

# RatingsDirect®

---

## Research Update:

# Mexico City Airport Trust's \$4 Billion Senior Secured Debt Assigned 'BBB+' Rating; Outlook Stable

### Primary Credit Analyst:

Jose Coballasi, Mexico City (52) 55-5081-4414; jose.coballasi@spglobal.com

### Secondary Contact:

Candela Macchi, Buenos Aires (54)-11-4891-2110; candela.macchi@spglobal.com

## Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Ratings List

## Research Update:

# Mexico City Airport Trust's \$4 Billion Senior Secured Debt Assigned 'BBB+' Rating; Outlook Stable

## Overview

- On Sept. 20, 2017, the Mexico City Airport Trust placed \$4 billion of senior secured debt in two tranches, maturing in 2028 and 2047, respectively.
- We are assigning our 'BBB+' issue-level rating to the trust's new senior secured debt.
- The 'BBB+' rating on the issuer's notes due 2026 and 2046 is unchanged.
- We expect the project to use the proceeds to finance the construction of the new Mexico City Airport.
- The stable outlook reflects the outlook on the credit quality of GACM, which itself reflects the stable outlook on the foreign currency sovereign rating on Mexico.

## Rating Action

On Sept. 25, 2017, S&P Global Ratings assigned its 'BBB+' issue-level rating on the \$4 billion of new senior secured debt issued by Mexico City Airport Trust (Fideicomiso 80460 or the trust). The rating outlook on the debt is stable.

## Rationale

The 'BBB+' rating on the trust's new senior secured debt reflects the credit quality of the sponsor of this transaction, Grupo Aeroportuario de la Ciudad de Mexico S.A de C.V. (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.

GACM is a government-related entity (GRE) wholly owned by the Mexican government. GACM is the concession holder of the new Mexico City Airport (NAICM) and 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; and

- 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, largely to finance the new airport's construction.

Therefore, although the debt ratings closely correlate with GACM's credit quality, the sponsor's creditworthiness is not necessarily a cap, because we think the Mexican government is highly likely to provide extraordinary support should the trust face financial distress.

A key characteristic of this transaction 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 potentially trap available cash after debt service at the trust level, leaving GACM to rely solely on 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 debtstructure relies 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.

Although the trust is a special purpose vehicle with recourse limited to the TUA receivables, we don't believe that the primary reason for the structure was to limit GACM's, and ultimately the government's, liabilities. We view the trust as akin to being the financing vehicle of GACM. The trust structure provides additional comfort to secured creditors, compared to simpler corporate senior unsecured financing that GACM could have arranged.

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

Another differentiating factor in this transaction relates to the construction of the new airport and the fact 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 this transaction, we've only focused on existing cash flows from the current airport. Our analysis indicates that those cash flows are sufficient to repay the debt.

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

- We haven't 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 as 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 wholly owned by the Mexican government, as an irreplaceable counterparty. Therefore, the credit quality of GACM caps the stand-alone credit profile (SACP) of the trust.

### **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 should the project-defined debt service coverage ratio (DSCR) fall 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 primarily reflects the outlook on the credit quality of GACM, which itself reflects the outlook on the foreign currency sovereign rating of Mexico. From an operational perspective, we expect the airport's passenger traffic to grow in the low single digits over 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 underperformance of passenger traffic or material debt cost increase (due to debt levels above our expectation or a significant increase in debt margins) could also put the rating at risk. In particular, downward rating pressure could arise if we were to expect that the cash flow coverage would not remain broadly above 1.0x based on cash flows from the existing airport only. (We have revised the aforementioned ratio expectations based on our updated financial projections, which reflect the project's new debt amortization schedule.)

Such a scenario would also likely affect GACM's credit quality, since we include the project's debt in our assessment of GACM.

### Upside scenario

Our assessment of GACM's credit quality constrains the rating, which, as noted above, is limited by the foreign currency rating on Mexico. Therefore, the ratings should move in tandem with the sovereign. The direct link with the sovereign outlook is also because we expect 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: 'bbb+'
- Liquidity: Neutral (no impact)
- Comparative analysis assessment: Neutral (no impact)
- Counterparty assessment limitation: bbb+ (no impact)
- 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

New Rating

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.