FitchRatings

Fitch Affirms Mexico City's Airport Trust Sr Secured Notes at 'BBB+'; Outlook Stable

Fitch Ratings-Monterrey-19 July 2018: Fitch Ratings has affirmed its 'BBB+' rating of Mexico City's Airport Trust's (Grupo Aeroportuario de la Ciudad de Mexico, S.A. de C.V. [GACM]) senior secured notes issued in 2016 and 2017 for a total amount of USD6 billion. The Rating Outlook is Stable.

The rating affirmation reflects the airport's satisfactory operational performance and credit metrics in line with Fitch's base case expectations. The Stable Outlook indicates the agency's belief that the project's advancement will remain largely on track and potential actions taken by the newly elected government of Mexico will not be detrimental to the transaction's credit quality, given the airport's strategic importance to the country. Although not its base case, Fitch will continue to follow closely the appearance of any signals that would indicate otherwise and react accordingly.

KEY RATING DRIVERS

The 'BBB+' rating reflects the strength of the transaction's underlying airport asset as a strategic facility for the country, located in an area with strong demographic fundamentals and practically no competition from other airports. The project's flexibility to adjust tariffs when needed and the relatively low turnaround cost per passenger compared to peers compensate for the highly leveraged capital structure. Maximum debt-to-cash flow available for debt service (CFADS) of 12.8x occurs in 2018 in Fitch's rating case. Leverage is expected to decrease to close to 10x once the new airport reaches its commercial operation date (COD) and traffic ramps up, at a comfortable level according to criteria guidance for the rating category for airports with stronger assessments for volume and price risks. Completion risk is largely mitigated by the fact that short- and medium-term debt obligations can be served with the cash flows generated by the current airport and that cost overruns could be covered by a combination of tariff adjustments, discretionary government grants, and the retained flexibility to maximize commercial space revenues.

The rating also considers the fact that the grantor of the concession, SCT, and concessionaires Aeropuerto Internacional de la Ciudad de Mexico, S.A. de C.V.

(AICM) and GACM are related governmental entities, which are not expected to have leverage maximization as a priority. The debt structure allows for a good alignment of incentives between grantor, concessionaires and creditors, with the latter protected from the adverse effect of the concession ownership changing into private hands.

Robust Demand in a Strategic Asset - Revenue Risk (Volume): Stronger
The airport constitutes an essential facility as the gateway to the city and the country. It is a critical asset for the nation and a hub for most Mexican airlines. It is located in one of the world's most populated cities with access to a large and growing demand base. Mexico City's airport currently services one third of Mexico's passenger air-service demand, transporting over 40 million passengers per year. Traffic volumes track positive for the last two decades barring small reductions in 2009 and 2010 due to the global crisis, with the historical passenger CAGR surpassing that of GDP.

Flexibility to Adjust Tariffs - Revenue Risk (Price): Stronger
Concession title framework and concessionaires' ownership structure, with both concessionaires and grantor government-owned, ensure the project ample legal flexibility to adjust tariffs when deemed necessary. Historical price raises coupled with strong volume increases indicate an inelastic demand profile. Passenger fees are low compared to those being charged in comparable airports, allowing for some room for price increases without significantly affecting demand. The tariff is paid in MXN but linked to the USD and converted on a monthly basis, which minimizes exchange rate risk.

Saturated Facility in Need of Expansion - Infrastructure Development & Renewal: Midrange
There is dependence on the current airport, which has aged facilities and significant capacity constraints. The level of investment for maintenance needed during construction of the new airport is small, at USD45 million on average per year and is allocated within the overall capital budget of the airport enterprise. Delays in completion of the new airport will have cost implications at this facility but the expectation is that they will remain small relative to the overall investment budget. Fitch expects this assessment to be changed to 'Stronger' after successful completion of the new airport.

Completion does not Constrain the Rating - Completion Risk: Midrange
Construction works are at a preliminary stage, which heightens completion risk. Nonetheless, the project's rating is not materially exposed to completion related concerns. The project's essentiality makes its completion a must for the government. The fact that near- to medium-term debt service can be met with the cash flows

generated by the current airport reasonably alleviates the risk of delays. Potential cost overruns, on the other hand, would likely be financed by a combination of debt and grants.

