



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

Fitch Ratings-Monterrey-06 September 2017: 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]) USD2 billion senior secured notes issued in 2016. The Rating Outlook has been revised to Stable from Negative.

The Outlook revision follows Fitch's recent action on the sovereign rating of Mexico. It reflects the project's links with the Mexican Federal Government via the grantor, which is the Ministry of Transportation (SCT), and the concessionaires Aeropuerto Internacional de la Ciudad de Mexico (AICM) and GACM, as well as reduced downside risks to the country's growth prospects.

Fitch also assigned an expected rating of 'BBB+(exp)' to the remaining balance of the notes to complete the USD6 billion issuance total, to be issued through a series of debt issuances between 2017 and 2018. The Rating Outlook is Stable.

KEY RATING DRIVERS

Summary: 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 13.1x 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, SCT, and concessionaires 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.

Revenue Risk - Volume: Stronger

Robust Demand in a Strategic Asset:

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.

Revenue Risk - Price: Stronger

Flexibility to Adjust Tariffs: 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.

Infrastructure Development & Renewal: Midrange

Saturated Facility in Need of Expansion: 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 Risk: Midrange

Completion Does Not Constrain the Rating: 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.

Debt Structure: Midrange

Bullet Debt to Be Refinanced: 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. Although there might be some exposure to variable interest rates, management has indicated its intention to issue only fixed-rate debt, to its best ability. 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.

Metrics: 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 should peak at 13.1x at the enterprise level in 2018 when all of the proposed USD6 billion in debt is expected to be issued. Maximum leverage substantially increased from the last review (13.1x vs. 10.7x) as a reflection mainly of lower projected revenue coming from TUA being paid by fewer passengers than initially forecasted. Nonetheless, better financing conditions have resulted in stronger coverage metrics; loan life coverage ratio (LLCR) increased to 1.4x from 1.3x 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

Lima Airport Partners, S.R.L. (LAP), the airport of Peru's capital city, is rated 'BBB+'/Stable Outlook and has metrics that are stronger, with 8.81x maximum net debt-to-CFADS. 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 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.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

--Downgrade of the Mexican sovereign rating (BBB+/Outlook Stable).

--Significant traffic underperformance or substantial increase in construction costs with respect to Fitch Base Case expectations, without an offsetting action from the concessionaire to increase TUA.

--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.

CREDIT UPDATE

The first USD2 billion senior secured notes were issued on Sept. 29, 2016 in two bullet series of USD1 billion each. The first series has a 10-year term and accrues interest at a fixed rate of 4.25%, while the second series has a 30-year term and accrues interest at a fixed rate of 5.5%.

In addition to the rated debt, the project has access to a USD3 billion revolving credit facility (RCF) that can be used to partially fund the construction, if needed. After the placement of the remaining senior secured notes or a portion of them, the concessionaire plans to reduce the amount of this RCF so that total project debt does not exceed USD6 billion. Currently, the outstanding balance of this instrument is zero.

Performance Update

According to the concessionaire, construction has so far gone smoothly and on schedule. Fitch visited the construction site and was informed that, in 2016, the main construction works were procured, including the electricity substation, runways 2 and 3, piles

and foundations for the terminal building, control tower, and multimodal transport center, etc. There are now 48km of access roads and 33km of fence on the perimeter. No completion delays are anticipated by GACM. Fitch requested an updated third-party report on the project's progress, but was not provided with one.

In 2016, total airport traffic grew 10.2% and reached 41.7 million passengers. This was driven by similar growth in national and international passengers, which increased 10.2% and 10.3%, respectively. As of the first half of 2017 (1H17), traffic grew 11% against the same period of 2016. Even though the airport is 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.

In 2016, TUA revenue grew 8.1% to reach USD411 million, which is slightly below the USD424 million expected in Fitch's cases. The difference derives from a lower percentage of passengers paying TUA against the last five years' average that was used in our projections and, to a lesser extent, to the fluctuations of the MXN/USD exchange rate, which has depreciated since the transaction was launched.

As for 1H17, TUA revenue grew 9.4% to reach USD210 million. Although this growth rate is strong, Fitch expected revenue for the period to be USD257 million. Besides the factors mentioned above (variation in passenger mix and peso depreciation), the main reason for the different outcome is a lower than projected number of passengers paying TUA, as some assumptions regarding measures to decrease the percentage of TUA-exempt passengers were not considered. The current TUA, charged to both domestic and international passengers, was updated at the beginning of the year to fully reflect the U.S.'s CPI variation. Costs in 2016 were as budgeted, slightly lower than our base case values.

Fitch Cases

Fitch projections consider the issuance of up to USD6 billion, including the USD2 billion already placed, in a number of bullet debt instruments with different terms at fixed interest rates.

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 38.4% of domestic passengers and 39.3% of international passengers, based on the average of the last five years. No collection of connecting TUA has been assumed. TUA increases only at U.S. inflation of 2.1% for 2017, 2.6% for 2018, 2.2% for 2019, 1.8% for 2020, 1.7% for 2021 and 2022, and then 2% fixed and Mexican inflation at 5.7% for 2017, 3.8% for 2018, 3.5% for 2019 and then 4% 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 13.08x, while the LLCR in 2018 (once the total debt is issued) is 1.75x, both on a consolidated basis.

Fitch's Rating Case assumptions are as 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% in 2016-2019 while the old airport is still operating, 7.5% in 2020-2025, 7% in 2026-2030 and 6% in 2031 onwards. The variable rate was projected to be as in the Base Case plus 1%. Refinancing interest rates were also increased.

Under Fitch's Rating Case leverage is calculated at 13.12x, while LLCR in 2018 (once the total debt is issued) is 1.45x, both on a consolidated basis.

Fitch believes the project may benefit from several upsides. Compared to others, the Mexico City airport charges cheaper tariffs to airlines and passengers, which suggests there is some room for future price increases. Also, projections were prepared assuming commercial revenues behave as historically, meaning they do not take into account the current below-par offering at the airport with non-aeronautical revenues growth potential likely understated.

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 fulfill 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

Rating Criteria for Airports (pub. 14 Dec 2016) (<https://www.fitchratings.com/site/re/891804>)

Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017) (<https://www.fitchratings.com/site/re/902689>)

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