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Research Update:

Mexico City Airport Trust Senior Secured Debt Rating Affirmed At 'BBB+', Outlook Remains Stable

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Overview

- The Mexico City Airport Trust's cash flow generation has improved because of the passenger fee adjustment approved on Jan. 18, 2018. However, the credit quality of the sponsor of this transaction, Grupo Aeroportuario de la Ciudad de Mexico S.A. de C.V. (GACM) continues to limit the rating on the trust.
- We're affirming our 'BBB+' issue-level rating on the trust's existing notes.
- The stable outlook on the trust primarily reflects the outlook on the foreign currency sovereign rating on Mexico that impacts directly on GACM and indirectly on the trust. From an operational perspective, we expect the airport's passenger traffic to grow in the low single digits in the next two years.

Rating Action

On Sept. 28, 2018, S&P Global Ratings affirmed its 'BBB+' issue-level rating on Mexico City Airport Trust's (Fideicomiso 80460 or the trust) $6 billion senior secured debt. The outlook on the rating remains stable.

Rationale

The 'BBB+' rating continues to reflect the credit quality of the sponsor of this transaction, GACM. The rating depends on GACM because we believe that the continued operation of the Mexico City airport is critical to generating airport passenger revenue (Tarifa de Uso de Aeropuertos; TUA) that will support debt repayment.

Given the unique characteristics of this transaction, we rate it based on our "Principles Of Credit Ratings" methodology. In particular:

- We have not assessed the construction phase of the new airport. Typical project finance transaction ratings with construction risk reflect the combined risk of the project across both the construction and operation phases. The construction assessment is necessary because it determines the risk that the asset may not be constructed, and therefore, the project may not generate cash flows to the expected level. In our forecast for this transaction, we solely assess the cash flows from the existing airport and don't include any uplift related to passenger growth that the new facilities would be able to handle.

- We've assessed the cash flow coverage according to the contractual cash waterfall at the trust level. In typical project finance transactions, an asset's operating costs incurred in its operations and maintenance would have priority over senior debt-servicing costs, because continued operations at the airport would be necessary to ensure that it generates cash. In this transaction, residual cash flow after debt service at the trust level will partly cover operating costs. Other airport revenues, such as revenue from commercial activities, supplement payment of operating costs. We believe that notionally amending the trust's cash flow waterfall by adding operating costs wouldn't capture the overall project's ability to cover these costs, given that the trust does not capture all revenues. Instead, in order to recognize the importance of continued operations for ongoing cash flows, we consider GACM, the operator of the airport and controlled by the Mexican government, as an irreplaceable counterparty. Therefore, the credit quality of GACM caps the stand-alone credit profile of the trust.

GACM is a government-related entity (GRE), which the Mexican government controls, and the concession holder of the new Mexico City Airport (NAICM). GACM also owns Aeropuerto Internacional de la Ciudad de Mexico, S.A. de C.V. (AICM), the concession holder of the existing airport.

We also factor the likelihood of extraordinary government support into our rating analysis. Our assessment of the very high likelihood of support reflects the following factors:

- The airport's very important role, due to the economic and political importance of existing and future airports to the government. In our view, the airport provides an essential service to the population of Mexico--especially to Mexico City--as the main gateway to the country's capital.
- The airport's very strong link to the government, because we consider that the airports are in charge of managing and expanding one of the major infrastructure assets of the country in strict accordance with the government's plans. The assessment of the link also factors in the government's permanent involvement in the airport's supervision, management, and strategic decisions; including its strong influence on its board of directors. Furthermore, the link reflects the government's consistent record of support to the company through annual financial contributions.

Therefore, although the debt rating on the trust closely correlate with GACM's credit quality, the sponsor's creditworthiness is not necessarily a cap. This is because we think the Mexican government is highly likely to provide extraordinary support if the trust face financial distress. A key characteristic of the trust is that the bulk of the airport's revenue will come from the TUA. This gross revenue will be available to the trust to service its debt obligations ahead of other costs. However, depressed traffic could trap available cash after debt service at the trust level, leaving GACM to rely on solely non-TUA revenue to cover the airport's operating costs. Currently, the TUA represents about 60% of the airport's total revenue.

