

## CREDIT OPINION

17 April 2018

### Update

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#### RATINGS

##### Mexico City Airport Trust NAFIN F/80460

Domicile	Mexico
Long Term Rating	Baa1
Type	Senior Secured - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

#### Contacts

Adrian Garza, CFA +52.55.1253.5709  
 VP-Senior Analyst  
 adrianjavier.garza@moodys.com

Alejandro Olivo +1.212.553.3837  
 Associate Managing Director  
 alejandro.olivo@moodys.com

Michael Mulvaney +1.212.553.3665  
 MD-Project Finance  
 michael.mulvaney@moodys.com

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Americas	1-212-553-1653
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# Mexico City Airport Trust NAFIN F/80460

## Update following ratings stabilization

### Summary

- » The Baa1 rating assigned to the Senior Secured Notes issued by Mexico City Airport Trust NAFIN F/80460 (MEXCAT) reflects the solid cash flow generation capacity of Mexico City's International Airport. The airport is a key, essential, government asset serving as the primary international gateway for a 20 million population city with very solid fundamentals, such as a strong growth trend of passengers and a diverse mix of airlines. The rating also takes into account the pledge of the Passenger Charges for debt service payment and the transaction structure involving special purpose vehicles to service debt and manage cash flows. The rating is supported by our assessment of a very high likelihood of implied government support in the case of financial distress.
- » MEXCAT issued a total of \$6 billion Notes (\$2 billion in 2016 and \$4 billion in 2017) backed by the Passenger Charges or the Airport Usage Fee (TUA) from the current Mexico City International Airport and the Mexico City New International Airport (NAIM) upon commencement of operations, expected in 2020. The transaction also considers a payment guarantee trust (Security Trust) that under a defined cash waterfall will service the debt.
- » The debt issued under Mexico City Airport Trust will complement the Government of Mexico's (A3 stable) funding for the construction of the NAIM. The total expected debt under the trust of \$6 billion will finance approximately 40% of the total construction costs of the first stage of the NAIM, which will have an initial capacity of 57 million passengers. Future expansions are expected to increase capacity up to 125 million passengers by the year 2065.
- » We expect relatively weak financial metrics over the first few years of the transaction resulting from the high leverage of the airport's current operation. Nevertheless, we acknowledge the significant upside stemming from a growing passenger demand and the eventual opening of NAIM.
- » The Baa1 rating also considers our assumptions of high default dependence between the airport and the Government of Mexico (A3 stable) and a very high degree of implied government support in the case of financial distress.
- » On April 10, Moody's affirmed the Baa1 debt ratings on the Notes and changed the rating outlook to stable from negative. The change of outlook follows the outlook change on the rating of the Government of Mexico.

## Credit strengths

- » Cash flow generation supported by a unique, essential infrastructure airport serving a 20 million metropolitan area and as the primary international gateway of the country
- » Strong passenger growth trends expected to continue in the near term in light of the airport's proven resiliency under periods of stress
- » Bondholder protections embedded in the structure, including a defined cash waterfall managed by a trust, a pledge of Passenger Charges, a 6-month debt service reserve account, and indebtedness and restricted payment tests
- » Assumptions of "High Dependence" and "Very High Support" from the Government of Mexico provide rating uplift

## Credit challenges

- » Relatively weak projected financial metrics over the first few years of the transaction resulting from the high leverage for the airport's current operation; notwithstanding the current operating airport would be expected to cover the \$6 billion of debt without relying on the opening of the new airport.

## Rating outlook

The stable outlook reflects the stable outlook on the rating of the Government of Mexico, the support provider, which contributes with a rating uplift under our analytical framework for Government Related Issuers.

## Factors that could lead to an upgrade

- » If MEXCAT records Cash Interest Coverage and FFO/Debt ratios above 2.0x and 6.0% respectively, on a sustained basis, and we maintain our assessment of a very high implied support from the Government of Mexico, the rating could face upward pressure.

## Factors that could lead to a downgrade

- » Downward pressure on the rating could develop if Cash Interest Coverage and FFO/Debt average levels below 1.6x and 3.5% respectively on a sustained basis as a result of lower than expected passenger traffic or higher leverage.
- » The cancellation or material delays in the construction of NAIM that materially limits anticipated TUA revenue growth would also exert negative credit pressure.
- » A downgrade of the Government of Mexico could also exert downward pressure on the assigned rating as would a weakening of our implied government support assumptions resulting from a change of public policy priorities.