Bullet Debt to be Refinanced - Debt Structure: Midrange
Rated debt is a future flow securitization of passenger charges (Tarifa de Uso de Aeropuerto, or TUA). The rest of the cash flow plus other aeronautical revenues different from TUA and non-aeronautical revenues are expected to pay for operating, maintenance and renewal/replacement expenses. Debt structure provides the incentives for tariff adjustment should the need arise given the importance of keeping the airport open and functional. Bullet maturities expose the transaction to refinancing risk, which is largely mitigated by a long concession term and ample timing flexibility through staggered maturities. The structure includes a six-month debt service reserve and limitations on additional indebtedness. The lock-up trigger is low at 1.15x.

GACM has the ability to raise debt outside of this future flow trust and airport management has not ruled out the possibility for such debt. Fitch considers the airport enterprise's public nature as a meaningful mitigant to this risk, as there are strong incentives to size any such debt commensurate with available revenues such that the enterprise as a whole maintains its stability. Lastly, the existence of change of control protections provides a further mitigant to this structural weakness.

Financial Profile
Fitch's analysis focused on financial metrics within the future flow trust and the airport enterprise as a whole. Under rating case assumptions, leverage measured as net debt-to-CFADS peaks at 12.8x at the enterprise level in 2018. Maximum leverage slightly decreased from the last review (12.8x vs. 13.1x) as a reflection mainly of the extraordinary increase applied to the international TUA in January 2018. Also, better financing conditions have resulted in stronger coverage metrics; loan life coverage ratio (LLCR) increased to 1.6x from 1.4x under Fitch's Rating Case assumptions. While leverage is considerably high in the first years, it is expected to approach 10x once the new airport reaches COD and traffic ramps up, well within Fitch's applicable criteria for the rating category. The nature of the upfront investment in new facilities at a major international airport and the likely deleveraging over time make current leverage levels acceptable at the assigned rating level. Significant legal and economic rate-setting flexibility to offset changed conditions provides additional comfort against significantly higher leverage.

PEER GROUP: Aeropuerto Internacional de Tocumen, S.A. (AITSA), the airport of Panama's capital city, is rated 'BBB'/Stable Outlook. While AITSA's leverage at 11.8x is somewhat lower than GACM's (12.8x), AITSA has a midrange assessment in volume given the strong carrier concentration and high transit volume than GACM with a stronger assessment. The relative economic diversity and strength of Mexico compensate for higher leverage. Miami International Airport (issued under Miami-Dade County, Florida) with greater economic strength and service area diversity, and equivalent rate-setting ability, has leverage around 12x and is rated 'A'/Stable Outlook.

RATING SENSITIVITIES
Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
--Negative rating action on the Mexican sovereign rating (BBB+/Stable);
--Significant traffic underperformance with respect to Fitch Base Case expectations, without an offsetting action from the concessionaire to increase TUA revenues;
--Net debt-to-CFADS materially above 10x by the time the new airport is completed and starts operations;
--Considerable delay in the start of operations and/or material cost overruns of the new airport facilities.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
--An upgrade is unlikely in the short term given the early stage of the construction and the execution risk related to the new airport project.

CREDIT UPDATE

In addition to the USD2 billion in debts of 2016, in September 2017, GACM placed a total amount of USD4 billion through two bullet series. The first series is in an amount of USD1 billion, has a 10-year term and accrues interest at a fixed rate of 3.875%, while the second series is in an amount of USD3 billion, has a 30-year term and accrues interest at a fixed rate of 5.5%.

The issuer has cancelled the USD3 billion revolving credit facility that was available to partially fund the construction, in case needed. So, the project's only debt is currently represented by the four senior secured notes totalling USD6 billion.

Performance Update

According to the concessionaire, construction advance is 31% as of June 2018. Nonetheless, no completion delays are anticipated by GACM and October 2020 is still the estimated COD.

In 2017, total airport traffic grew 7.2% and reached 44.7 million passengers. This was driven mostly by the international passengers, which increased 12.1%, while national passengers grew only 4.8%. TUA revenue reached USD451 million, which is above the USD437 million expected in Fitch's cases and mainly results from the robust volume performance in such year.

As of May 2018, traffic grew 6.3% against the same period of 2017. Even though the airport continues being heavily congested, traffic has increased as airlines have been able to accommodate demand through higher passenger per air traffic movement (ATM) and due to the introduction of new routes, especially the international ones.