The seniority of debt service payments provides credit support for secured creditors. However, we believe that the structure is highly reliant on GACM for a number of reasons. In particular, GACM, through AICM, holds the concession to operate the existing airport, so a default under the concession could put future TUA at risk. Continued cash flows to the trust from the TUA also rely on the continued operation of the airport, which is ultimately GACM's responsibility. As a result, we believe GACM's credit quality will largely constrain the debt rating on the trust.

We consider the trust as a GRE for two reasons. First, under the concession agreement, GACM and AICM can't pledge any of the airport assets to support financing. However, the TUA receivables are one of the few assets that they can pledge. Second, unlike typical project finance structures, the trust doesn't seek to transfer construction or operation risks to a private sector entity.

Another differentiating factor relates to the construction of the new airport and that a significant number of construction tasks are in progress. The overall construction phase, in our view, has limited similarities to traditional project finance transactions with construction risks, which are usually characterized by fixed price construction contracts for the entire construction phase and full funding available at inception. This is because completion of the asset is generally critical to repayment of the debt. However, for the trust, we've only focused on existing cash flows from the existing airport. Our analysis indicates that those cash flows are sufficient to repay the trust's debt. This becomes even more important because it's unclear what approach the newly elected president, Andrés Manuel López Obrador, will take regarding the construction of the new airport. Therefore, we don't expect a rating impact at this stage because the notes already contemplate the possibility that the new airport may not begin operations at all.

Liquidity

We consider the liquidity in the project structure neutral to the rating. A debt-service reserve account covers six months of senior debt payments. The cash lock-up mechanism, which ensures that cash is retained in the structure if the project-defined DSCR falls below 1.15x, also supports the project's liquidity. Although this trigger is weak because it's only tested on an historical basis, the predictability and stability of the cash flow greatly temper the lack of lock-up based on forecast ratios.

Outlook

The stable outlook on the debt rating primarily reflects the outlook on the foreign currency sovereign rating on Mexico, which impacts directly GACM, and consequently, indirectly the trust. From an operational perspective, we expect the airport's passenger traffic to grow in the low single digits in the next two years.

Downside scenario

Given the link between the project rating and GACM's credit quality, the rating on the senior debt would be at risk if GACM's creditworthiness were to deteriorate. This could occur if our view of government support for GACM in the event of financial stress were to weaken. Any severe drop in passenger traffic or sharp increase in debt cost (due to debt levels above our expectation could also put the rating at risk). In particular, a downgrade is possible if we expect the cash flow coverage to drop below 1.10x based on cash flows from the existing airport only.

Upside scenario

The debt rating should move in tandem with those on the sovereign. The direct link with the sovereign outlook is also due to our expectation that GACM or the government would cover any increased funding required for the new airport over and above budgeted amounts.

Ratings Score Snapshot

Operations Phase SACP (Senior Debt)

- Operations phase business assessment: 4 (1=best to 12=worst)
- Preliminary SACP: Not assessed
- Downside impact on preliminary SACP: 'a-'
- Liquidity: Neutral (no impact)
- Comparative analysis assessment: Neutral (no impact)
- Counterparty assessment limitation: bbb+ (-1 notch)
- Operations phase SACP: bbb+

Modifiers (Senior Debt)

- Parent linkage: De-linked
- Structural protection: Neutral (no impact)
- Senior debt issue rating: BBB+

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - Project Finance: Project Finance Framework Methodology, Sept. 16, 2014
- Criteria - Corporates - Project Finance: Project Finance Operations Methodology, Sept. 16, 2014
- Criteria - Corporates - Project Finance: Project Finance Transaction Structure Methodology, Sept. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Corporates - Project Finance: Project Finance Construction And Operations Counterparty Methodology, Dec. 20, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Mexico City Airport Trust	
Senior Secured	BBB+/Stable

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.