## Key indicators

Exhibit 1

### Moody's Base Case assumes lower traffic numbers in transitioning to the new airport

	Issuer's Base Case	Moody's Base Case
	2017-2026	2017-2026
Total Passengers (millions)	50.5	47.4
(FFO + Cash Int.Exp.) / (Cash Int.Exp.)	2.0x	1.7x
FFO/Debt	4.7%	3.7%
Moody's DSCR	2.0x	1.7x
RCF/Debt	4.7%	3.7%

Source: Moody's Investors Service, Mexico City Airport Trust NAFIN

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Profile

Mexico City Airport Trust (MEXCAT) is the special purpose vehicle that in 2016 issued \$1 billion 4.250% Senior Secured Notes due 2026 and \$1 billion 5.500% Senior Secured Notes due 2046. In 2017 MEXCAT issued \$1 billion 3.875% Senior Secured Notes due 2028 and \$3 billion 5.500% Senior Secured Notes due 2047. The Notes are backed by the Passenger Charges or the Airport Usage Fee (TUA) from the current Mexico City International Airport and the Mexico City New International Airport (NAIM) upon commencement of operations, expected in 2020. The transaction also considers a payment guarantee trust (Security Trust) that under a defined cash waterfall will service the debt.

## Detailed credit considerations

### Recent developments

On April 10, Moody's affirmed the Baa1 debt ratings on the Notes and changed the rating outlook to stable from negative. The change of outlook follows the outlook change on the rating of the Government of Mexico (A3 stable).

### Concession framework

Concessions for both airports are granted by the Government of Mexico (A3 stable) through the Ministry of Communications and Transportation (Secretaría de Comunicaciones y Transportes). The Mexico City International Airport concession was granted to AICM for 50 years on November 1, 1998. The concession for NAIM was granted to GACM in 2014 for 50 years, beginning when the NAIM starts operations. Both concessions can be extended by an additional 50-year period upon request by the Sponsors and as long as they meet the requirements established by the Ministry of Communications and Transportation. We consider a unilateral termination to be extremely unlikely given the long track record of operations at the current airport and that both Sponsors are controlled by the Government of Mexico.

The concessions allow the airports to charge tariffs as authorized by the Ministry of Finance. TUA for domestic and international passengers are expressed in United States Dollars, and the equivalent in Mexican Pesos is determined according to the monthly average exchange rate published by Mexico's Central Bank (Banco de México). TUA is updated every year considering the annual increase of the "Consumer Price Index for All Urban Consumers: All Items" published by the US Federal Reserve. As of January 2018, the TUA rose by 2% to \$23.20, and by 24.7% to \$44.07, for domestic and international passengers respectively.

### Market position

Mexico City International Airport provides an essential service for the greater area of Mexico City and the country. The airport handled 44.7 million passengers in 2017 or more than a third of total air passengers in Mexico, and approximately 55% of air cargo. It also serves as the primary international gateway of the country.

The airport's service area is one of the most densely populated urban areas in the world. Mexico City holds a population of 8.8 million of inhabitants but considering the greater metropolitan area of the city, it is estimated around 20 million, roughly 16% of the country's total population. In Moody's view, the airport has a virtual monopoly of air travel within its geographical area, with very little competition from airports nearby Mexico City's metropolitan area.

### Service offering

The airport exhibits a solid historic passenger performance that Moody's expects will continue in the near term in light of the airport's proven resiliency under periods of stress.

The airport experienced solid growth trends in recent years; average passenger traffic growth rate for the period 2013-2017 was 8.7%. Traffic figures for 2017 are exceeding the independent traffic consultants' estimations that by 2020 traffic on the existing airport would reach 44.8 million passengers and operate very close to or at its maximum runway capacity.

### Financial profile

The solid passenger trends that translate into strong cash flow generation are partially compensated by the high expected leverage for the current airport's operation. Thus, the financial metrics will be relatively weak over the first five to 10 years but will strengthen over

time as passenger traffic grows and eventually, when the new airport start operations. Moody's also recognizes that the current airport would be expected to cover the \$6 billion of debt without relying on the opening of the new airport.