In January 2018, both domestic and international TUA was increased to reflect the U.S.'s consumer price index (CPI) variation. In addition, an extraordinary USD8 increase was applied to international TUA.

The positive traffic performance in combination with the TUA increases resulted in revenue of USD242 million as of 1H2018, which is 15.9% higher than that of the same period in 2017. Although this growth rate is strong, it has been to some extent affected by a lower than projected portion of passengers paying TUA (38.4% projected vs. 37.3% actual for domestic passengers and 39.3% projected vs. 36.3% actual for international passengers).

Operating cost information for 2017 and 2018 was requested to the issuer but not received in anticipation to this annual review of GACM's ratings. Although this information is important, it does not have direct impact on the payment capacity of the rated notes, given debt is served directly from TUA collection, so it is senior to operating expenses.

In March 2018, GACM issued a special series of its shares and a nominal equity interest in AICM in favor of the 'Fibra E' instrument. The portion of GACM-AICM shares that was issued was only 20%, thus the Mexican government remains the majority shareholder. The sale is temporary in nature, given that the shares will be fully redeemed once investors achieve a target return of 10% in inflation-adjusted terms. Fitch opines the latter does not impact the credit quality of the project.

Fitch Cases

Fitch's Base Case assumed traffic projections prepared by consultant firm Arup except for 2021 to 2023, when growth rates were assumed at 90% of the forecast.

For the rest of the years, growth rates were not discounted as those numbers were deemed conservative. Also, it was assumed that TUA will be paid by 37.6% of domestic passengers and 37.0% of international passengers, based on the average of the last two years. TUA increases only at U.S. inflation of 2.2% for 2018, 2.3% for 2019, 2.4% for 2020 and then 2.0% fixed and Mexican inflation at 5.1% for 2018, 3.6% for 2019 and then 3.5% fixed. Payments to Aeropuertos y Servicios Auxiliares (ASA) were assumed not to be made by the project based upon the subordination clause contained in the respective services agreement. Operational expenses are at budget plus 5%. Rating sensitivities were applied to the fixed refinancing interest rates indicated in the issuer's financial model, in accordance with Fitch's criteria.

In its analysis, Fitch used credit metrics calculated considering consolidated revenues and costs and expenses of both the debt trust and the airport and adding ASA payments back to CFADS, treated as "Consolidated".

Under Fitch's Base Case, leverage is calculated at 12.78x, while the LLCR in 2018 is 1.94x, both on a consolidated basis. Metrics have improved in this annual review mainly as a result of the international TUA increase and better-than-expected interest rates on the notes placed in 2017.

Fitch's Rating Case assumptions are in the Base Case except for traffic growth rates in years 2021 to 2023, when a 20% discount was applied to Arup's forecast. Operational expenses are expected to be at budget plus 6.0% in 2016-2019, while the old airport is still operating, 7.5% in 2020-2025, 7.0% in 2026-2030 and 6.0% in 2031 onwards. Refinancing interest rates were also increased with respect to those used in the Base Case.

Under Fitch's Rating Case leverage is calculated at 12.81, while LLCR in 2018 is 1.60x, both on a consolidated basis.

Asset Description
For nearly 20 years, there has been a need to expand Mexico City's airport capacity to keep it commensurate with the growth of the country. Hence, in September 2014, SCT granted GACM a 50-year concession to build and operate a new airport in Mexico City, which will be built in several phases as the number of passengers increases. Current financing will be used to build the first phase, which is expected to fulfil transportation needs until 2025.

Security
The notes have a first-priority security interest over: i) the right to collect passenger

charges for the use of the existing airport and, upon the commencement of commercial operations, the new airport, ii) the proceeds of insurance with respect to the interruption of operations, iii) indemnities in connection with expiration events affecting the airports, iv) proceeds of security bonds payable by the airlines, v) the amounts deposited in the trust accounts, and vi) all other property contributed to the trust for the benefit of the secured credits. The notes are not obligations of, or guaranteed by, the Mexican government.

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Applicable Criteria

Airports Rating Criteria (pub. 23 Feb 2018)
(https://www.fitchratings.com/site/re/10021613)
Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017)
(https://www.fitchratings.com/site/re/902689)

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