unlike previous negative shocks such as the SARS epidemic in 2003, the prospects for traffic rebound is more uncertain because (1) travel restrictions in some form may continue for some time even if the spread of the virus seems contained; (2) the deteriorating global economic outlook would likely slow the recovery in traffic and consumer spending, even if travel restrictions are eased; and (3) the coronavirus outbreak is also weakening the credit profile of airlines, which have been drastically cutting capacity. As events continue to unfold, there is a higher than usual degree of uncertainty around the length of travel restrictions and drop in travel demand. Hence, it is difficult to predict the overall traffic volumes for 2020.

Nevertheless, Moody's currently assumes that the decline in ACSA's passenger traffic will be at least 30% in the financial year ending March 2021 compared to the previous year, driven by dramatic declines in the first half of the year and a recovery in the second half, albeit phased over the period. There are, however, high risks of more challenging downside scenarios.

The review for downgrade takes account of ACSA's rising credit and liquidity risks due to the sharp decline in traffic as a result of implementation of travel restrictions and the company's exposure to South African Airways, which was put into special bankruptcy regime at the end of last year.

Notwithstanding the significantly reduced cash flow over at least the next few weeks, ACSA remains a key infrastructure provider with a potential for recovery once the coronavirus outbreak and its effects have been contained.

ACSA's current Ba1 CFR reflects the company's (1) 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) large service area, which includes all major conurbations in South Africa; and (3) moderately levered financial profile. ACSA's rating is, however, constrained by (1) a system of economic regulation that has proved challenging in the past; (2) the company's exposure to South African Airways group; and (3) exposure to weak economic conditions in South Africa.

The National Scale Rating of Aa2.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 Ba1 global scale rating.

LIQUIDITY AND DEBT COVENANTS

ACSA's liquidity position was solid prior to the coronavirus outbreak. However, traffic reduction as a result of interruption in flight activity will result in significantly lower cash flow. As of end-December 2019, ACSA had approximately ZAR2 billion of cash on balance sheet and ZAR1.5 billion availability under credit facilities, although these have a maturity in June 2020. While the company's debt refinancing needs are limited in the next six months, ACSA will need to access additional sources of funding or capital in order to cover its expenditure, given its largely fixed cost base, and ensure that it has sufficient liquidity to see itself through the next few months.

Given reduction in earnings, Moody's expects ACSA's ratios to deteriorate with a potential for erosion of the company's headroom against financial covenants included in its debt documentation. While this would be credit negative, ACSA may be able to obtain waivers, should these be required, given the profile of some of the creditors. The majority of ACSA's debt is related to domestic bonds, which are not subject to any financial covenants.

FOCUS OF THE REVIEW

As part of the review process, Moody's will consider ACSA's access to liquidity as well as potential for measures to mitigate the impact of a substantial decline in traffic on credit metrics and the risk of financial covenant breaches.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Given the current review for downgrade, upward rating pressure on ACSA's ratings is unlikely in the near term. However, ACSA's ratings could be confirmed if (1) the company strengthened its liquidity profile; (2) it appeared likely that the company would be able to restore its financial profile to the levels commensurate with the current rating; or (3) there was evidence of government support that could warrant an uplift to the company's BCA.

ACSA's ratings could be downgraded if (1) the company failed to strengthen its liquidity profile; (2) the company's credit metrics were to weaken on a sustained basis, with the funds from operations (FFO) interest cover ratio consistently below 2.5x and the FFO/debt ratio consistently below the low teens in percentage term; or (3) it appeared likely that the coronavirus outbreak had medium to longer term impact on the airport traffic, either because of travel restrictions or failures of major airlines. Any downgrade of the Government of South Africa's rating will also likely result in a downgrade in ACSA's rating.

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.

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 .

LIST OF AFFECTED RATINGS

Downgrades:

..Issuer: Airports Company South Africa SOC Ltd

....LT Issuer Rating, Downgraded to Aa2.za from Aa1.za; Placed Under Review for Downgrade

Assignments:

..Issuer: Airports Company South Africa SOC Ltd

....LT Corporate Family Rating, Assigned Ba1; Placed Under Review for Downgrade

Withdrawals:

..Issuer: Airports Company South Africa SOC Ltd

....LT Issuer Rating, Withdrawn , previously rated Baa3

Outlook Actions:

..Issuer: Airports Company South Africa SOC Ltd

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

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 .

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.

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