Moody's expects Cash Interest Coverage Ratio (cash flow available for debt service to interests) to average 1.7x and Funds From Operations (cash flow available for principal payments) to Debt estimated to average 3.7%, over the period 2017-2026.

### **Government related issuer analysis framework**

The Baa1 rating reflects the application of Moody's joint default analysis (JDA) framework for government related issuers (GRIs), which takes into account the following four input factors: i) a baseline credit assessment (BCA) of ba1 as a measure for the rated entity's standalone creditworthiness, ii) the A3 rating of the Mexican government as the support provider, as well as iii) a high default dependence between the airport and the Mexican government and iv) our estimates of a very high degree of implied government support in the case of financial distress.

### **Structural considerations**

The rating considers a one-notch uplift to the grid indicated rating to incorporate the bondholder protections embedded in the structure. The key structural protections taken into account are the defined cash waterfall managed by a dedicated trust (Security Trust) to which the TUA generated by the airports is pledged, a 6-month debt service reserve fund, cash funded with proceeds or with a letter of credit provided by a financial institution with a rating of the bond or higher, a restricted payment test (distributions to the Sponsors) of debt service coverage of 1.15x, an additional indebtedness test of 1.2x of debt service coverage or concession life coverage ratio.

Moody's acknowledges that the restricted payment test in the 2017 Notes is less strict compared to the test in the 2016 Notes. Based on our projections, we believe that the change does not have credit implications. Under the 2017 Notes restricted payment test, distributions can only be made if the DSCR test of 1.15x is met over the previous 12 months. Under the 2016 Notes definition, distributions can only be made if the test is met for the previous 12 months but also if it is met in the most recent quarter. As such, the test for the 2016 Notes is stronger since it would limit distributions if a material decline in TUA revenues occurred in the preceding quarter, even if the test is met for the previous 12-month period. As stated, we believe that a sudden significant drop of in TUA revenues is a relatively remote scenario. We also note that the debt service payments are semiannual (there would be 6 months of cash flows) and there is a 6-month debt service reserve fund also available to prevent a default. Finally, given that the 2017 and 2016 Notes rank pari-passu, we understand that the stricter one prevails unless it's modified at some point in the future.

## Rating methodology and scorecard factors

The principal methodologies used in this rating were the Privately Managed Airports and Related Issuers Rating Methodology published in September 2017 and Government Related Issuers Rating Methodology published in August 2017. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of these methodologies.

Exhibit 2

### Privately Managed Airports and Related Issuers

Factor	Subfactor	Score	Metric 2017-2026
1. Concession and Regulatory Framework	a) Ability to Increase Tariffs	A	
	b) Nature of Ownership / Control	Aa	
2. Market Position	a) Size of Service Area	Aa	
	b) Economic Strength and Diversity of Service Area	Aa	
	c) Competition for Travel	Aa	
3. Service Offering	a) Passenger Mix	Aa	
	b) Stability of Traffic Performance	A	
	c) Carrier Base	Baa	
4. Capacity and Capital	a) Ability to Accommodate Expected Traffic Growth	Ba	
5. Financial Policy	a) Financial Policy	Ba	
6. Leverage and Coverage	a) $(\text{FFO} + \text{Cash Interest Expense}) / (\text{Cash Interest Expense})$	B	1.7x
	b) $\text{FFO} / \text{Debt}$	B	3.7%
	c) Moody's Debt Service Coverage Ratio	B	1.7x
	d) $\text{FCF} / \text{Debt}$	B	3.7%
<b>Notching Considerations</b>		<b>Notch</b>	
	Uplift for Structural Considerations	1	
<b>Scorecard Indicated BCA</b>		<b>ba1</b>	
<b>Rating after GFI framework</b>		<b>Baa1</b>	

Source: Moody's Investors Service

## Ratings

Exhibit 3

Category	Moody's Rating
<b>MEXICO CITY AIRPORT TRUST NAFIN F/80460</b>	
Outlook	Stable
Senior Secured	Baa1

Source: Moody's Investors Service

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## Contacts

Adrian Garza, CFA  
VP-Senior Analyst  
adrianjavier.garza@moodys.com

+52.55.1253.5709

Marcelle Meyer  
Associate Analyst  
marcelle.meyer@moodys.com

+1.212.553.4128

Brad Tyson  
Associate Analyst  
brad.tyson@moodys.com

+1.212.553.4840

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